EMERGENCY HOME OWNERSHIP ACT

HEARINGS
BEFORE THE
SUBCOMMITTEE ON HOUSING
OF THE
COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES
EIGHTY-SIXTH CONGRESS
SECOND SESSION
ON
H.R. 9371
(Superseded by H.R. 10213)

JANUARY 25, 26, 27, 28, AND 29, 1960

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EMERGENCY HOME OWNERSHIP ACT

MONDAY, JANUARY 25, 1960

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING OF THE
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met at 10 a.m., in room 1304, New House Office Building, Hon. Albert Rains (chairman of the subcommittee) presiding.

Present: Messrs. Rains (presiding), Addonizio, Mrs. Sullivan, Mr. Ashley, Mrs. Griffiths, Messrs. Miller, Widnall, and Derwinski.

Mr. Rains. The committee will be in order.

Ordinarily I do not in the opening of hearings on legislation make any detailed statement, but for a little background this morning I have here a brief statement that I think I want to read in part, and include in the record in its completeness.

In my judgment, despite a temporary spurt in December housing statistics, there is nothing too rosy about the housing outlook. Too much is being made in my judgment of the fact that there was a slight upward trend in the seasonally adjusted rate of housing starts in December.

From all the expert opinion we have been able to get together—and the purpose of this hearing is to assemble even more—it appears that we can look for a substantial decline in housing this spring unless we take some corrective action.

It is clear that all of the decline in housing, or practically all the decline in housing, has taken place in the FHA and VA sector, which produces a large majority of the lower priced homes, and this is what impresses me most.

We know that in some parts of the country, and it is getting to be almost general, builders are finding it impossible to proceed with their new building plans because of the outrageous discounts being charged by lenders in connection with FHA and GI loans.

All the trouble is not confined to the FHA and VA housing either, because we are submitting a report which was put together by the various housing agencies and the regional offices throughout the country, pointing out not only the danger, but the prevalence of second mortgages.

That ought to make it clear to anybody that of the 900,000 units financed through conventional lending last year a substantial proportion were backed up by second mortgages of some type. They are backed up by second mortgages simply because the discount rates are so extremely high on FHA and GI loans, and the lack of mortgage credit for insured loans.
Two years ago, almost overnight, we passed an emergency housing bill. We waited until the ox got in the ditch before we moved. The purpose of this hearing is to move before the ox gets in the ditch and make some provision for adequate, or at least a modicum of mortgage credit throughout the country.

I am not going into the details of this committee print on second mortgages, but it is clearly evident that it is a dangerous practice, and that it is growing.

There is before the committee a bill which I introduced on the first day of the session. It is a short and brief bill aimed primarily at providing additional mortgage credit, and that is the bill which will be considered by the committee in its hearings, and is the bill to which the witnesses who have come will address their remarks.

(H.R. 9371 and summary are as follows:)

[H.R. 9371, 86th Cong., 2d sess.]

A BILL To amend the National Housing Act to halt the serious slump in residential construction, to increase both on-site and off-site job opportunities, to help achieve an expanding full employment economy, and to broaden home ownership opportunities for the American people

_Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Emergency Home Ownership Act"._

_SEC. 2. (a) The Congress hereby finds that the present policy of the Federal Housing Administration, insofar as it limits mortgage insurance under its regular residential housing program to cases involving loans made by corporate mortgagees and other commercial lenders, is preventing the effective operation of the program, particularly in the smaller towns and communities of the Nation. It is therefore declared to be the intention of the Congress and the purpose of this section to make mortgage insurance under the Federal Housing Administration's regular residential housing program more readily available in smaller towns and communities by specifically providing that individuals as well as commercial lenders may be approved as mortgagees for purposes of such program._

(b) _Section 203(b) of the National Housing Act is amended by adding at the end thereof the following new paragraph: “Nothing in paragraph (1) or any other provision of this section shall be construed as prohibiting or preventing the approval of an individual as mortgagee for purposes of insurance under this section.”_ SEC. 3. The first sentence of section 203(c) of the National Housing Act is amended by inserting before the period at the end thereof the following: “And provided further, That in the case of any mortgage with respect to which insurance is granted or a commitment issued under subsection (b) during the one-year period beginning on the date of the enactment of the Emergency Home Ownership Act, the premium charge shall be one-fourth of 1 per centum per annum on such outstanding principal obligation”.

_SEC. 4. (a) Section 301(a) of the National Housing Act is amended by inserting before the semicolon at the end thereof the following: “, and by aiding in the stabilization of the mortgage market”._

(b) _Section 304(a) of such Act is amended by striking out the last three sentences and inserting in lieu thereof the following: “The Association shall, from time to time, establish and publish prices to be paid by it for mortgages purchased by it in its secondary market operations under this section. The Volume of the Association's purchases and sales and the establishment of purchase prices, sales prices, and charges or fees in its secondary market operations under this section shall be so conducted as to promote the interests of the national economy by aiding in the stabilization of the mortgage market to the maximum extent consistent with sound operation, and within the reasonable capacity of the Association to sell its obligations to private investors. The Association shall buy at such prices and on such terms as will reasonably prevent excessive use of the Association's facilities and permit the Association to operate within its income derived from such secondary market operations and to be fully self-supporting. Notwithstanding any other provision_
of this section, advance commitments to purchase mortgages in secondary mar­
ket operations under this section shall be issued only at prices which are suf­
ficient to facilitate home financing, but which are sufficiently below the price
then offered by the Association for immediate purchase to prevent excessive
sales to the Association pursuant to such commitments.”

SEC. 5. Section 302(b) of the National Housing Act is amended by strik­
ing out “and” immediately before “(3)” and by inserting before the period
at the end thereof the following: “(4) during the one-year period beginning
on the date of the enactment of the Emergency Home Ownership Act, the As­sociation (except as provided in clauses (1), (2), and (3), and subject to the
authority of the Association to set a limitation on the age of mortgages
which it will purchase) shall purchase any mortgage (or participation therein)
described in this subsection which is offered to it unless the loan is in
default or in imminent danger of default or title to the property is defective”.

SEC. 6. Section 302(b) of the National Housing Act is further amended
by inserting before the period at the end thereof (and immediately after the
clause added by section 5 of this Act) the following: “; and (5) during the
one-year period beginning on the date of enactment of the Emergency Home
Ownership Act the Association shall not sell any mortgage (or participation
therein) held by it.”

SEC. 7. The first sentence of section 303(b) of the National Housing Act is
amended by inserting before the period at the end thereof the following:
“: Provided, That with respect to mortgages which are purchased (or with
respect to which commitments to purchase are made) by the Association during
the one-year period beginning on the date of the enactment of the Emergency
Home Ownership Act, such contributions shall be equal to 1 per centum of
such unpaid principal amounts”.

SEC. 8. The second sentence of section 305(b) of the National Housing Act is
amended by inserting before the period at the end thereof the following: “;
except that with respect to any mortgage which is purchased (or with respect
to which a commitment to purchase is made) during the one-year period begin­
ning on the date of the enactment of the Emergency Home Ownership Act, the
price to be paid by the Association shall be not less than the unpaid
principal amount thereof at the time of purchase, with adjustments for interest
and any comparable items”.

SEC. 9. The third sentence of section 305(b) of the National Housing Act is
amended by inserting before the period at the end thereof the following:
“; except that with respect to any mortgage which is purchased (or with respect
to which a commitment to purchase is made) during the one-year period begin­
ning on the date of the enactment of the Emergency Home Ownership Act, the
charges or fees so imposed by the Association for its commitment and
purchase shall not exceed 1 per centum of the unpaid principal amount of the
mortgage, and (unless the commitment was issued before the beginning of
such one-year period) not more than one-fourth of such charges or fees shall
be collected at the time of the issuance of the commitment with respect to the
mortgage, with the balance of such charges or fees (whether the commit­
ment was issued before or during such period) being collected at the time of
purchase”.

SEC. 10. Section 305(g) of the National Housing Act is amended by inserting
immediately after “$13,500” the following: “(or $13,500 per dwelling unit in
the case of a mortgage insured under section 213)”.

SEC. 11. Section 305(g) of the National Housing Act is further amended—
(1) by striking out “Provided, That” and inserting in lieu thereof the fol­
lowing: “Provided, That the Association may by regulation increase such
amount by not more than $1,000 in the case of mortgages covering property
located in geographical areas where it finds that cost levels so require: Provi­ded, further,” and
(2) by inserting after “shall not exceed $1,000,000,000 outstanding at
any one time” the following: “, which limit shall be increased by $1,000,-
000,000 on the date of the enactment of the Emergency Home Ownership
Act”.

SEC. 12. Section 305 of the National Housing Act is further amended by adding
at the end thereof the following new subsection:
“(h) Notwithstanding any other provision of this Act, the Association is
authorized to make commitments to purchase, and to purchase, service, or sell,
any mortgage (or participation therein) which is insured under section 203(1); but the Association shall not enter into any such commitment or make any such
purchase unless (1) the property involved was approved for mortgage insurance prior to the beginning of construction, and (2) no service charge (other than the normal origination fee charged to the mortgagor) was imposed or collected in connection with the making of the loan. The total amount of purchases and commitments authorized by this subsection shall not exceed $50,000,000 outstanding at any one time."

Sec. 13. With respect to any mortgage insured by the Federal Housing Administration or any loan guaranteed or insured by the Veterans' Administration, where the commitment of the Federal Housing Administration or the certificate of reasonable value of the Veterans' Administration was issued more than sixty days after the date of the enactment of this Act, the originating mortgagee shall report to the Federal Housing Administration or the Veterans' Administration, as the case may be, the amount of any fees, charges, or discounts (except for the normal origination fee charged to the mortgagor) paid by the builder, seller, broker, sponsor, or any other person in connection with or for the purpose of arranging the mortgage or loan.

EMERGENCY HOME OWNERSHIP ACT

(Section-by-section summary)

In general, it is the purpose of the bill to halt the serious slump in residential construction, to increase both on-site and off-site job opportunities, to help achieve an expanding full employment economy, and to broaden home ownership opportunities for the American people.

The first section of the bill provides that the act may be cited by its short title (the Emergency Home Ownership Act).

Section 2 amends section 203(b) of the National Housing Act (the regular residential housing mortgage insurance program) to make it clear that FHA may insure mortgage loans made by individuals as well as those made by corporate and other commercial lenders, in order to make the program more effective in smaller towns and communities.

Section 3 amends section 203(c) of the National Housing Act so as to fix the premium charge for mortgage insurance granted under the regular residential housing program, during the 1-year period beginning on date of enactment, at one-fourth of 1 percent. Under existing law the FHA Commissioner has discretion to fix this charge at any point between one-half of 1 percent and 1 percent.

Section 4 amends title III of the National Housing Act to provide that it shall be one of the purposes of the Federal National Mortgage Association, in its secondary market operations, to aid in the stabilization of the mortgage market.

Section 5 amends section 302(b) of the National Housing Act to require FNMA, during the 1-year period beginning on date of enactment, to purchase any mortgage which is offered to it regardless of the type of housing covered, so long as title to the property is good and the mortgage is otherwise eligible and not in default. FNMA's authority to limit the age of eligible mortgages would not be changed. (Under current regulations, eligible mortgages cannot be more than 4 months old.)

Section 6 amends section 302(b) of the National Housing Act to prohibit FNMA, during the 1-year period beginning on date of enactment, from selling or otherwise disposing of any mortgage which it may hold.

Section 7 amends section 303(b) of the National Housing Act to fix the amount of FNMA stock which a person is required to purchase when selling a mortgage to FNMA, during the 1-year period beginning on date of enactment, at 1 percent of the unpaid principal amount of the mortgage. Under existing law FNMA has discretion to fix this requirement at any point between 2 percent and 1 percent of such unpaid principal amount.

Section 8 amends section 305(b) of the National Housing Act to require that FNMA, in the performance of its special assistance functions, during the 1-year period beginning on date of enactment, shall not pay less than par for any mortgage.

Section 9 amends section 305(b) of the National Housing Act to provide that the maximum charges or fees which FNMA may impose for its commitment and purchase of a mortgage under the special assistance program, during the 1-year period beginning on date of enactment, shall be 1 percent of the unpaid principal

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amount of the mortgage, with one-fourth being collected at the time of com-
mmitment and the remainder at the time of purchase. Under existing law, FNMA
has full discretion to fix these charges and fees. (Under current regulations,
these fees totals total 1½ percent with one-half of this amount collected at the
time of commitment.)

Section 10 amends section 305(g) of the National Housing Act to make it
clear that mortgages on cooperative housing insured by FHA under section 213
are eligible for purchase by FNMA under its Program 10 special assistance
operations. (See sec. 11.)

Section 11 amends section 305(g) of the National Housing Act to provide an
additional $1 billion for FNMA’s Program 10 operations. This program was
established by the Emergency Housing Act of 1958 under FNMA’s special assis-
tance function for the purchase of mortgages on new construction. This bill
retains the present ceiling of $13,500 per mortgage (or per dwelling unit in
the case of sec. 213 mortgages) but adds the further provision that the association
may by regulation increase the amount by not more than $1,000 in high-cost
areas.

Section 12 amends section 305 of the National Housing Act to create a $50
million special assistance fund for the purchase by FNMA of mortgages which
are insured under section 205(1) (and which cover new construction). No such
mortgage could be purchased from the new fund if any service charges other
than the usual origination fee had been imposed. (Under current regulations,
FHA permits a special service charge of one-half of 1 percent on the outstanding
balance of the mortgage to be added to the monthly carrying cost on loans of
$8,000 or less.)

Section 13 requires the originating mortgagee under an FHA-insured mortgage
or a VA-insured or guaranteed loan to report to the agency involved the amount
of any fees, charges, or discounts paid in connection with such mortgage or loan.

Mr. Rains. I see we have new members of the committee, and we
have members on Mr. Widnall’s side who are not here yet. I am glad
to welcome to this committee Mr. Rutherford and Mrs. Griffiths. Mr.
Derwinski and Mr. Bass will be here shortly. The subcommittee now
has 11 members, and we are glad to have the additional members, be-
cause we need your help and we know it will be valuable to us in try-
ing to solve some of the housing problems.

(The full opening statement follows:)

STATEMENT BY CHAIRMAN RAuNS AT THE OPENING OF HEARINGS ON THE EMER-
GENCY HOME OWNERSHIP ACT

There is nothing in the present housing situation to furnish any real basis for
optimism or complacency. Far too much is being made of the fact that the
seasonally adjusted annual rate of housing construction rose during the month
of December, the latest month for which statistics are available.

The blunt truth is that the preponderance of expert opinion tells us we can
expect a substantial decline in housing this spring unless we take corrective
action. We know further that all of the decline in housing starts during the
past year has taken place in the FHA and VA sector which produces the large
majority of lower priced homes.

We know that in some parts of the country builders are finding it impossible
to proceed with new building plans because of the scandalously high discounts
being charged by lenders in connection with FHA and GI loans.

In these areas builders are being faced with an impossible situation. If they
build under the FHA or GI programs, the discounts are so high that they cannot
earn a reasonable profit. Or, in order to continue in business, they are forced
to pass these discounts on to the home buyer through higher prices.

Nor is all of the trouble confined to housing produced with FHA and GI financ-
ing. I am making public today the results of a survey of VA and FHA field
offices which tells the disturbing story that in many areas of the country the volume of conventionally financed housing is being artifically and precariously
maintained by a widespread use of second mortgages, land sales contracts, and
other forms of mortgage financing which are costly and potentially dangerous
to the home buyer.
My emergency homeownership bill, by providing $1 billion for FHA and GI loans, would be a powerful stimulus to overcome the shortage of funds for FHA and GI loans. By passing this bill the Congress would be taking a forthright step to help homeowners avoid the use of these questionable forms of financing.

Last fall, at our request, a survey was made of all FHA and VA field offices to get their expert opinion on local conditions. The reports from these administrative officials are far from reassuring. In many of our major homebuilding markets second mortgages and land sale contracts dominate the conventional loan field. For example, Los Angeles, San Francisco, Phoenix, Fort Worth, New Orleans, Tampa, Washington, D.C., and Cleveland are among the many areas which report that 50 percent or more of the conventional loans involve either second mortgages or installment contracts.

The usual second mortgage is for a very short term, from 3 to 5 years, and the monthly payments force the homeowner to pay an unduly high percentage of his income for housing. Also, his home is especially vulnerable to foreclosure if he loses his job or suffers reduced income.

The land sale contract device is often equally bad because the buyer does not even have title to his home and in many States he would face eviction almost immediately if he lost his job or found his income reduced.

As would be expected, most of the reports indicate an increase over a year ago. Moreover, there has undoubtedly been an increase since this survey was taken last fall.

Scattered through these reports are references which point up the dangers of such practices.

For example, the VA office in San Francisco estimates 60 to 70 percent of the conventional loans carry second mortgages and attributes this to "the increasingly tight mortgage money market." The same office makes this further comment on the problem: "In summary, we feel that the substantial increase in secondary financing in this area has created an unwholesome situation that could be disastrous to homeowners and investors alike, should we experience any prolonged period of unemployment or material reduction in wage earners' incomes."

In Los Angeles, the FHA office estimates 75 to 85 percent of the conventionally financed new homes use second and even third mortgages as well as other devices.

In Grand Rapids, land sale contracts are more common than second mortgages and the FHA Director there states: "Practically all land contract sales carry an inflated price in anticipation of later discounts. These range from no discount to 5, 10, 15, 20, and sometimes 30 percent."

In connection with land sales contracts, the VA office in Phoenix remarks: "The reason for the relatively widespread use of the installment contract instead of taking back the second mortgage is to circumvent the right of redemption law which exists in this State."

Commenting on the difficulty in getting complete information as to these practices, the VA regional office in Seattle, Wash., remarked: "Since secondary financing was one of the principal causes of the collapse of the mortgage market in the early 1930's, lenders are loathe to admit these practices exist."

Mr. Rains. The first witnesses this morning are our distinguished friends from the various agencies involved in the housing programs: Mr. Norman P. Mason, Administrator, HHFA; Mr. Julian H. Zimmerman, Commissioner, FHA; and Mr. J. Stanley Baughman, President, FNMA.

If you gentlemen will come around, we will let you proceed with your statements, and afterward we will proceed with questioning.

I think the best thing to do would be for each of you to read your statements in the order we have you on the list of witnesses, and then remain for questioning as a group.

Mr. Mason, we are delighted to have you here with us, and you may proceed with your statement.
Mr. Mason. Mr. Chairman and members of the committee, I appreciate the opportunity to appear before your committee to discuss H.R. 9371, the emergency homeownership bill, introduced by your chairman, Mr. Rains.

I have with me today the President of the Federal National Mortgage Association, Mr. Baughman, and the Federal Housing Commissioner, Mr. Zimmerman.

They will give you their comments on the provisions of the bill relating to their respective responsibilities. I will restrict my testimony to the bill as a whole and to some of its principal provisions.

The executive secretary of the Voluntary Home Mortgage Credit Committee, Mr. Graves, is also with us and will assist in answering any questions you may have concerning the program of that Committee.

We are here to assist your committee to the very best of our ability in working toward the goal we all have in common, to service the public better. We welcome the opportunity of presenting our views and the experience of the agencies which have operated the housing finance programs and which, like yourselves, have continually studied them to increase their effectiveness.

The Housing and Home Finance Agency recommends against the enactment of H.R. 9371, and I have been authorized to advise that the enactment of the bill would not be in accord with the program of the President.

The bill, an emergency measure, is designed to increase housing production and to avoid a feared drop in production. The bill includes the authorization of $1 billion of expenditure by the Federal National Mortgage Association for the purchase of mortgages on new housing under its "Special assistance" functions.

Mortgages in amounts up to $13,500 would be eligible for these purchases, and in high-cost areas, mortgages up to $14,500 would be eligible. The bill would make other major changes in operations of both the FNMA and the Federal Housing Administration.

I firmly believe that this legislation is not desirable, and particularly so at this time when the housing and overall economic situation is entirely different from that prevailing in the spring of 1958 when another emergency bill was enacted.

The annual rate of housing starts last month, seasonally adjusted, was 1,310,000. In contrast, the housing starts were running at a rate well below 1 million at the time that the 1958 act was under consideration. Then, the economy was in a recession. Now, we are in a time of rising prosperity, and there is every indication that this will continue.

Based on the latest available figures, industrial production is rising and is approaching the alltime high reached before the steel strike. Last month unemployment was reduced, which is unusual for December, and the number of gainfully employed, seasonally adjusted, rose to 66.2 million—a new high record. As the President's state of the Union message points out, "Today our surging strength is apparent to everyone."
We believe that the enactment of this legislation at the present time would lead to housing cost increases. In 1958, when similar legislation did help serve an antirecessionary purpose, construction costs rose sharply. The rapid increase in housing starts was a significant factor in bringing about a 5-percent rise in residential construction costs between the second quarter of 1958 and the third quarter of 1959.

The enactment of the pending legislation is not necessary. The residential construction industry will share in the general prosperity in 1960, as it did in 1959. For the year 1959 as a whole, private starts totaled 1,341,000, close to the alltime record. The yearend rate of 1,310,000 demonstrated the buoyancy of the housing market.

We recognize that arranging financing, when the economy in general is making heavy demands on the money market, presents a real problem to homebuilders and home purchasers. However, it is our judgment that this credit situation will permit a high level of homebuilding during 1960.

Although an increase is expected in loans to finance the expansion of business plants, equipment, and inventories in 1960, there should be a great increase in the availability of loanable funds. This will result primarily because the Treasury, which was a heavy net borrower of funds in the money market in 1959, is expected to borrow less money in 1960 than it repays.

Furthermore, the rising incomes of our families should generate greater savings. Not only will consumers be saving more but there will be larger repayments on the outstanding consumer debt which expanded rapidly in 1959, so that the net expansion of consumer debt should be smaller in 1960. These elements should increase the supply of loanable funds and relieve some of the pressure on the mortgage market, not in a matter of days, but as the months progress. The result should be more ready availability of mortgage funds for builders and home buyers. There was a sign of this development in December when, for the first time in several months, there was no increase of discounts on FHA-insured mortgages in the private secondary mortgage market.

There is another factor which would help make mortgage funds easier to obtain. The President has asked that the restriction be removed on interest rates on Treasury borrowing where the term is 5 years and longer. If the Congress does this, the mortgage money market could react favorably. When the Treasury has to finance all of its needs for a term shorter than 5 years, it has to do so at higher rates than on long terms and this attracts funds that individuals would otherwise put in savings accounts which are a principal source of mortgage credit. The so-called Magic Fives are a good example of this.

The bill would establish an additional revolving fund of $50 million for the purchase by FNMA of section 203(i) mortgages on new housing in outlying areas when the amount of the mortgage is $9,000 or less. However, no such mortgage could be purchased if any service charge is made other than the usual origination fee.

This would prohibit the purchase of mortgages with a one-half percent service charge which FHA now permits in connection with mortgages of $8,000 or less. We understand that the proposal is based upon the assumption that this charge is excessive and that this
requirement in the law would relieve an unreasonable burden on the borrower.

We believe that it is desirable to particularly encourage and assist the financing of lower cost homes. Permitting the use of the service charge is part of our effort to bring more lenders into this field. Expenses of a lender are proportionately higher on mortgages in lower amounts, because many of the lender’s expenses are about the same regardless of the size of the mortgage. Without a service charge or some comparable compensation, a lender naturally invests in higher amount mortgages.

We require proper servicing and the service charge helps compensate for expenses of maintaining the soundness of the mortgage by checking the condition of the property from time to time and helping the mortgagor to work his way out of any credit difficulties.

We believe the removal of the service charge from all these mortgages would only drive away private investment to the ultimate detriment of lower cost home construction.

The proposed expenditure of $1 billion under the “Special assistance functions” and $50 million for section 203(i) mortgage purchases, over and above what is already contemplated in the President’s budget for fiscal 1960, would place an added burden on the whole financial structure of the Government.

The President’s budget already contemplates an investment of about $1.9 billion in FHA and VA mortgage loans, including purchases in all FNMA programs. This amounts to about one-fifth of the total of such loans made during the year. To increase this expenditure as the bill provides would mean the necessity of more Government borrowing. In turn, the issuance of more Government bonds would increase the national debt and add to inflationary pressures. This sort of program would not seem to best serve the homeowners of our Nation who are the very people we both want to help.

We are also opposed to the provision of the bill that requires, for 1 year, that FNMA pay par for all mortgages purchased under its “Special assistance functions.” The Administration has consistently opposed such a requirement which was in effect for a period prior to August 7, 1958. The special assistance functions were designed to encourage private investment in special categories of home mortgages which had not yet gained full acceptance in the general mortgage market.

As often stated, the program was intended to encourage rather than supplant private investment. Where these mortgages have a market value of less than par, the par-purchase requirements make it impractical for private investors to compete in the purchase of even the more desirable ones, and through ownership to get actual experience as to their desirability as investments.

In the long run, more funds would be available for these selected categories of housing mortgages if private capital were actively encouraged to invest in and become familiar with them. The extension of special assistance functions under the bill to all low-cost mortgages eligible for FNMA purchase would, of course, broaden the effect of the par-purchase requirement and decrease any interest on the part of private investors.
Furthermore, these special assistance functions are presently operating satisfactorily without a par-purchase requirement.

Mr. Baughman and I have both been pleased to note that FNMA’s special assistance pricing policies have not been the subject of any general complaint since the par-purchase requirement was repealed last year.

Another provision of the bill which we believe to be undesirable is the proposed 1-year suspension of all mortgage sales by FNMA. Economic circumstances vary from time to time both nationally and locally, and varying circumstances may also be present with respect to different mortgages or blocks of mortgages.

A flat prohibition on all mortgage sales could well interfere with FNMA actions that are desirable and that represent sound business practices. In the case of FNMA’s secondary market operations, such interference would be especially objectionable because it unfairly affects the interests of the private shareholders.

As Mr. Baughman will point out, the prohibition would also lead to undesirable results in FNMA’s special assistance and liquidating functions. The history of FNMA’s operations indicates that it has used good judgment in the timing of its sales.

The bill contains another very undesirable provision which would require the temporary reduction of the FHA insurance premium for home mortgages to one-fourth percent. It would not be prudent to set the rate other than on an actuarially sound basis. Although the bill would make this reduction effective for only a year, it would constitute a harmful and dangerous precedent for destroying the soundness of the mortgage insurance program, which has from its inception been designed to be sound and self-supporting. Mr. Zimmerman will explain the disadvantages of this provision in greater detail.

In the light of the present trend in the volume of housing starts and mortgage money rates, we feel that it would be beneficial to permit the industry to continue to move ahead under the same rules it has had. Too frequent changes are especially discouraging to the many small builders and small lenders whom we all want to encourage to use the program for the good of the American people everywhere.

This concludes my prepared statement.

I am sure Mr. Baughman and Mr. Zimmerman will be glad to continue at your pleasure.

Mr. Rains. Thank you, Mr. Mason. We will hear all the statements before we ask any questions.

Mr. Zimmerman, Commissioner of FHA, you may proceed with your statement.

STATEMENT OF JULIAN H. ZIMMERMAN, COMMISSIONER, FEDERAL HOUSING ADMINISTRATION

Mr. Zimmerman. Mr. Chairman and members of the subcommittee, it is a privilege to appear before you as Federal Housing Commissioner in order to testify concerning the provisions of H.R. 9371 which pertain to Federal Housing Administration programs.
FHA was established in 1934 to facilitate sound home financing, encourage improvement in housing standards, and facilitate the flow of money into home mortgages. FHA does not make loans, plan or construct housing but insures loans made by private lenders. FHA is self-supporting and pays all expenses out of income received from fees and mortgage insurance premiums.

As of October 31, 1959, FHA had written insurance totaling close to $60 billion. Since 1934, home ownership has increased nearly 50 percent, a noteworthy accomplishment in light of the fact that it increased less than 7 percent in the previous 50 years.

The year 1959 was one of the biggest in FHA history. Existing home mortgages insured set an all-time record with 305,000 units. This was almost 20 percent higher than the previous record year of 1958, during which 256,000 units were insured.

The 200,000 units of new homes insured was exceeded only by the 225,000 units in 1950 and the 204,000 units in 1948.

The volume of 304,000 units of one- to four-family units which were started under FHA inspection during 1959 was second only to the 328,000 units in 1950.

In total, 550,000 units were insured in 1959 on new homes, existing homes and projects. This is a 21-percent increase over 1958.

Section 2 of H.R. 9371 seeks to increase the flow of mortgage funds to smaller communities by making explicit provision for approval of individuals as FHA mortgagees. We are opposed to this provision.

FHA has long recognized the importance of stimulating the use of FHA programs and developing appropriate outlets for mortgage funds in smaller communities and outlying areas.

In 1956, an industry committee met with FHA to discuss the problem presented by smaller communities, and remedial measures which could be taken. The judgment of the committee was that the principal deterrents to wide usage of FHA in smaller communities were—first, the lack of familiarity of smalltown lenders with FHA procedures and forms, and, second, delays caused by the distance from the FHA offices.

We believe the solution lies in devising a system which meets the basic problems. FHA has made considerable progress in this direction.

First in 1957 the certified agency program was inaugurated on an experimental basis in seven offices. Just recently it has been given full operational status in nearly all field offices for towns of 20,000 population and less, distant from our offices.

This program permits local lenders, appraisers, and inspectors to process cases. Over $300 million of loans have been insured in the past 2 years, principally in the smaller towns and remote areas.

Second, the fee appraiser program was inaugurated in 1958 to speed up service. To date, over 392,000 fee appraisals have been made. There are over 5,000 FHA approved fee appraisers. The time saving in small communities has been tremendous.

Third, use of fee inspectors is now being considered.

Fourth, FHA works closely with the Voluntary Home Mortgage Credit Program to facilitate the flow of private funds for residential mortgage loans into small communities and remote areas. Over $180
million of FHA loans have been placed through this program, principally in towns under 25,000 population.

While FHA now has legal authority to approve individuals as mortgagees, it has not done so for several reasons.

First, the FHA system of mortgage insurance requires a single monthly payment, which includes principal, interest, mortgage insurance premium, taxes, fire insurance, etc. We believe the single monthly payment feature has been one of the major conveniences which has made the long-term amortized mortgage so popular and practical. FHA requires mortgagees to maintain in an escrow the mortgagor's monthly payments for taxes, fire insurance, mortgage insurance premiums, special assessments, etc. FHA has protective requirements with regard to the maintenance, custody, and accounting of these escrow funds which we believe make the program uneconomic for an individual investing on a relatively small scale.

Second, FHA, for protection of home buyers, requires that insured mortgages be held by mortgagees who are equipped, by experience and facilities, to service mortgages properly. This requirement poses no problem in the case of corporate mortgagees, which have legal succession and continuity. However, individuals, because of the personal problems of death, divorce, insanity, etc., present an entirely different picture.

In the event of long, drawn-out litigation involving the estate of a deceased mortgagee, who would service the insured mortgages? Who would maintain the trust fund escrows, pay the taxes, fire insurance, special assessments, etcetera? To whom would FHA be responsible for payment of debentures in the event of loss? Who would be responsible to FHA for payment of mortgage insurance premiums? These and other questions point up the many new problems that would be created if individuals were approved as mortgagees.

Third, under the present FHA procedure, individuals can and do frequently invest in FHA mortgages. The most common method of accomplishing such investment is through an approved mortgagee which has trust powers.

Under this procedure of the FHA program, an individual can create a trust, using his own funds and authorize a corporate trustee which is an approved mortgagee to hold mortgages in its trust capacity with the individual as the beneficiary of the trust. We have had very few requests by individuals for approval as mortgagees and these requests have been met in almost all cases by using the existing features of the FHA program.

Fourth, another procedure, which we believe will offer opportunities for private investment in FHA mortgages, permits approved mortgagees to offer to the general public participations in FHA-insured mortgages. This plan has only recently been placed in effect and is attracting widespread interest.

We agree that extending the benefits of FHA insurance in small communities requires attention and we will continue to study this problem. We do not believe it desirable or necessary, however, to approve individuals as FHA mortgagees.

Section 3 of H.R. 9371 stipulates that for a 1-year period any mortgage insured or commitment issued under section 203(b) of the National Housing Act shall provide for annual insurance premiums
of one-fourth percent of outstanding balance. We oppose this action, either as a temporary measure or as a permanent provision.

The section 203 program has always been looked upon as one which should be financially self-sufficient. The use of subsidies has been rejected as a long-range element in this program. Treasury funds were allocated initially to establish the insurance fund and to cover early operating expenses. In 1954, all Treasury funds were repaid with interest.

Section 203 was made a mutual program so that it could operate at minimum expense to borrowers while at the same time collecting a premium adequate to cover expenses under foreseeable conditions. The mutuality feature permits unneeded premium and other income to be returned to the borrowers in the form of participation dividends if losses and expenses are less than those assumed in the premium computation.

From 1944 through October 31, 1959, these dividends amounted to $98.7 million. At the same date, there was in the participating reserve account available for future dividends $121.1 million. The aggregate of these two amounts equals 29 percent of section 203 premium collections. The size of these payments reflects the very favorable loss experience which has been experienced during the past 25 years.

The importance of these mutuality provisions cannot be overemphasized. Through application of this principle in a sound actuarial manner, net insurance costs of the program can be economically and equitably distributed according to the size and term of the insured mortgage and the length of time insurance contracts are in force. This permits equitable recognition of the increased risk in the early years of the mortgage.

We believe that section 203 should continue to be a self-sustaining program with minimum premium costs to borrowers. A mandatory premium reduction to one-fourth of 1 percent would not meet this standard. On the basis of both cumulative experience to date and experience in recent years, a premium of this size would be barely adequate for the operating and administrative expenses of the section 203 program. Reserves would be inadequate for sustaining any significant losses.

Accordingly, losses from cases paying one-fourth percent premiums would need to be absorbed by premiums from other cases or by Treasury subsidy. If the one-fourth percent premiums were limited to cases committed or insured during a certain time period, as in H.R. 9371, the losses from these cases would necessarily be subsidized by the remainder of the cases, which would not be equitable.

If, on the other hand, the reduced premium were applied to all cases, the premium income would clearly be inadequate for the losses which would occur in the event of a real estate depression.

It has been suggested that a reduction of premiums would stimulate housing construction. The latest Census Bureau report indicating private starts in December at an annual rate of 1,310,000 non-farm units raises a strong question as to the need for such stimulation at a time of generally full employment.

Reduction of the mortgage insurance premium should not be employed as a counterbalance to increased interest rates. Interest is income of the lender which varies primarily with changes in the cost
of money. Insurance premiums, however, are income to FHA which must be adequate for section 203 expenses and losses. Insurance premiums, in my judgment, should not be manipulated for unrelated purposes.

It has been suggested that the one-fourth percent premium be used for a 1-year trial period. Such a period would clearly provide no loss experience and nothing would be learned about administrative problems which is not already known or cannot be as well established without the trial period operation.

For actuarial purposes, the combination of established expenses for administration of the mortgage insurance program plus assumed losses under depression conditions can determine with ample efficiency the appropriate scale of FHA reserve requirements. These reserve requirements indicate the flow of premium income required for financially sound operation under the assumed conditions. The dividend procedure provides an efficient and equitable means of returning to mortgagors any premium savings which result from more favorable experience than that assumed. FHA actuarial assumptions for determining reserve requirements have been made on a conservative but not unreasonable basis.

A few years ago a very comprehensive examination of the FHA reserve assumptions was made by independent experts employed by the national associations of several major classes of mortgage lenders.

A book entitled “The Mutual Mortgage Insurance Fund: A Study of the Adequacy of Its Reserves and Resources,” published by Columbia University Press, prepared by Prof. Ernest M. Fisher and Prof. Chester Rapkin of Columbia University, summarized the results of this inquiry. Let me quote to you a few pertinent passages from their volume:

The periodic calculations made by FHA in evaluating the reserve position of the mutual mortgage insurance fund represent an ingenious application of what is known as the prospective method of actuarial science (p. 56).

* * * FHA has chosen amounts [for reserve calculation] * * * which appear to be reasonable and within the range of probability (p. 5).

* * * the foreclosure and property acquisition rates employed by FHA in making its actuarial calculations * * * are certainly not unreasonably above or below those indicated by the experience studies (p. 151).

* * * the loss rates assumed by FHA are not inconsistent with the experience data * * * (p. 86).

On net balance, it appears that the FHA calculation [of reserve requirements] is based on premises that should make adequate provision for contingencies of major depression magnitude.

FHA does not consider that either this objective review of its reserve requirement standards or its own basic studies should be accepted as a permanent settlement of the proper level of FHA premium charges. FHA actuarial reviews are recurringly made of the status of FHA reserve requirements and of the premises on which these requirements are based. These matters are also examined from time to time in the course of General Accounting Office audits of FHA accounts.

Until such studies or discussions show a sound basis for premium reduction for all mortgage insurance contracts in the section 203 program without imperiling the financial adequacy of the insurance fund, we believe the present statutory provisions for premiums should remain unchanged.
Section 13 of H.R. 9371 prescribes that, with respect to FHA and VA mortgages, the originating mortgagee shall report any fees, charges, or discounts paid by the builder, seller, broker, sponsor, or any other person in connection with or for the purpose of arranging the mortgage or loan. The only exclusion from this requirement would be the normal origination fee charged to the mortgagor.

We oppose this provision because it is both unnecessary and undesirable.

FHA assembles regularly from its field offices opinion reports concerning local mortgage information as to the current prices for various types of FHA-insured mortgages being sold in the secondary market. In these reports, the effects of any financing fees and charges other than discounts are taken into account. FHA publishes monthly the composite of these reports for a basic type transaction.

Reporting of this basic transaction is amplified by reports relating to advance commitment transactions, transactions dealing with section 203 mortgages on existing homes and with mortgages insured under other programs, and by reports on the apparent adequacy of the flow of mortgage funds for FHA-insured mortgages. Special reports are sometimes required from field offices.

Furthermore, Directors are expected to report unusual facts whenever conditions seem to occasion such comments. If additional knowledge of this kind is considered desirable, FHA already has ample authority to require whatever reporting by mortgagees or FHA offices might seem appropriate. Such reports can be assembled and analyzed within a few days to provide timely knowledge of current mortgage market conditions both in individual regions and in the Nation as a whole.

Flexibility in the assembling of discount information is feasible in such procedures and can best provide a current understanding of market developments without extensive policing or rigid adherence to legally imposed requirements.

In contrast, the proposed provision would impose a substantial reporting burden on mortgages. They would be required to report information which may not be within their knowledge, such as construction loan interest, brokers' fees, etc.

The information received by FHA would be so voluminous as to defy systematic recording and analysis except at prohibitive costs. Our present system requires only the correlation of the summaries submitted by 75 field offices reporting uniformly. The proposed requirement would necessitate the correlation of over 500,000 reports per year from a diverse group of mortgagees. Because the reporting would be at the time of insurance, summaries based on these reports would lag so far behind actual market developments they would make little or no contribution to the current administration of FHA programs. Compliance with reporting requirements as applied to current market practices would be so expensive and complicated that mortgagees would be discouraged from participating in the programs.

In our opinion, this increased resistance to participation in FHA programs would probably be the main consequence of a statutory requirement for the reporting which is proposed by section 13. Administrative costs to FHA also would be substantial. Benefits in the form of increased knowledge would be decidedly limited. No new
or additional protection or benefit to home buyers would be created by such a reporting system.

For these reasons, we oppose the provisions of section 13.

Thank you, Mr. Chairman.

Mr. RAINS. Thank you, Mr. Zimmerman.

Now, Mr. Baughman, we will have your statement.

STATEMENT OF J. STANLEY BAUGHMAN, PRESIDENT, FEDERAL NATIONAL MORTGAGE ASSOCIATION

Mr. Baughman, Mr. Chairman and members of the committee, I am J. Stanley Baughman, President of the Federal National Mortgage Association. I appreciate the opportunity afforded me by your Subcommittee on Housing to appear before you at this time to present our views concerning the chairman's bill H.R. 9371. Of the bill's 13 sections, sections 4 through 12 relate directly to FNMA.

The Federal National Mortgage Association purchases, manages and sells FHA and VA housing mortgages. Such activities, by their nature, are of a business type. FNMA itself is a corporation—a mixed ownership corporation. All of the common stock is owned by private shareholders, and the preferred stock is owned by the Treasury.

Importantly, there are three independent portfolios of FNMA-owned mortgages, dating from November 1, 1954. These three portfolios result from three separate operations predicated on different purposes and objectives. The three are (1) a privately financed activity, which in time is to become privately owned, called the secondary market operations, (2) the special assistance functions, which are operated exclusively for the account of the Government with Treasury money, to accomplish various broad national housing policies or objectives, as determined by the Congress or the President, and (3) the management and liquidating functions which provide mainly for managing and liquidating the portfolio of mortgages resulting from the Association's overall operations prior to November 1, 1954.

During the calendar year 1959 the consolidated purchases of mortgages by FNMA aggregated $1.9 billion. That compares with $1.1 billion in 1957, the next largest year. We estimate that the comparable figure for 1960 will exceed $1.4 billion, of which about $1.1 billion will be effected through the privately financed secondary market operations.

Section 4 of the bill would effect a direct amendment of the FNMA Charter Act's provisions relating to the privately financed secondary market operations. The present statutory purpose is to provide supplementary assistance to the general secondary mortgage market—by providing a degree of liquidity for mortgage investments, thereby improving the distribution of investment capital available for home mortgage financing.

The change would add—

and by aiding in the stabilization of the mortgage market.

The amendment would also strike out of the corporate charter the present basic criterion governing purchase prices, which states:

In the interest of assuring sound operation, the prices to be paid by the Association for mortgages purchased in its secondary market operations under this section, should be established, from time to time, within the range of
market prices for the particular class of mortgages involved, as determined by the Association.

The implications of these proposals should be matters of grave concern, in our judgment, especially because in our opinion they are unnecessary. FNMA’s continuing purchases of mortgages in sizeable volume under the secondary market operations, which again in 1960 are expected to exceed $1 billion a year, made within the range of market prices, are already contributing significantly to the promotion of stability in the general secondary mortgage market. Such a consequence is natural and inevitable.

We think, in addition, that the proposals are unwise. They are unwise because they imply that the privately financed secondary market operations, with respect to which there are corporate shareholders numbering more than 5,800 are intended to accomplish a typically governmental objective of planned “aiding in the stabilization of the mortgage market.” It would obviously be wrong to require FNMA in its relationships to these private shareholders, with no voting rights, who hold an equity investment of more than $54 million, to perform any act that may not be consistent with their interests.

Such a possibility is implicit in the proposed deletion of the present requirement that purchase prices shall be “within the range of market prices.”

These proposals could not be adopted without giving private investors generally the impression that FNMA’s corporate purposes and organization lack essential stability. The reactions of investors would adversely affect the market value of the capital stock, issued and to be issued; and would make more difficult future sales of corporate debentures of the secondary market operations. There are now outstanding more than $1.6 billion of such secondary market operations debentures, having terms up to 10 years.

SECTION 5 OF H.R. 9371

Section 5 would affect FNMA’s overall operations, including not only the Government-financed special assistance functions but also the secondary market operations. It would require FNMA, for 1 year, to purchase any offered mortgage unless (a) in default, (b) in imminent danger of default, or (c) the title to the property is defective.

Occasionally, as you know, FNMA has declined to effect purchase of a mortgage offered to it. The concern of the seller is understandable, because all such mortgages are either insured or guaranteed by an agency of the Federal Government.

In every instance, however, the reason for the declination has some essential relationship to the marketability of the mortgage in the general secondary mortgage market.

The proposal in the bill properly recognizes that the Government insurance or guarantee with respect to home mortgages does not protect the owner of the mortgage against underlying defective title.

Similarly it recognizes that FNMA should not be required to purchase a mortgage in default or in imminent danger of default. In this same field, however, are other cases differing only in degree—in which the mortgagor’s credit standing is unfavorable, generally hav-
For example, the mortgagor may unwisely have overwhelmed himself with obligations for installment purchases, he may have become unemployed or have developed marital difficulties, or he may even have died.

The proposal in the bill does not recognize situations such as one in which the mortgagor has wantonly abused and neglected his property that constitutes the security for the loan. Or the property may have been abandoned and become the subject of serious vandalism. There have been cases in which physical environmental problems of a serious nature have arisen, including flooding, sewerage difficulties, and drainage problems. Shifting terrain or landslides may have damaged or destroyed the properties constituting the mortgage security.

I think it is entirely possible to have FHA mortgages which, because of local proximity of the property to the lender or other individual circumstances, are wholly acceptable to particular investors—and are FHA insurable—but which would not be and should not be expected to be acceptable to mortgage investors generally. In such an instance, FHA insurance has performed a valuable function. But neither the FHA insurance nor the VA guarantee can assure the marketability that, at least under the privately financed secondary market operations, is properly FNMA’s criterion.

Under the secondary market operations, the present charter requirement for reasonable marketability is necessary and, of course, is entirely prudent and in conformance with accepted business principles. Both the private shareholders and those who hold outstanding debentures are entitled to rely upon a continuation of such management policies. In addition, the needed assurance of continuity of operations would be lacking unless FNMA-owned mortgages were reasonably resalable.

Under the special assistance functions, it is not now required that mortgages necessarily be readily acceptable to investors generally. FNMA’s declinations are few. We think the proposed amendment is not needed. Under this heading there is never a final declination for credit reasons except after the case has been carefully considered in the principal office of the corporation here in Washington.

In general, I must recognize there may possibly be instances in which we have in error declined to purchase some particular mortgage or mortgages. I say now as I have said before to many mortgage lenders, and to some members of this committee, that whenever we are furnished with information concerning any such situation, it will receive my immediate personal attention.

Section 6 would also affect FNMA’s overall operations, including not only the Government-financed functions but also the secondary market operations. The amendment would require that FNMA, for 1 year, “shall not sell any mortgage.”

Such a proposal that would prohibit all sales of mortgages is, in our opinion, extremely unsound and impracticable. Especially in the secondary market operations, FNMA must have the requisite degree of business flexibility to be responsive to constantly changing situations in the general secondary mortgage market.
Essential continuity of FNMA's operations is predicated to a considerable degree on effecting its sales at times when and in places where excess investment funds are seeking mortgage investment.

In this manner, FNMA has funds in readiness for its mortgage purchases at times when and in places where there are shortages of mortgage investment funds.

Again, as to the secondary market operations, the proposal is not consistent with accepted business operating principles.

As to the special assistance functions and the management and liquidating functions, it is perhaps conceivable that circumstances could arise which might justify discontinuance of sales. Indeed, on at least two previous occasions FNMA has suspended sales from what is now the portfolio of the management and liquidating functions. However, no legislation was needed then or now to accomplish that result.

Speaking broadly, it is unlikely that FNMA will sell any substantial amount of mortgages from any of its portfolios under current conditions in the general secondary mortgage market.

Also, there are a multitude of technical situations in which it is important that small-scale sales be effected, such as family problems and refinancing transactions.

It will also be recalled that under its secondary market operations FNMA provides a means by which mortgagees can raise cash on their mortgages and at the same time retain potential control over the mortgages for a period of time. Thus, if a mortgagee wishes in effect to borrow funds on the security of mortgagcs, it may sell the mortgages to FNMA and request an option contract. The option contract gives the mortgagee the contractual right to repurchase the mortgage at any time during the following 9 months at the same price.

Under the proposal in the bill, this existing procedure under which FNMA in effect can make loans on the security of mortgages would necessarily be discontinued.

Section 7 of the bill would accomplish an amendment of the corporate charter that would have a direct and immediate effect on the secondary market operation's financing arrangements. It would provide that, for 1 year, the required stock subscription rate should be 1 percent of the amount of mortgage purchases or commitments. The subscription rate is now 2 percent, under the existing charter provision which permits the corporation to determine a rate between a minimum of 1 percent and a maximum of 2 percent.

The objective of the bills' proposal is undoubtedly to reduce the cost of doing business with FNMA. FNMA's stock that is subscribed for at $100 per share is quoted in the current market at between $50 and $60 per share. Adoption of the proposal, which could be effected by the corporation without need for legislation, would thus reduce the transaction costs of those that sell mortgages to FNMA by somewhat less than one-half percent.

Let us examine the other side of the coin, which undoubtedly should also be of interest to mortgage sellers. The bill’s proposal would reduce the rate of buildup of the corporation's capital through stock subscriptions by exactly 50 percent. For example, if a $10,000 mortgage transaction be assumed, the dollar difference between subscription rates of 2 percent and 1 percent would be $100.
Since borrowing potential is 10 times capital, payment into FNMA's capital of the $100 would have provided, in addition, $1,000 of such borrowing potential, or a total of $1,100 that would have become available for additional purchases of mortgages.

In present circumstances, it has been our judgment that the existing 2 percent stock subscription rate is reasonable and provides for the continuous progressive accumulation of suitable amounts of necessary FNMA capital in relation to the increasing demands for mortgage investment funds.

The advantages of assuring the availability and continuity of the secondary market operations by retaining the 2-percent stock subscription rate appear far to outweigh the current slight cost reduction to mortgage sellers that would result from reducing the rate to 1 percent.

Section 8 of the bill would impose for 1 year, under the Government-financed special-assistance functions, a requirement that all mortgages be purchased at "par" or 100 percent of the unpaid principal balance, without regard to interest rates; and section 9 would establish inflexible limitations on fees, which could not exceed (a) 1 percent in the aggregate, and (b) one-fourth of 1 percent for a commitment.

The administration has consistently and firmly opposed any requirement for purchases at a fixed "par" rate, as you know.

If there be kept in mind the real purposes that the special-assistance functions are designed to serve, we cannot but question whether mortgages bearing differing interest rates, varying as to current new FHA and VA mortgages from 5 1/4 to 5 3/4 percent, can consistently be purchased at any single uniform price—whether that price be "par" or some other amount. Certainly they are not purchased on such a basis by institutional investors.

For the information of the committee, FNMA's current special assistance purchase prices are as follows: 99 for home mortgages bearing 5 3/4 percent, 97 for home mortgages bearing 5 1/4 percent, and 99 for multifamily housing mortgages bearing 5 1/4 percent.

The special-assistance functions provide for the purchasing of selected types of mortgages pending the establishment of their acceptability in the general mortgage market. If the establishment of such acceptability is to be advanced, special-assistance purchases should be conducted in circumstances that are planned to encourage private investment in the same types of mortgages.

If the circumstances were to include fixed-purchase prices that were disproportionately high in relation to the market, FNMA's purchases would necessarily supplant or deter private investment.

Because the circumstances often involve the purchase by FNMA of mortgages that are valued by investors generally at less than "par," adoption of the proposed pricing requirement, supplemented by the proposed limitation on fees, would create a situation in which the investment of non-Government funds in such mortgages would become impracticable to any large extent. This result would follow even though the mortgages were of the more desirable types eligible for special assistance.

Also, investors that are in a position to make available either mortgage credit or other types of credit will not prefer the mortgage field whenever mortgage investments are not reasonably competitive with
other types of investments. If the Federal Government, acting through FNMA, under its special-assistance functions, were to establish mandatory and inflexible purchase prices supported by Treasury funds, it would thereby tend strongly to preempt that part of the mortgage market covering the special-assistance types of mortgages.

In addition, the proposed provision that would establish FNMA's fees below those of other mortgage institutions would further aggravate the situation, in our opinion. Specifically, the usual fee for purchase commitments is 1 percent, but under the bill FNMA's maximum commitment fee could not exceed one-fourth of 1 percent.

In consequence it is our view that under the bill the Government, in its endeavor to be helpful to special types of home purchasers, would be unwittingly reducing the total credit actually available for those special types of home purchasers. In the long run substantially more financing will be available for the special-assistance types of mortgages if we help to maintain an environment favorable to private investment funds.

As Mr. Mason has already pointed out, the bill would authorize substantial additional Treasury financing by FNMA under the special assistance functions. Mr. Mason has stated the position of the administration, that is, such outlays of Government funds in the present circumstances of general economic well-being would be unwarranted. With respect to the existing overall special assistance authorization of $950 million that is expressly subject to Presidential discretion, the administration will recommend other legislation increasing that amount by $150 million.

REPORT ON SECONDARY MARKET OPERATIONS

I should like to close my testimony today by commenting briefly on the performance and accomplishments of the privately financed secondary market operations. To finance purchases of mortgages in recent months we have been required to borrow substantial amounts of money in the face of almost continuously increasing borrowing costs.

During 1959, 10 issues of debentures aggregating $1.34 billion were marketed at rates varying from 3.7 to 5.35 percent for obligations of 1 year or less, and from 4 to 5 3/4 percent for those of more than 1 year.

The most recent offering, amounting to $200 million for a term of 9 months, carried a rate of 5.35 percent. When selling costs and commissions of approximately one-eighth of 1 percent are added to these rates, and when this cost is compared to the net return realized from mortgages bearing even the current higher interest rates of 5 1/4 and 5 3/4 percent, it becomes clear that FNMA must have management discretion to adjust prices and fees to avoid losses and to assure continuity of operations.

In this connection the Congress has wisely made provision in the corporate charter not only that purchase prices should be "within the range of market prices," as I said earlier, but also that purchase prices and fees should be adjusted in response to changing market conditions to avoid excessive volume and to assure that the "operations should be fully self-supporting."

In our opinion, the past 3 years have generously demonstrated the immense effectiveness of FNMA's secondary market operations in
meeting the pressing financial requirements of the housing industry. FNMA has been continuously in the market for the purchase of FHA and VA mortgages during the full 5-year existence of the secondary market operations.

In 1958 when the market eased and the need for liquidity of mortgage investments lessened, mortgages were purchased by private investors from the portfolio of the secondary market operations.

FNMA issues a standby type of commitment that has been the supporting basis for many mortgage lenders to make construction loans; that procedure has materially facilitated advance planning of home construction.

As I have indicated, we have also provided the medium by which mortgagees could raise cash on their mortgages and at the same time retain potential control over the mortgages for a period of time—could, in effect, borrow on the security of mortgages.

Significant and worthy of special note is the fact that FNMA’s secondary market operations are becoming increasingly the means by which private investment funds not heretofore available for mortgages are being made available for that purpose, an aspect of these operations that is often not realized. Among the funds referred to are those of foundations, personal trusts, public and private pension and retirement trusts, and the like. Investments by such entities in the debenture obligations of the FNMA secondary market operations, which finance the bulk of our purchases, constitute in effect investments in mortgages. Through this medium the managements of these private funds may invest in mortgages, and at the same time avoid the considerable operating and management burdens of mortgage ownership.

At December 31, 1959, FNMA’s purchases of mortgages under the secondary market operations amounted cumulatively to $2.676 billion. During calendar year 1957, when the money market was tight, the purchases exceeded $1 billion; in 1960, as I have said, purchases are again expected to exceed $1 billion. Since the inception of the authority to make commitments in August 1956, we have entered into commitment contracts aggregating $325.9 million. The cumulative amount of sales mortgages at the end of calendar year 1959 was $476.9 million.

FNMA’s present financial position under its secondary market operations is favorable. The capital, surplus, and borrowing authority—the borrowing authority being 10 times the sum of the capital and surplus—provide currently a total purchasing potential of about $3.1 billion. Of this total, approximately $900 million is not employed at this time and may be considered available for mortgage purchases and commitments.

This amount, taking also into consideration additional amounts that will be provided by further common stock subscriptions, by additions to surplus, and by the resultant tenfold borrowing leverage, together with the proceeds of some portfolio liquidation, should be sufficient to meet expected needs, in our opinion.

We believe that FNMA, acting within essential limitations, has been rendering the greatest possible assistance in the problems of home financing. In our opinion the experience we have gained fully justifies the conclusion that the existing underlying principles incorporated by the Congress in the FNMA Charter Act were soundly conceived.
Mr. Rains. Thank you, Mr. Baughman.

As I listened to those rather glowing reports, I got the impression that you oppose every section of the bill with the possible exception of the enacting clause, isn't that right?

I also get the impression, Mr. Mason, of a rather uneasy feeling. I have been around Washington long enough that when I hear the agencies give glowing reports that don't gibe with the reports I get out in the grassroots, I have a feeling something is going to happen. I don't know exactly what it is, because as I understand your statements, you think everything is well in the homebuilding field, is that right?

Mr. Mason. We feel we are not now in a position to need emergency legislation, certainly.

Mr. Rains. Well, drop "emergency" and just call it legislation.

Mr. Mason. We feel that currently, with the information we have to work with, with the information we get from the grassroots, from our 75 FHA insuring offices, from the offices of the Veterans' Administration, from the offices, the regional offices of the Housing and Home Finance Agency, that people are getting money to start housing, and that housing is proceeding at a pretty normal rate.

Mr. Rains. Well, let's see if we can get a few common bases for consideration.

In the first place, you would agree that the interest rate on home mortgages that people are having to pay throughout the country today is the highest in many many years?

Mr. Mason. It is the highest in quite a long while.

Mr. Rains. It is the highest in the history of FHA, is it not?

Mr. Mason. I wouldn't know exactly.

Mr. Rains. Secondly, I have before me a number of speeches you have made in the past, and you would agree that one of the real dangers involved in high interest rate, tight money periods—and the report we have here today is made by the field offices, of course, not by us—is the danger and ever increasing prevalence of second mortgages, isn't that correct?

Mr. Mason. Mr. Rains, I agree with you.

Mr. Rains. I was looking through this report, and I hope the members of the committee will look through it. The committee staff didn't write it, it is compiled by the various FHA and VA field offices, and I find even in cities like Chicago they have taken 20 percent to 40 percent discounts on second mortgages—and I thought they had plenty of money in Chicago—but that is what this report says.

At the same time, housing starts went up a small amount—they actually dropped in December, of course, but rose on a seasonally adjusted basis, you will agree people are paying more for those mortgages because of a tight money market than they have in many years. That is correct, is it not?

Mr. Mason. Yes, but the rate of paying more stopped in December, which we thought was another sign indicative of, perhaps, more availability of financing.

Mr. Rains. I saw that statement in your testimony. How general is that?

Mr. Mason. This is the result of, as you know, our studies from our field offices of the Federal Housing Administration, and Mr. Baughman's offices in Fannie Mae.
Mr. Rains. Are you telling the committee now that interest rates are now stabilized, and that they are going to stay at present levels?

Mr. Mason. I did not say this, but I said in the month of December the rate did stabilize itself for that month, which we think is a hopeful sign. I think this stabilization takes time. I don’t believe it happens overnight.

Mr. Rains. Well, it stabilized in the main because so many people were unable to get mortgage credit, is that correct or not?

Mr. Mason. I don’t—

Mr. Rains. You don’t agree with that?

Mr. Mason. I don’t agree with this. I think we got unbalanced and worried during the fall. I think in a time such as we had last fall we had many leaders that were overambitious in their idea that the market was going to be a tight market, and that they could get anything they wanted, and I think that condition is straightening itself out to some extent.

Mr. Rains. Mr. Zimmerman, I notice that your agency just put out a release in which you said that 46 of your 73 insuring offices claimed that adequate funds are available for section 203 mortgages in their areas.

I was just wondering if that didn’t mean that the other 27 offices reported that they were not adequate. Is that correct or not?

Mr. Zimmerman. Well, that is correct. This “adequacy” term that is used in this kind of reporting goes to a very broad area from maximum term mortgages to those of higher quality, less terms, both as to years and to downpayments.

Mr. Rains. I understand what it does.

Do you have a list of the 27 offices which reported it is not adequate?

Mr. Zimmerman. I will furnish it for the record.

(The data referred to above is as follows:)

In a monthly survey of opinions of FHA Insuring Office Directors concerning the current housing situation in insuring office cities, one question reads as follows:

Are adequate long-term mortgage funds generally available for section 203(B): [ ] Yes. [ ] No.

In response to this question, the following insuring offices replied “No” as of January 1, 1960:

Zone I: Jamaica, N.Y.

Zone II:
Richmond, Va.
Charleston, W.Va.

Zone III:
Birmingham, Ala.
Jacksonville, Fla.
Miami, Fla.
Knoxville, Tenn.
Memphis, Tenn.

Zone IV:
Springfield, Ill.
Des Moines, Iowa
Grand Rapids, Mich.
Minneapolis, Minn.
Omaha, Nebr.
Cincinnati, Ohio
Columbus, Ohio

Zone V:
Shreveport, La.
Tulsa, Okla.
Dallas, Tex.
Fort Worth, Tex.
Houston, Tex.
San Antonio, Tex.

Zone VI:
San Francisco, Calif.
Boise, Idaho
Helena, Mont.
Reno, Nev.
Portland, Oreg.

These responses reflect the opinions of the Directors concerning their local market conditions. Since no objective standards can be given as basis for form-
ing these opinions, it is probable that conditions of equal stringency may be appraised as providing adequate funds in one locality and not providing adequate funds in another.

The significance attached to the opinions from individual offices should be tempered by a realization of the subjective character of the questionnaire responses.

Mr. Rains. Mr. Mason, I read your statement with a great deal of interest, and on page 4 you said that because of the hoped-for prospect of a balanced budget, there will be no more need for magic fives.

Do I gather that you personally thought the magic fives was an unwise financial step?

Mr. Mason. I thought it was unfortunate, certainly, that the Treasury had to go into the market that would normally be long term market because of its restriction on its method of financing. I thought that it took money which normally would have gone into savings, or which was in savings in some cases, and it had to do this because of the restriction on the interest rate which kept it out of the long term market.

Mr. Rains. I realize this only has an indirect bearing on housing, but are you sure that it was necessary for the bonds to bear the rate of interest which they carried?

Mr. Mason. Mr. Rains, this I couldn’t comment on.

Mr. Rains. But you will agree that whatever rate they should have borne, it certainly jolted the mortgage market, did it not?

Mr. Mason. I think it is always unfortunate when you take money that should normally go into savings, which normally goes into mortgages, and pull that into Government, paying for Government expenses.

This year, if we have the balanced budget, which I am sure we will have or hope we will have, then we won’t have this situation.

Mr. Rains. Now, isn’t consumer buying of durable goods—doesn’t that exert great pressure on the mortgage market?

Mr. Mason. It certainly does.

Mr. Rains. Let’s not pin it down and say if we balance the Federal Government budget—and a lot of people think that—we have solved all the problems of tight money inflation. You don’t mean to say that?

Mr. Mason. It is one factor, and on consumer credit, this is another factor, as you know. The anticipated rate of expansion of that market is supposed to be less this coming year.

Mr. Rains. I agree, but it is an important factor, also, and one we want to achieve, but I don’t like to hear the statement that all we have to do is just balance the Federal budget and we have solved all our financial problems.

Mr. Mason. I couldn’t agree with you more, Mr. Rains.

Mr. Rains. In a recent press release which you sent out something struck me as odd; since Mr. Baughman is sitting there by you, I hope you will clear it up.

The Housing Administrator also undertook to assure absolute impartiality and integrity in the operation of the Federal National Mortgage Association by naming Julian B. Baird, Under Secretary of the Treasury, and Dr. Raymond J. Saulnier, Chairman of the President’s Council of Economic Advisors, to be regular members of the FNMA Board, and by appointing a standing industry advisory committee to FNMA.
Now, you weren't really concerned at that time with the impartiality or integrity of FNMA when you issued that statement?

Mr. Mason. I have never been worried about the integrity of FNMA, but FNMA is getting increasing ownership by the public, as Mr. Baughman's testimony indicated, and I think it is important with this increasing ownership that there be just as wide a representation on the Board that sets the policies of this organization as there can be so that people have confidence in the operation of this organization, that they be people of known standing and reputation, that there be a chance at least to get industry opinion, which is what the Advisory Committee is for, so that we have in the public's mind the feeling of an organization that is run with a feeling of knowing what is going on.

Mr. Rains. But I couldn't help but have the feeling from the appointment of these distinguished gentlemen that you were giving closer control to the fiscal monetary agencies, one from the Treasury and one from the Economic Advisory Committee.

Mr. Mason. Before we have had people simply from the staff of the Housing Agency on the Board. It was my feeling, and this is my feeling, that the putting of people of known reputation on the Board would make or give the public the feeling that there was nothing to hide in FNMA.

There was nothing to hide anyway, of course, but the broader this understanding is, the better it is.

Now, it is not true that putting Mr. Saulnier or Mr. Baird on this Board in any way changes the administration's policies as they affect FNMA. These people would have an effect on FNMA operations because they are part of the financing part of Government to which FNMA looks for its policies.

Mr. Rains. Well, Mr. Mason, one of the things that has always troubled me about FNMA is the ever-increasing desire on the part of the Treasury to take hold of it completely, and I somehow think that these gentlemen might take a less sympathetic attitude toward mortgage credit than they should.

Do you expect that kind of situation?

Mr. Mason. Mr. Rains, we expect exactly the opposite.

Mr. Rains. You expect the opposite. Well, you realize, of course, there is a lot of feeling on Capitol Hill that the Treasury sets a lot of policy for the Housing Agency, and very frankly we don't think that ought to be, and I just wondered if this was a move to give the Treasury even more control.

Mr. Mason. Mr. Rains, I should like to have it clearly understood that this is not that kind of a move.

Mr. Rains. Mr. Zimmerman, I listened carefully to your statement. Some of it I could agree with, and some of the technicalities I think we could iron out, but one thing troubled me.

You didn't tell us that FHA is in danger of breaking the usury laws in three or four of our States. It is fantastic to me to think that the interest rate on Government-insured loans has gone up so high that States are condemning it because it is in violation of the usury law.
What do you intend to do about Maryland and Tennessee, and if rates rise a little further, Alabama, and a few more than won't be able to get FHA loans except in violation of the usuary statutes?

Mr. Zimmerman. Mr. Chairman, I would like as courteously as possible to disagree with the chairman's statement that FHA was breaking the usury laws in any State.

Mr. Rains. I am not charging you. I simply say the mortgages insured by FHA for some reason are becoming so high in interest rates that they are in contravention of usury statutes.

Mr. Zimmerman. These statutes over the country vary as the chairman knows, and we simply move the interest rate ceiling administratively within this statutory 6 percent ceiling.

In any jurisdiction where they have State laws that make it impossible, or illegal to take full advantage of the ceilings so determined, FHA would certainly expect the lender to act responsibly and legally.

The chairman mentions the States of Maryland and Tennessee. Going first to the State of Tennessee, the lower court has handed down an opinion regarding this question of exceeding the usury limits, and has held that the 0.5 percent insurance premium was not to be considered interest rate, and therefore did not have the effect of violating the usury, and this now, of course, will go to the high court in Tennessee.

In Maryland, the present status of this question is simply that the attorney general has rendered an opinion consistent with this Tennessee case, and so far as insurance premium is concerned, in my own judgment, although I think that this is a matter that must obviously be resolved in each State, I don't believe that the insurance premium will be so considered.

Now, the question as to the 0.5 percent service charge, I think this is quite a different thing.

Mr. Rains. Mr. Zimmerman, I bring that out merely to point up one thing, that everything is not well in the field of housing. When you go back 5 years ago and recall what the interest rate was on FHA loans at that time, and VA loans, and now we find ourselves with much, much higher interest rates. If interest rates do continue to increase and if discounts do continue to increase, and they certainly will, there can be no doubt about that, what are we going to do? Are we going to permit 10 percent discounts on FHA loans, are we going to reach a 20 percent discount, or is there no end in sight?

Mr. Zimmerman. I would prefer the Administrator take that question, but let me say, Mr. Chairman, that speaking for the three of us down here we are certainly hoping that this kind of development does not occur, and I personally don't believe that it is going to occur. The best information available to us confirms what the Administrator said. In the last 6 weeks very noticeable stability has come into the mortgage market field. We, I think, in FHA have the best information reported from over the country that I know anything about. We approach it in many different ways.

The publicized reporting procedure, as you know, relates to a 25-year, 10-percent down, immediate delivery mortgage. We use this class because this particular quality of mortgage in either tight money or loose money conditions is marketable, and so we always can test the market on that basis.
Sometimes in a tight money market, you can't tell what the maximum term mortgages would sell for, because they don't sell very well, but on the basis of this type of reporting that we have, there has been a noticeable strengthening and a noticeable and significant stability in the last 4 or 5 weeks.

Now, this isn't an attempt on my part to project into the spring. I think this is more properly an area the Administrator can speak to, but on the basis of present facts we don't envision this type of ever-increasing interest rate trend that the chairman suggested.

Mr. Rains. That we have been witnessing.

Mr. Zimmerman. Yes.

Mr. Rains. We can agree on one thing, I am sure, that if it should continue there is only one way to stem it, unless you just want to tell people they can't have houses, and we don't want to do that, none of us, I know, and that would be to provide some means of increasing the mortgage credit supply.

Mr. Zimmerman. Yes, sir; I believe that there is increasing resistance on the part of the market, on the part of the consumer as interest rates increase. I suppose this is a truism, and as conventional rates approached and exceeded the 6-percent level, I think that it was very apparent that there is marked resistance to interest rates at this level, and should the interest rates continue to increase, I think that there would be a noticeable downward trend in the level of construction, and the only way that that decline could be stemmed would be by some device or means to increase the flow of money into the mortgage market.

Mr. Rains. I notice in your statement, Mr. Zimmerman, your figures on mortgage discounts cover only 25-year FHA loans with 10 percent down.

Isn't it true that discounts are even larger on 30-year loans with minimum down payments?

Mr. Zimmerman. Yes, because the price is related to quality, and I think particularly in a tight money market, the maximum term mortgage would not be considered the same quality as the one we report on publicly, although our reporting procedures get the information on these other classes and qualities of mortgages, and we have it available for the chairman.

We just don't publicize it.

Mr. Rains. You do get such reports from the field.

Mr. Zimmerman. Yes, we do.

Mr. Rains. As a matter of fact, and this is my information, in many areas the purchasers are denied the benefits of the 30-year term because even though it is FHA-insured, lenders don't want to make that type of loan. Isn't that correct?

Mr. Zimmerman. Well, I think it is true, Mr. Chairman, that in this kind of money market the lender generally becomes more selective as the demand exceeds the loanable funds that he has, and to the extent that is true, I think that probably your question has to be answered in the affirmative.

Mr. Rains. Mr. Baughman, on page 6 of your statement, you oppose the provision in the bill which would prohibit the sale of Fannie May mortgages for 1 year.
I know you realize that the reason that is in this bill is that there is considerable concern up on Capitol Hill about your going ahead and selling those mortgages after the Senate passed a resolution asking you not to, and after, on this side—well, I will only speak for myself. I have made the statement for the record that I didn’t think it would be done and I didn’t think it would be necessary to pass a bill to prevent it.

How much money did the Government lose on that transaction?

Mr. BAUGHMAN. Well, I don’t think they lost anything on the transaction, Mr. Chairman.

Mr. RAINS. I have heard they lost $8 million on the transaction. Is that correct or not?

Mr. BAUGHMAN. I don’t believe that is the fact. I sent you a complete report of the transaction.

Mr. RAINS. I couldn’t quite interpret that down to dollars and cents. It is a little technical for me.

Mr. BAUGHMAN. There is a difference of opinion as to how you approach this. Some people figure it on future loss of income—income that would presumably have been received if the mortgages were kept in the portfolio and permitted to run to maturity. That is true of any sale of a mortgage. Once you sell a mortgage, you don’t get future income.

Even taking that into consideration, considering future income, I think that the report that I sent to you—I did send you a copy of the complete report—I think it showed the future income after the date of the sale, would have approximated the difference between the 3.5 percent net mortgage rate and the 2¾ percent bond rate, and would have amounted to approximately $6 million.

However, we did get on the transaction premiums amounting to 3.8—$3,800,000, so that cut the $6 million figure down to $2.2 million, if you want to figure it that way, which I don’t think is a good way to figure.

Mr. RAINS. I think that sounds a little more accurate to me than the information I had, but there was entailed for the Government a loss, and listening to Mr. Mason a while ago, he admitted the fact—though he said it possibly had to be done—that the so-called magic five took some of our mortgage credit away from housing, and yet by that action didn’t you take about $300 million away which went into bonds instead of mortgages?

Mr. BAUGHMAN. I am sorry again you didn’t read my report. Every member of the committee, incidentally, has a copy of the report. We were interested in that, how the exchange affected the mortgage market, and whether the current purchases by institutional investors of mortgages would be affected as a result of the transaction. We had, I think, 42 successful offerers in there, bidders. We did not ask the savings and loans whose offers constituted only 4 percent of the total, because naturally they do go in for mortgages and nothing else.

We called up 20 of the 30 banks and insurance companies. They represented $178 million of the $188 million approved offers. Of the 20 people we contacted, 18 said definitely it would have no effect on their immediate purchases of FHA and VA mortgages. Two of them said it would have some slight effect. A great many of them, if you
will read the report, indicated that the mortgage market would benefit by the exchange, because the money that they would get as a result of the payments on the mortgages would go back into the mortgage market, and they thought in that way it would help.

Mr. Rains. You know, I have never found anybody else who shares that opinion in the housing business. It has always been my understanding that any Government action that siphons off mortgage credit for bonds, no matter how simple it may be, is a threat to the mortgage credit that might go to housing.

Mr. Baughman. Mr. Chairman, I think you have to remember that these funds which were invested in these 2¼’s were frozen. Now, the question that you raise is whether or not once they get the money from the mortgages they put it back in the bond market or keep it in the mortgage market, and that is what we tried to ascertain.

I think if you will look at the report, that is where it is indicated 18 out of 20 said it would not affect the mortgage market.

Mr. Rains. They obviously wanted the mortgages.

Mr. Baughman. I think the benefit that the bondholders had in the sale was that it provided liquidity for these bonds. These bonds were for 25 years, and they had no way of getting liquidity out of them except by exchanging for 1.5’s, which had a market price of something like 87 or 88. Where they benefited from repayments, they immediately started to get back their cash on their investment in the bonds by exchange of the bonds for mortgages.

Mr. Rains. You do not have any plans for any kind of action again this year, do you?

Mr. Baughman. That depends upon the administration. I would say, I suppose, that we do.

Mr. Mason. Mr. Rains, we are talking about another issue. We have not made up our minds.

Mr. Rains. We are going to have a real fight over that, Mr. Mason, if you put it in, because Congress doesn’t understand how you can get a bookkeeping advantage when you pay that high a figure for it. You will have to do some real explaining on Capitol Hill with that one, so I am going to insist, Mr. Baughman, that we keep that section in the bill. I hate to see it tie your hands, but I don’t think the Congress wants that kind of swapping going on.

Mr. Baughman. Mr. Rains, as far as the 1961 budget is concerned, the President’s budget does not contain any provision for any swaps during fiscal 1961.

Mr. Rains. Of course, that is between now and July—what about swaps between now and July 1? You don’t have any contemplated that you know of?

Mr. Baughman. Between now and July.

Mr. Mason. Mr. Rains, what Mr. Baughman says is there is nothing after the first of July, but the budget this year does contain the provision for the current year.

Mr. Rains. Well, I want to know do you have any trades in prospect between now and July 1?

Mr. Mason. I said to you, Mr. Rains, to this effect, that we are considering this. We have not made up our minds.

Mr. Rains. Well, that means I am going to have to hurry up here with our legislation.
Mr. Baughman, on page 9 of your statement, you seem to indicate that the only purpose of special assistance is to support new types of mortgages pending their acceptability in the general mortgage market. Section 301(a)(b)(2) directs Fannie May to buy home mortgages generally as a means of retarding or stopping a decline in mortgage lending and home building activities which threatens materially the stability of the higher level national economy questions. Is that correct?

Mr. BAUGHMAN. You are speaking of special assistance?

Mr. RAiNS. Yes.

Mr. BAUGHMAN. Yes, sir.

Mr. RAiNS. In your statement I got the impression that supporting mortgages on new programs was the only function in your special assistance program.

Mr. BAUGHMAN. That is by law what we are required to do. We recognize they are not marketable mortgages. We buy them.

Mr. RAiNS. It also provides this other function, and that is that you are directed to buy home mortgages generally as a means of retarding or stopping a decline in mortgage lending and home building activities which threatens materially the stability of the higher level national economy. That is also a directive to you, is it not?

Mr. BAUGHMAN. I would say that is permissive under certain circumstances. In other words, when circumstances are such that they want to put that into effect. That, I would say, covered the bill in 1958.

Mr. RAiNS. I have some more questions, but I am going to pass on now to Mr. Addonizio.

Mr. ADDONIZIO. Thank you, Mr. Chairman. In answer to one of Mr. RAiNS' questions, I believe you said that you do not condone the second mortgage process, is that correct, Mr. Mason?

Mr. MAson. That is correct, Mr. Addonizio, the second mortgage particularly on low-cost housing can be a real danger to the American public.

Mr. ADDONIZIO. In view of that, Mr. Mason, if the Home Loan Bank System were under your control in the Housing and Home Finance Agency, would you take steps to control these second mortgage practices?

Mr. MAson. Mr. Addonizio, I haven't considered this, because they just escaped from our control so recently that it doesn't seem possible that they could be put back. I think it would be very desirable if there were some way to avoid second mortgages generally.

Mr. ADDONIZIO. Do you agree with the fact we are presently in a tight money market that will probably continue for some time?

Mr. MAson. I am inclined to think that we are beginning to get out of the tight money market, Mr. Addonizio. We have been in one during the fall months, but I am inclined to think that we are moving out of it.

Mr. ADDONIZIO. I believe that Mr. Zimmerman still agrees we are in one because just a week or so ago I picked up one of my newspapers back home, and he indicated that we were in a tight money market, so evidently he disagrees with you.

Mr. MAson. Well, what he means is we have been in one, I am sure.
Mr. Addonizio. After your correction, I am sure that is probably what he does mean.

Mr. Zimmerman. I think I can give an answer which will satisfy you, sir.

These things don’t happen overnight. Sometimes I hear the phrase “bottoming out” used, and I think that as I speak in terms of increased stability, or a leveling off, what we are seeing in the last month or 6 weeks is this “bottoming out,” this added stability, this stopping of the spiraling uptrend.

Now, while this continues, and certainly it will continue for a period of time, I am sure that the Administrator agrees with me this is a tight money condition, but these are very hopeful and significant signs that we are speaking about.

Mr. Mason. None of these people are scared of me, Mr. Addonizio.

Mr. Rains. Might I ask a question?

Mr. Addonizio. Surely.

Mr. Rains. You know we are going to be here until July, anyway, and we are going to be watching to see if your predictions come out right, but as I read the papers and talk to mortgage bankers over the country, they tell me with the settlement of the steel strike and the rebuilding of the corporate inventories the extreme competition they are going to have for mortgage credit is about to cause the exact opposite, and I am talking about the mortgage bankers of America who are not going to support this bill. But this is what they tell me that is going to make the mortgage market continue tight, and that it has now slowed down to a walk.

Is that true or not?

Mr. Mason. Could I just say, Mr. Rains, that these are the forces that are working your way, that is the way your bill is written.

Mr. Rains. I wish they weren’t working, it is not my way.

Mr. Mason. I withdraw that, your way, I am sure it is not your way, but the condition you are trying to correct. There are forces working the other way, however.

Mr. Addonizio. Mr. Mason, in your statement you are quite optimistic about the future of housing, and as I listened to you and read your statement, I judged that you estimate there will be in the vicinity of 1,310,000 housing starts in the year 1960.

Mr. Mason. I made a guess back in late October, Mr. Addonizio, and my guess was 1,200,000 at that time.

Mr. Addonizio. Well, I just wanted to warn you about this. I remember back in 1958, the Secretary of Labor made a guess about the number of unemployed, and said if it went above that figure he would eat his hat. I was wondering if it went below the figure of 1 million, would you eat your hat for us?

Mr. Mason. Mr. Mitchell ate a hat made out of cake or something, so the penalty was not very bad.

Mr. Ashley. On that basis, you will acquiesce?

Mr. Mason. With the same kind of hat.
Mr. Addonizio. Mr. Zimmerman, on page 2 of your statement, you oppose section 2 of the bill. That is the section that has to do with making individuals eligible to make FHA loans.

Now, isn’t it true that this is presently in operation in the GI loan program, and that it has been working well?

Mr. Zimmerman. Yes, I think that it is. I am not as familiar with that as I intend to become, because we seek the same objectives that are obviously intended by this provision. Any way that we can encourage increased flow of money into this market we are interested in. The main thing that we are saying, and I attempted to point out in my testimony, we presently have this authority, and we simply haven’t at this time felt that just the broad approval of individual mortgagees was the best way to attain the objective. There are some very serious problems which I attempted to relate going to the extent that the bill provides.

Mr. Addonizio. Mr. Zimmerman, I also got the impression from your answers to Mr. Rains’ questions about discounts that you are not presently at least in favor of control of discounts.

Mr. Zimmerman. Well, that is right, sir. This has been—

Mr. Addonizio. In other words, you are still of the opinion that everybody should keep getting soaked as much as they can?

Mr. Zimmerman. I didn’t understand.

Mr. Addonizio. You are presently of the opinion that everyone should just keep getting soaked as much as they can.

Mr. Zimmerman. I would have to answer that phase of your question in the negative, to the extent that it exists. FHA, as you know, has on two different occasions been required to make the effort to control discounts, and the most recent discount controls were removed by the Congress in the emergency housing bill of 1958, and I think for sound reasons. It is a very difficult and unrewarding task, and I seriously question whether such a mandatory requirement serves the purpose intended.

Now, I think that we will all have to generally agree that it is not possible, as a practical matter, for the Commissioner of FHA to sit down there in the Lafayette Building and do much about what these mortgages are going to cost. A lot of other forces are involved over which we have no control, and as interest rates increase, we are disturbed, and we are always hoping, as I think we now see some indications, that it will start to reverse and go the other way.

Mr. Addonizio. You indicated also, I think, that you had some reports available so far as discount rates are concerned.

Mr. Zimmerman. We have complete reporting.

Mr. Addonizio. Will you make them available to the committee?

Mr. Zimmerman. We certainly will, sir.

(The data referred to above is as follows:)

Secondary market prices for immediate delivery of FHA-insured 5½-percent new home mortgages with down payments of less than 10 percent were reported to average $95.8 per $100 of unpaid mortgage amount on January 1, 1960 compared with a price of $95.9 on December 1, 1959. Prices reported for this item by FHA insuring office directors are intended to apply to mortgages with the minimum downpayment and maximum term for which secondary market sales are being made.
EMERGENCY HOME OWNERSHIP ACT

The following shows these prices by FHA administrative zones:

<table>
<thead>
<tr>
<th>Region</th>
<th>Jan. 1, 1960</th>
<th>Dec. 1, 1959</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northeast</td>
<td>897.5</td>
<td>897.6</td>
</tr>
<tr>
<td>Middle Atlantic</td>
<td>95.7</td>
<td>96.2</td>
</tr>
<tr>
<td>Southeast</td>
<td>95.5</td>
<td>95.5</td>
</tr>
<tr>
<td>North Central</td>
<td>95.0</td>
<td>95.0</td>
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<tr>
<td>Southwest</td>
<td>95.4</td>
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<td>West</td>
<td>95.4</td>
<td>95.7</td>
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<tr>
<td>United States</td>
<td>95.8</td>
<td>95.9</td>
</tr>
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These prices, while not based on records of actual transactions, reflect the best information available to the Directors of insuring offices which process home-mortgage insurance cases. In the compilation of the zone and national averages, a weighting procedure is used to take account of the probable volume of transactions in each insuring office jurisdiction.

Mr. Addonizio, Mr. Widnall.

Mr. Widnall. We certainly appreciate your testimony here today, and I for one on the committee believe that there is a lot of truth in what you say in the opposition you make to this bill. It is amazing how bills come in with the tag line “emergency,” and we ought to be discussing dispassionately a housing bill, and not with the term “emergency” with the connotation appended to try to generate support.

Mr. Addonizio made the remark, I believe, that his information was that he felt that housing starts this year would total over 1 million; is that it?

Mr. Addonizio. That was not my estimation. I was just quoting a figure. I was trying to get Mr. Mason to eat his hat if he predicted over 1 million housing starts, and it went below that figure.

Mr. Widnall. Well, I will say this to you: I will eat my hat if it goes below a million, and you eat it if it goes over a million.

Mr. Addonizio. If we can have the same kind of hat that Mr. Mitchell had.

Mr. Widnall. On page 2 of your testimony, Mr. Mason, you said you are authorized to advise that the enactment of the bill would not be in accord with the program at present. How do you feel that this proposal would affect the budget?

Mr. Mason. Well, a billion dollars certainly would affect the budget of this country, and that is what this measure asks for.

Mr. Widnall. In other words, it is your contention it will pull out of the market a billion dollars of savings that could be used in other directions, the Government would have to go into the market in order to borrow an additional billion dollars?

Mr. Mason. That is correct.

Mr. Widnall. On page 3, you stated in 1958 with similar legislation it did help serve an antirecessionary purpose. Construction costs rose sharply.

Do you believe that if this legislation is enacted, construction costs will rise again?

Mr. Mason. In view of the current rate of housing starts, it is quite obvious it would.

Mr. Widnall. So that what is held out to the people as a means to save them money can in the end cost them a great deal more because of increased price of the house?
Mr. Mason. It can cost them more. I wouldn't say a great deal, perhaps.

Mr. Widnall. You say in 1958 it showed a 5-percent rise in cost of residential construction.

Mr. Mason. That is correct.

Mr. Widnall. As I understand it, you are strongly opposed to a reduction in the FHA insurance rates at this time.

Mr. Mason. Yes, Mr. Widnall. We think that any setting of the FHA insurance rate should be done as a result of actuarial studies, not just setting it by simply setting it.

Mr. Widnall. By wishful thinking, in other words.

We have never had to experience any marked run on the fund since that insurance fund was set up; isn't that so?

Mr. Mason. That is correct.

Mr. Widnall. There has never been any major impact on the funds?

Mr. Mason. That is correct.

Mr. Widnall. So that in the judgment of the Administration, it is felt that it would be most wise to maintain as secure a fund as possible until some actuarial figures really show that you can reduce to whatever figure will be fair at the time.

I would like to ask Mr. Baughman a couple of questions.

Mr. Mason. Mr. Widnall, before you go on, could I ask the chairman a question? As Mr. Rains knew, I had a date at 1 o'clock. They moved the date up to 12:30. Will I be through to make a 12:30 appearance?

Mr. Addonizio. I hope to be through by 12:30 also.

Mr. Mason. Thank you very much.

Mr. Widnall. Under the “Special assistance” functions, Mr. Baughman, you say it is perhaps conceivable that circumstances could arise which might justify discontinuance of sales. On at least two previous occasions, Fannie May suspended sales from what is now the portfolio, etc.

What factors led to that decision?

Mr. Baughman. I think it was the mortgage market situation at that time. These are the Government-financed programs, not the secondary market operations, and as a matter of policy we just suspended sales temporarily.

Mr. Widnall. What was the actual reason for that decision at the time?

Mr. Baughman. Well, I think it was the condition of the mortgage market and the tremendous loss the Government would have to take if any mortgages were sold—a combination of the two things.

Mr. Widnall. On page 7, you say the option contract gives the mortgagor the contractual right to repurchase the mortgage at any time during the following 9 months at the same price.

Can you give any specific examples of that taking place?

Mr. Baughman. Yes, we have a program within the Association where if a man wants to sell mortgages to us with an option to buy them back within 9 months, he may do so by putting up one-half point fee at the time that he sells the mortgage to us. The mortgages are reserved for the full 9 months, and if within that time he elects to
repurchase them, they are available to him at the same price at which he sold them to the Association.

Now, if you couldn’t make any sales from the portfolio, you see, that would eliminate that particular phase of our operation, which has been helpful to some people.

Mr. Widnall. To what extent—do you have any figures on that?

Mr. Baughman. I think it is 7 or 8 million dollars.

Mr. Widnall. Which would be eliminated?

Mr. Baughman. Yes, sir.

Mr. Widnall. If this bill were enacted.

Mr. Mason. Yes.

Mr. Widnall. Now, on page 9, you said—

Because the circumstances often involve the purchase by FNMA of mortgages that are valued by investors generally at less than “par,” adoption of the proposed pricing requirement, supplemented by the proposed limitation on fees, would create a situation in which the investment of non-Government funds in such mortgages would become impracticable to any large extent.

This would then, in the end, tend to create a larger demand for emergency housing funds, so to speak, special assistance funds?

Mr. Baughman. It would increase the amount of mortgages Fannie Mae would be required to buy. I think a good example is that customarily the trade requires a one-point commitment fee when they give a commitment to a seller of a mortgage at some future date. This bill is recommending one-quarter of a point commitment fee, so you see how competitive we are. There would not be any competition at all. Naturally they would all come to Fannie Mae instead of going to the private market for their commitments.

Mr. Widnall. This is the sort of thing that snowballs, and once you start it then another person comes in and says, “Well, he got it, we need it, we can’t get it through private investment funds,” and so you have more and more demand on the Treasury to provide the special assistance funds.

Mr. Baughman. That is correct. He couldn’t get it from the private market at all at a quarter of a point.

Mr. Widnall. So it is extremely important if we go into this program at this time that we be assured there is an absolute need for it.

Mr. Baughman. That is right; we should encourage private investment wherever possible.

Mr. Widnall. I think it is rather interesting that we were on a committee trip this fall and talked to the ministers of finance in a number of countries, heads of credit organizations, banks, people in government, and I found that they unanimously thought we were indulging in a very foolish practice here in the United States by keeping the 4½-percent fixed ceiling on the financing of long-term Government debt. They couldn’t understand why we did it. They felt it was something that was causing a rise in interest costs over here.

They tell me in making this observation that today they realize that their operations are hinged on the security and the stabilization of our own economy. If anything happens by way of serious inflation within the U.S. economy, the repercussion would be felt all over the world, and I was very interested in that part of your testimony today in which you said this would have a bad effect if something wasn’t done about it.
That is all I have at this time.

Mr. Addonizio. Mrs. Sullivan.

Mrs. Sullivan. Gentlemen, I am glad that you are here early again this year to testify on a housing bill, and perhaps we can get one accomplished before September of 1960.

Mr. Mason, I just have one comment I would like to mention. A few weeks ago you issued your annual report for the year 1958, and in the chapter on housing supply and needs, it is estimated that there are still 3.4 million nonfarm homes which are dilapidated, and 4 or 5 million which lack adequate plumbing.

Now, this means that we are entering the decade of the sixties with some 8 million substandard homes still in use.

Do you think that in the face of these glaring needs that we are building enough units per year?

Mr. Mason. Mrs. Sullivan, we are extremely hopeful as a result of the census that is now being taken this coming year to get new and better figures on the houses which are less desirable than they should be.

The figures that we have naturally are compilations based on the earlier census, and regress each year. You are correct that we are as concerned as anyone that there should be an adequate number of houses built. We don't believe that we should build so many houses in 1 year that we get beyond our ability as an industry to deliver the materials and the labor to build these houses, and we have not reached that point even with our excellent results that we did this year, but the creation of 1,300,000 houses this last year was helpful.

The thing that is doing the most to stop this condition you speak of is modernization, and this is the real field, because many of these houses in this group that you speak of are houses that are perfectly—what is the word—salvable, it doesn't make sense to me, but that is the word the dictionary says we have to use, that can be made into decent living quarters for Americans, and this is a goal that does not show in our figures at the present time.

Mrs. Sullivan. In other words, many of those can be rehabilitated.

Mr. Mason. Some of the have been, Mrs. Sullivan, but we don't know how many.

Mrs. Sullivan. Mr. Zimmerman, from your arguments against the reduction of the FHA insurance premiums, do I gather that it is your opinion that the premium can never be reduced?

Mr. Zimmerman. No, quite the contrary, Mrs. Sullivan, we are probably—well, every year, with the volume of business that FHA is doing, we are coming closer to the time when the mortgage insurance premium could be reduced somewhat on a sound basis. It is simply that on the basis of the present status of the fund, our present operating expenses, strictly on the basis of present conditions, it would not in our judgment at this time be possible to reduce the premium on a sound basis.

Mrs. Sullivan. I think you mentioned that you are constantly reviewing that with the hope of some day lowering it, but you don't want to do it for 1 year because of the effect it might have on those who have had to pay the rate.

Mr. Zimmerman. That is right. I think the time will come, and it may be in the foreseeable future, or in the immediate future, the
next year or two when it would be wise to lower the present floor from a half of 1 percent to, perhaps, the quarter of 1 percent, leaving it, I think, to the administrative judgment of FHA.

I simply don't believe at the present time, and I had some pretty good recent experience on this, I don't believe at the present time, since we are so certain that we couldn't reduce the premium on a sound basis, that we should have the authority to reduce it because I have learned that when Congress takes this kind of action prior to the time when we can follow through, then most people, a lot of people feel that I in some way am attempting to thwart the will of Congress, which isn't true. The recent experience I refer to is in the lower downpayment aspect of last year's bill, and Senator Sparkman and I had an interesting colloquy on this. He pointed out it was administrative authority he was attempting to give, and he couldn't understand why I objected to having the authority to implement a lower downpayment if and when the need occurred, and the report doesn't show it, but I kind of stumbled a bit and didn't put up much of an argument.

As soon as we had that authority there was reaction that it should be done, when in my judgment it shouldn't. This is why I am saying I don't believe now is the time to do it. I hope in the near future it can be done soundly.

Mr. Mason. Mrs. Sullivan, could I add to Mr. Zimmerman's remarks the fact that we have in the FHA mutuality which does reduce this below the half percent cost to the person who has the mortgage. In other words, they get a dividend when they pay up their mortgage if there have not been losses during that period that would use up the half percent.

Mrs. Sullivan. Thank you very much.

Mr. Derwinski. I have a question. I think you should be complimented as a group for your effective presentations, especially since you have completely abolished the term "emergency" as applied to this housing bill.

May I just ask a question, Mr. Mason? I am sorry the chairman has left, because I was hoping that he would also comment on some of my questions, but in discussing the pressure of rising interest rates, you mentioned, I believe, the growing opposition of purchasers to the rise in interest rates. That is a rather obvious development, isn't it?

Mr. Mason. This always happens, Mr. Derwinski.

Mr. Derwinski. It would lead me to believe, then, that one of the problems facing, say, the homebuilding industry is the fact that they are now faced with a more selective market, people aren't compelled as they were, perhaps, 10 or 11 years ago to purchase any home that was available, they now can afford to be selective in their purchases, isn't that so?

Mr. Mason. And the builders will certainly confirm this to you, sir. This doesn't mean, however, that there is not a strong and active market, because there is a good demand for housing at the present time and at the present terms.

Mr. Derwinski. I have figures to indicate that last year the housing starts ran about 400,000 above new family formations, which indicates that we are progressing satisfactorily toward settling the housing problems of many families across the country.
Do you think that will continue to be the case?

Mr. Mason. Yes, and I will point out to you, too, sir, when a family is formed it does not immediately become in the market for a new home. New home buying normally happens several years after the family is formed.

Mr. Derwinski. Again in discussing this so-called emergency with you, the chairman made mention of the fact that he was fearful of further Government control and regulation of the housing industry. This would lead me to believe, of course, that the obvious problems that this bill might present to us are contrary to his own philosophy, but I will have to take that up with him when he returns.

There is one point I would like to have you clear up for us. This billion dollars that is to be provided in this bill, wouldn't it actually come from the same sources that are now investing in the home-building industry?

Mr. Mason. It comes out of the Government. The Government borrows this money, it comes from the Treasury. The Treasury Department has to borrow it from whatever sources they can.

Mr. Derwinski. It wouldn't be creating $1 billion of new money to pour into the homebuilding industry. I also note that according to the figures for 1944 through 1958, the percentage of private debt that is invested in mortgages has risen from slightly over 12 percent to 25 percent. Would these figures indicate that the homebuilding industry is receiving more than its fair supply of funds for its purposes in relationship to the private debt of the country? Mr. Zimmerman, would you care to comment on that?

Mr. Zimmerman. I am sure both the Administrator and I would say it wouldn't be more than their fair share. We are just pleased that it is increasing.

Mr. Mason. We had this made by a private economist.

Mr. Derwinski. The point I make is that there has been an increasing percentage of the private debt of the country placed in the one- to four-family mortgage debt, which certainly means that adequate funds are available to meet the requests of people for home financing.

Mr. Mason. Of course, the savings and loan industry in this country is rapidly growing, increasing in size, and in the month of November, for instance, it accounted for 39 percent of the mortgages placed.

That would indicate that private funds increased.

Mr. Derwinski. Now, just one last point. It seems to have been the historical pattern here in Washington to liberalize mortgage terms whenever a so-called emergency arises.

Now, when we liberalized mortgage terms either by reducing down-payments, or by extending the lifespan of the loan, in effect aren't we tying up funds over a longer period of time than that would normally be flowing back into the market at a more rapid pace in terms of reducing the payments made, and therefore reducing the turnover of funds available to lenders each month?

Mr. Mason. I presume to a certain extent that would be true.

Mr. Derwinski. In other words, actually when we liberalize terms, what we do is, to my understanding, at least, what we do is slow down the pace of repayment, and in a great percentage of these cases the new funds for mortgage lending comes in repayment of funds rather than new savings, isn't that so?
Mr. Mason. Yes, Mr. Derwinski, your supposition is correct.

Mr. Derwinski. Thank you.

Mr. Aдонизио. Mr. Ashley.

Mr. Ashley. Mr. Mason, in your statement, you state that you believe it is desirable to particularly encourage and assist the financing of lower cost homes. I know you are sincere in this.

Earlier in your statement you say it is your judgment that the credit situation created a high level of homebuilding for 1960, and presumably these statements can be taken together, and you are optimistic about the construction and availability of mortgage credit for the purchase of homes for our medium-income families, is that correct?

Mr. Mason. Yes, that is correct Mr. Ashley.

Mr. Ashley. Well, I confess I have a difficult time understanding the philosophy or the rationale of my colleague who asked you some questions, and of yourself, when he asked you and you agreed that there is adequate mortgage credit available, and that the increase in this credit over the years has been commensurate with the demand.

Wouldn't one question have to be at what price is this credit available?

Mr. Mason. Certainly the price governs whether it is available or not.

Mr. Ashley. There certainly is plenty of money today if you want to pay 8 or 9 percent, or 12 or 15 percent, isn't that correct?

Mr. Mason. There is money available at lower rates also.

Mr. Ashley. Well, I would like to just say that in this period of prosperity that we are in I agree with the business and financial editor of the Christian Science Monitor who comments that there are small clouds on the horizon, and I would like to just summarize a few of Mr. White's points and then ask you about them.

He wants to know whose prosperity, and he goes on to point out that there are some clouds on the horizon, and he points three of them out.

First, he says, inflation has not been defeated, and he goes on to pinpoint that he is talking about cost inflation principally because of the steel settlement and the pattern that that has set.

Secondly, he goes on to point out, and it is undeniable, the consumer debt is certainly rising.

Third, he says this: Tight money remains. In view of rising consumer debt, increased spending by the Federal Government, State and local governments, and by consumers, businesses, and institutions, the Federal Reserve System's tight money policy is regarded by most impartial economists as a necessity. They would not themselves ease money now. In fact, these interest rates are due to go higher. Lending organizations expect to pay more for their money. They expect to charge more for money.

Now, this is important, and I just wondered. You, I take it, are in disagreement with Mr. White's evaluation of our economic future?

Mr. Mason. Mr. Ashley, I would ask you at what date Mr. White wrote this, and what date he had his information on which he based it.

Mr. Ashley. This was last Wednesday, last Wednesday's Christian Science Monitor, January 20.

Mr. Mason. I am not questioning Mr. White's right to arrive at a decision, but I think that all of us arrive at our decisions based on the
information that is available to us at the time, and I am not saying that the price of money is going to drop. I had not said that.

Mr. Ashley. But you do say there will be a great increase.

Mr. Mason. I feel we have arrived at a plateau for prices, and that funds will be available at this price.

Mr. Ashley. But you say in your prepared statement on page 4 that there should be a great increase in the availability of loanable funds at a reduced interest rate, isn’t that correct?

Mr. Mason. But I said also this would not happen overnight, but over a period of years.

Mr. Ashley. And if you are wrong on this, Mr. Mason, then certainly this failure of judgment jeopardizes the entire building industry, the future for American homeowners throughout 1960, wouldn’t that be correct?

Mr. Mason. This is the penalty of being in a position such as I am in. One has to look at the facts that are available to him and arrive at a decision. It would be just as bad for the American public if I guessed wrong the other way.

Mr. Ashley. Now, throughout most of 1960, until this situation develops as you hope it will, isn’t it true that the low- and medium-income families are going to be hurt worse among the citizens of our country as far as their ability to purchase homes and to get decent, safe, and sanitary shelter?

Mr. Mason. You mean worse than the rich people?

Mr. Ashley. Well, this is always the case, of course, but who does tight money hurt most? Here again I might quote this from Mr. White’s article, too.

He said,

In the past month this observer has met young couples with children who run smack into the tight money problem. They are credit-worthy couples, the husbands are employed, but can they add $5,000 to the cost of their home in interest, and can they be assured of getting the mortgage even if they are willing to pay the high interest?

This is what I am getting at. For a person who is making $25,000 or $30,000 perhaps this isn’t so much of a problem as it is for somebody who is making five or six thousand.

Mr. Mason. Mr. Ashley, the programs of the Federal Housing Administration are geared to people of the moderate income which you speak about, and the man who is hurt worst by a lack of financing is the man who desperately needs a home and doesn’t have it, such as the condition when our boys came home from the war.

Today our Americans generally are not in this position, they are in the position of getting a better house, which is very desirable, and a very worthwhile thing to be working toward, but the man who really hurts in this condition is the man who doesn’t have a decent place to live. We have some of these. You cannot generalize, I know, but the number of these is much smaller, Mr. Ashley, than it has been.

Now, I don’t want to be put in the position, now, of saying that I am in favor of high interest rates. I am looking at this situation as it is, and saying that we will have a better supply of money, this is evident now. There isn’t going to be any great rush. As I told some people just the other day, there will be nobody knocking at their door asking them to borrow money, though I find there is even some of that
going on, but this is not a general situation. This situation is improving, and since all of our figures indicate this, I have to tell the committee this or I would not be following my responsibility properly.

Mr. Ashley. Mr. Zimmerman said awhile ago that he was making an observation when interest rates go up they are greeted by resistance on the part of the home-buying public. How else could it be different? Of course that is one aspect of a tight money policy. The other is that as interest rates go up, the lending institutions get more selective.

Wouldn't this also be true, and as is pointed out in Mr. White's article, even if the people want to come up with the increased payments that result from higher interest, perhaps the loan isn't even there, perhaps they can't even get the money.

Mr. Mason. The lender becomes selective when the supply of money is short, it is the supply of money that makes him selective.

Mr. Ashley. I would like to ask one further question. You say on page 3 of your statement, Mr. Mason, that when similar legislation was passed in 1958, as in any recessionary purpose, that construction costs rose sharply.

Are you saying that this was the result of the action taken by the Congress?

Mr. Mason. Mr. Ashley, in 1958, the action of the Congress came on the heels of a change in the economy which of course the committee couldn't or the Congress couldn't have foreseen in its procedure of passing the legislation. The legislation did come on top of an expanding building industry, and this did result in an increase in building costs larger than would have been the case if the legislation had not been there. The legislation did help to bring the whole economy of this country back into a better situation than it had before.

Mr. Ashley. I think it is interesting that between 1952 and the present date interest rates have gone up on FHA homes by 35 percent, from 4¼ to 5½, and according to the information I have, construction costs have gone up by 15 percent, in this same period.

Mr. Addonizio. If I may interrupt, Mr. Mason has to go over to the White House at 12:30, I understand.

Mr. Mason. I would be happy to have my General Counsel sit in and take my place.

Mr. Addonizio. I would appreciate it if the others would remain and certainly we would appreciate it if your General Counsel sat in for you, Mr. Mason.

Mr. Mason. Thank you, Mr. Chairman.

Mr. Ashley. I have no further questions.

Mr. Addonizio. Mrs. Griffiths.

Mrs. Griffiths. I had a question of Mr. Mason which I would be glad to put to his General Counsel.

Mr. Brownfield. I am Lyman Brownfield, Mr. Mason's General Counsel. He has asked me to sit in here, and to bring back his papers.

Mr. Addonizio. I hope you can answer the questions.

Mrs. Griffiths. I am particularly surprised at this statement at the bottom of page 4 where Mr. Mason gets in a plug for higher interest rates on long-term Government loans. How long have higher rates been paid on short-term loans, do you know?

Mr. Brownfield. That is a Treasury question, generally.
Mr. Baughman. I think that has occurred within the last year and a half.

Mrs. Griffiths. I would like you to explain to me why you think if long-term loans go up to 5 percent it will make more mortgage money available, explain the mechanics by which it will be done, please.

Mr. Baughman. I think you are talking about the money market, now, not the mortgage market, and I am not an expert on it at all.

The difference is that there are certain investors—take pension funds, for example—who are interested in long-term financing, and do buy that type of investment. They are not so much concerned with short term.

Mrs. Griffiths. Where is their money now?

Mr. Baughman. Well, they invest in long-term corporates, for example, they are mostly long term.

Mrs. Griffiths. In your opinion they are going to withdraw that and put it in Government bonds?

Mr. Baughman. No, I think that there is a field of investments in long-term, medium-term and short-term money, and I think what the Treasury has indicated is that they should get into the long term, because they think there is money out there that they can get at reasonable rates.

Mrs. Griffiths. What is going to happen to the places where these prospective investors are moving over into the long-term Government loans? Now they have their money invested elsewhere. When they withdraw their money, who is going to invest in that position?

Mr. Baughman. Mrs. Griffiths, I think you always have to bear in mind that the investment funds of these type of investors, whether long term, short term or intermediate term, grow from time to time. Take, for example, pension funds. Those funds continually grow all the time. It is new money that is getting into the investment funds all the time. People are paying in every day, every month, and those funds are growing. That is where the funds come from on new investments.

Mrs. Griffiths. Do you think that they are going to continue to invest if they can get 5 percent on Government bonds?

Mr. Baughman. Yes, I feel that these long-term investors will invest in long-term Government bonds.

Mrs. Griffiths. You mean the people who have been investing in the corporates, do you think that they are going to continue doing that if they can get 5 percent on Government bonds?

Mr. Baughman. Some of the corporates, of course, range in prices, too. Some of them are higher than Governments. It depends upon the security.

Mrs. Griffiths. Well, now, in my judgment an increase to 5 percent is certainly going to raise the entire interest rate on the entire money market, and the result is going to be that mortgage money is going to be paying—if it is available at all—a higher rate.

Now, if it does pay a higher rate, do you anticipate, and I presume counsel should answer this question, if it pays a higher rate do you anticipate that there will then be adequate money available?

Mr. Brownfield. Adequate money for the mortgage market?

Mrs. Griffiths. Yes.
Mr. Brownfield. That depends on the definition of the word “adequate.” Last year there was adequate financing for 1,341,000 housing starts. The housing starts in December were at an annual adjusted rate of 1,310,000 so at the present time, Mrs. Griffiths, there is adequate financing to take care of that, because they all have their financing arranged when they start that, and the indications are that after 1959, which was the biggest year we have ever had dollarwise in the homebuilding industry, even with the dollar adjusted for its decrease in value since 1947, and was the second biggest year we have had in terms of starts, that 1960 is going to be pushing on its heels, and it is anticipated there will be adequate money for that.

We do not expect that if the Treasury goes into the market on long terms instead of short terms that there will be less money available. We think, as a matter of fact, there will probably be more.

Mrs. Griffiths. Higher priced money?

Mr. Brownfield. No, we don’t expect so.

Mrs. Griffiths. What kind of reasoning do you base that on, what kind of reasoning did you go through to decide that it will be cheaper money?

Mr. Brownfield. The judgment is based upon a difference of opinion from your conclusion that the price of the long-term Governments would fix the interest rate of the entire market.

Mrs. Griffiths. Oh, I am just asking, isn’t it competitive?

Mr. Brownfield. On the contrary, the feeling is that the $200 million or so that came out of savings banks to go into the short-term 5-year “magic 5’s,” would not have come out to go into a 20-year bond. Those people want more liquidity than they get out of that. More money came out of the savings available for mortgages on the short terms than would come out of that pool of funds on long term. If the money from savings is left to come out for mortgages, the adequacy of mortgage funds is that much better.

We figure that there will be less interference with the money available through normal channels of saving for mortgages if long terms are issued than there will be if these short terms are used.

Mr. Widnall. Would you yield at this point?

Mrs. Griffiths. No, not just now.

I want to ask, if you are wrong and the interest rate goes up on mortgage money, do you anticipate that this will lower the demand for housing, or will it increase it, or will it remain the same?

Mr. Brownfield. Well, I don’t think it will have any effect at all upon the demand for housing. The question would be whether there would be more resistance to meeting that demand, and naturally all of those forces have some influence on it.

There are a number of forces operating in this area which, taking them all together, we think add up to a little bit of easing on the resistance rather than increasing the resistance.

Mrs. Griffiths. Could you name them, please?

Mr. Brownfield. I think Mr. Mason went over some of them, at least. They have to do with the change in the status of the consumer debt which rose very sharply last year, and which is not scheduled as far as anybody can anticipate to have that kind of an action this year.
The Government went into the market for a lot of money last year, which it is not anticipated it will do this year, and that makes a big difference in the total supply of money available.

Mrs. Griffiths. Isn't there about $78 billion of long term still coming due this year?

Mr. Brownfield. Well, there are refinancing operations of course going on all the time, but last fiscal year the Government, as I recall, went in for about $12 billion of new money in addition to $5 or $6 billion in the first half of this fiscal year.

Mrs. Griffiths. Wouldn't the $78 billion at 5 percent have a tremendous effect on the money market?

Mr. Brownfield. You mean the $78 billion budget?

Mrs. Griffiths. Refinanced at 5 percent.

Mr. Widnall. Would you yield at this point?

Mrs. Griffiths. Let him answer that.

Mr. Brownfield. It is not my understanding that the pressure this year will be anywhere near what it was last, and that that is one of the points where it is going to ease. I don't have in my mind the exact difference in figures between what they had to refinance this year and last, but I am sure the overall difference is much in favor of an easing of the money market, and Mr. Baughman probably has closer to the exact figures than I do.

Mrs. Griffiths. Well, Mr. Baughman, could you answer that?

Mr. Baughman. I think, Mrs. Griffiths, one of our points is not quite clear which is whether it is money now in use, or whether it is new money. I think Mr. Brownfield attempted to answer that.

On refinancing, the money is already invested, it is purely a replacement of the money now invested.

Mrs. Griffiths. At a higher rate.

Mr. Baughman. At a higher rate, but going back to the use of money, when you go out for new money—it is true, as Mr. Brownfield said, the Treasury in the last 18 months went into the market for new money to the extent of something like $12 billion to cover the fiscal 1958 deficit and, in addition, for temporary new money to the extent of $6 billion—that was $18 billion of new money that came out of the money market.

This year, the Treasury does not anticipate going in for any new money, so what will be involved is refinancing, if that makes it clear.

It is the money market you are talking about.

Mrs. Griffiths. In place of making it clearer, in a way you disturb me. If, as you say, this money is already invested, you are not going to call in any funds from new investors, in fact you are just going to pay these people to reissue the whole thing at 5 percent, this increases the budget, and you take it all off the taxpayer.

Mr. Baughman. If they pay a higher interest rate, it will cost the Government more money in interest, that is true. Then you get back to the supply of money, and I just want to say one thing further on the money market and the mortgage market.

Today there are quite a few demands in the money market, as you know, from various sources. Whether that is going to continue forever, or whether there is going to be a change, we will have to wait to see. At the present time there is demand from a great many sources.

Mrs. Griffiths. Well, I would like to say that I really feel that the
statement is wrong, and that you are wrong. I hope you are right, but I think you are wrong. I think that if this interest rate goes up to 5 percent, you are going to set a nice little pattern, you will make a competitive market for money, you will make housing higher, you will increase the budget, you will let loose more forces of inflation, and I don't agree with you that there is plenty of mortgage money now and that people are in general in such fine shape.

I am from Detroit, and I get quite a few letters from builders that they consider the situation really drastic.

Thank you.

Mr. Widnall. I just wanted to make this point to my colleague, that nobody is talking about financing at 5 percent on a long-term basis. The proposal is to take off the 4 ¼ percent interest rate ceiling, and let the competition for money set the rate.

Mr. Addonizio. Mr. Miller.

Mr. Miller. There are a number of us in Congress of the opinion that this administration believes if there must be a tight money policy, the best place to pay the price is in the housing industry. Mr. McChesney Martin said as much at the Senate veto hearings, and I am interested in finding out from responsible FHA officials whether or not they believe the housing industry should be the one that walks the plank if there must be a tight money policy.

The chairman, Mr. Rains, let you get off that question. He said if stability does not prevail, he presumes you will come in and ask us for some assistance. But I am wondering, would you?

Mr. Zimmerman. Well, I will answer the question from FHA's point of view, and mine as Commissioner.

If this is the administration's policy, then there has been quite a breakdown in communication, because in the year that I have held my job, this has not been a practice followed by me.

It is true that what conditions exist influence the administrative actions that we take, and as the market gets tight, as it has and as we have been discussing all morning, then in the exercise of the discretionary authority which Congress has given me to move the interest rate ceilings which we will permit borrowers to be charged, I simply respond to these very clear signs, and I do it independently and without regard for these other factors that you have reference to, and I think that this is the way it should be done.

I don't believe that the administration of this FHA interest rate ceiling should be geared to countercyclical devices or used as a tool to respond or react to other Federal Government financing problems.

Mr. Miller. That is fine as to FHA. But as to the policy of the HHFA generally, I believe Mr. Martin has said something has to give in tight-money situations, and he, by the expressive wave of his hands at the time, indicated it might as well be the housing industry. I just wondered whether or not this is to be agreed upon by the administration of the Housing Administration, if that came about?

Mr. Brownfield. Speaking of communications, Mr. Zimmerman's office is a couple of blocks away from ours, but I am in the back end of the sixth floor and Mr. Mason is on the front end of the sixth floor, and that policy hasn't reached me; that is, I have not heard of any such policy.
We see all these forces playing, and it is my understanding that in the housing field we recognize that we are susceptible to the interplay of these forces as they are in other segments of the economy, but I have not heard anything said that we are supposed to regard ourselves as being the shock absorber.

Mr. MILLER. If this stability period ends and you get a rising interest rate, then you would come in and ask Congress for emergency measures to deal with it?

Mr. BROWNFIELD. That is an abstract question that I don't think I can very well answer in the abstract. It would depend on what the situation was at the time.

Mr. MILLER. I was hoping for a policy statement by Mr. Mason. Thank you.

Mr. ADDONIZIO. Are there any further questions? If not, may I thank you gentlemen for being here and giving us the administration's viewpoint as to the effects of the bill.

The committee will be in recess until 2 o'clock this afternoon, when our witness will be Mr. Philip Brownstein, Director of the Loan Guarantee Division of the Veterans' Administration.

(Whereupon, at 12:40 p.m., the subcommittee recessed until 2 p.m. the same day.)

AFTERNOON SESSION

(The subcommittee met, pursuant to adjournment, at 2 p.m.)

Present: Mr. Addonizio (presiding), Mrs. Sullivan, Messrs. Ashley, Rutherford, Miller, and Widnall.

Mr. ADDONIZIO. The committee will come to order.

Before we begin, I would like to state that the chairman, Mr. Rains, unfortunately is busy this afternoon with a very important group. He asked me to begin the meeting and that he would try to get here some time later this afternoon.

I also hope other members of the committee will be present.

Our witnesses this afternoon are William J. Driver, Chief Benefits Director, and Philip N. Brownstein, Director, Loan Guaranty Service, Veterans' Administration.

Will they please come forward?

STATEMENT OF WILLIAM J. DRIVER, CHIEF BENEFITS DIRECTOR, VETERANS' ADMINISTRATION; ACCOMPANIED BY PHILIP N. BROWNSTEIN, DIRECTOR, LOAN GUARANTY SERVICE, VETERANS' ADMINISTRATION

Mr. DRIVER. Mr. Chairman, I have a statement which, if it pleases the Chair, I will read into the record.

I welcome this opportunity of discussing recent housing developments and the provisions of the bill which you have under consideration. Before doing so, I would like to summarize what the veterans housing loan program has accomplished to date.

As of the end of December 1959, the Veterans' Administration had guaranteed or made more than 5½ million home loans to veterans, totaling more than $48 million. More than 1 out of every 4 of these
loans has been repaid in full and only about 1 out of every 100 has resulted in foreclosure.

In addition to the benefits derived by veterans from these loans, the program has had a very significant impact on the home building and related industries, and, in turn, on the national economy. During the last 10 years, that is, 1950 through 1959, there have been about 11,600,000 new nonfarm private dwelling units started in the United States. During the same period, GI loans for the purchase of new homes have exceeded 2,300,000—or the equivalent of nearly 1 out of every 5 new dwelling units started.

Thus the benefits to veterans and the national economy under this program have been quite substantial.

Before discussing the specific provisions of the bill before you, I think we ought to take a look at housing developments during the latter part of the 1950 decade. During 1957, nonfarm private dwelling units started, dropped below 1 million for the first year since 1949. This also was a year of declining GI home loan activity. This decline in housing production prompted the enactment of the emergency housing legislation of April 1958, which set up the Federal National Mortgage Association's special assistance program 10 to purchase low cost Federal Housing Administration and Veterans' Administration mortgages in the secondary market and authorized an increase in the maximum GI loan interest rate from 4½ to 4¾ percent.

During 1958, nonfarm private dwelling-units-started again rose above the million mark and in 1959 attained a total of 1,341,500 units—surpassed only by the record total of 1,352,200 units started in 1950.

Although GI home loan activity spurted for a few months following the enactment of the 1958 legislation, it was of short duration as interest rates generally continued to rise and the FNMA special assistance fund became fully committed. While another increase in the GI loan interest rate was authorized in mid-1959, this time to 5¼ percent, GI home loan activity has not kept pace with other segments of the home mortgage industry as the interest rate on GI loans has not been competitive in the mortgage investment field.

With current demands for investment capital continuing at extremely high levels, there seems to be little likelihood that GI loans with a 5¼-percent interest rate will attract much favorable attention from investors.

Section 11(2) of the bill which you are considering would have some effect on the GI loan program. This section provides an additional $1 billion for FNMA special assistance fund for the purchase of low-cost properties with FHA and VA financing. We are, of course, interested in any proposal which will assure a reasonable flow of mortgage funds for GI loans so that the home-financing needs of veterans will be met.

However, an increase in the special assistance authorization would not solve the problems which confront us in administering the GI loan program. Neither would it solve the problems of many veterans who would like to make use of their entitlement. This is particularly true of a considerable number of the World War II veterans for whom eligibility expires on July 25, 1960.
The amount proposed to be authorized for special assistance is now confined to new construction and the maximum mortgage limitation is $13,500 with an authorization for a $1,000 increase in high cost areas. Thus the veteran who would like to buy an existing house continues to be faced with a problem of financing. Furthermore, the average GI loan for the purchase of new homes in 1959 was in excess of $14,000. In many areas the moderate price range of new residential construction is considered to be $15,000 to $18,000. This would mean that veterans seeking financing in the moderate or upper price ranges in most areas will have to take their place with nonveterans in competing for alternative types of mortgage financing.

It has been our experience that the GI loan program has operated most successfully during these periods when the mortgages were an attractive investment medium to private investors. The relief afforded by Government funds is at best partial and temporary. The best way of stimulating a reasonably active flow of investment capital into the GI loan program would be to make the loans sufficiently attractive to private investors in relation to competitive investments.

This would necessitate statutory authority which would permit the Administrator flexibility in fixing the interest rate at a competitive level. The President in his budget message last week again recommended, as he did last year, that the VA Administrator be given authority for fixing the interest rate similar to that which has been granted the Federal Housing Commissioner.

The other provision of the bill which would affect the loan guarantee program is contained in section 13. This would require originating mortgages to report to the FHA or VA the amount of any fees, charges or discounts other than the origination fee charged to the mortgagor, paid in connection with or for the purpose of arranging the mortgage loan. Undoubtedly this provision is motivated by the reports of substantial discounts on Government underwritten loans.

We, too, deplore a market condition in which the origination of VA guaranteed loans is dependent upon the willingness and ability of the seller or builder to absorb a very substantial discount. Under these conditions it is not possible to have the program function in the manner intended. However, the requirement that the discount be reported will not correct the basic cause. The discount is employed as a mechanism to bring the yield on a submarket rate security in line with that obtainable on comparable investments. The most effective way of reducing the discount but augmenting a flow of investment funds is by increasing the interest rate which the security instrument bears.

The requirement that the discount be reported will not make available any increase in the supply of mortgage funds. Nor is it likely that the discount charged will be reduced. An investor who would be concerned about reporting the price for which the mortgage is acquired would not be likely to reduce the discount, but rather would probably invest in other securities yielding the higher return.

The future activity in the GI loan program depends upon one of the following: (a) An increase in the supply of investment funds (or a lessening of the demand) which will result in the GI loan with a 5¼-percent interest rate again attracting investor appeal. This seems quite unlikely in the months immediately ahead. (b) The VA Ad-
ministrator being given flexibility in the matter of fixing a competitive interest rate. Even assuming an improvement in the available money supply this authority would be highly desirable since it would afford leeway as called for by market demands to raise and lower the GI loan interest rate in order to meet prevailing conditions.

The Bureau of the Budget has advised us that there is no objection to the submission of this statement.

Mr. ADDONIZIO. Thank you, Mr. Driver.

I agree with you when you say that the GI loan program has done a really remarkable job in providing veterans with homes. I was just curious as to how your program compares in size with the FHA program.

Can you give us some idea about it?

Mr. DRIVER. You mean today, Mr. Chairman?

Mr. ADDONIZIO. Yes.

Mr. BROWNSTEIN. On a cumulative basis, we have guaranteed about 5½ million loans totaling $48 billion. This is in the 15 years that the VA has been in existence.

During the 25 years that the FHA has been in existence, they have insured on residential properties about the same number, close to 5.5 million, totaling about $41 billion.

Mr. ADDONIZIO. Mr. Driver, on page 3 of your statement, you say that the $1 billion loan fund proposed in the bill before us would not solve the GI loan problem. Don't you agree with me, though, that if it would not solve it, at least it would make more GI loans available?

Mr. BROWNSTEIN. Mr. Chairman, it would make available enough money for roughly 90,000 loans, and unquestionably a good many of those loans would be GI.

We have found, however, that this program operates effectively only during those periods when we can stimulate investor appeal in the GI loan program, and while the proposed authorization would make available a certain number of loans to some veterans, it would still leave unsatisfied a very large segment of the veteran group who still would like to make use of their entitlement.

Mr. ADDONIZIO. From reading your statement here, I come to the conclusion that you feel the answer to the GI loan problem is a higher interest rate; is that correct?

Mr. BROWNSTEIN. This is not the total answer, Mr. Chairman. However, I do believe that it is important to recognize that although there may be differences on what ought to be done in the general area of interest rates, to single out this one program and say this is where we hold the line leaves the program in a completely untenable position.

Mr. ADDONIZIO. If you raise the GI interest rate, wouldn't other rates go up accordingly, with the result that you would find yourself in the same position?

Mr. BROWNSTEIN. Well, there are those who hold this view, that increasing the rates on Government guaranteed and insured loans would result in raising the general level of rates. But, again, I believe that if the program is to operate, it is essential that the rate be competitive with that obtainable on other types of investments, and to hold the rate in this one area makes it virtually impossible to operate a successful program.
Mr. Addonizio. Of course, the interest rate is under the control of another committee, so I guess it is rather useless to talk about it here. I also realize that, if my memory serves me right, the program, itself, expires on July 25 of this year.

Mr. Driver. For the World War II veterans, yes.

Mr. Addonizio. Now, if that be so, and because of the fact we are in a tight money situation, it would seem to me that a lot of World War II veterans that are entitled to this loan will be frozen out unless we extend the program, and I just want the record to show, of course, that I am for the extension of the program.

Mr. Widnall. Mr. Driver, how many entitlements are outstanding at this time? Do you have any estimate?

Mr. Brownstein. Do you mean how many World War II veterans have not used it? Over 9 million, Mr. Widnall.

Mr. Widnall. And 5 million some-odd have used it?

Mr. Brownstein. 5½ million have used it.

Mr. Widnall. Would you have any way of knowing how many would actually like to use their entitlement that are not using it now?

Mr. Brownstein. A good many we know have acquired homes through FHA or conventional types of financing. The study done by the Bureau of Census in 1956 showed that 43 percent of the veterans who purchased their homes with mortgage loans had acquired them with VA guaranteed loans; 18 percent used FHA loans and 39 percent financed with conventional loans.

Now, we do find, however, that many the the prospective homebuyers today are homeowners, and they are moving up in their economic levels, and their families are growing so that they require larger homes. Unquestionably a very large percentage of these 9-plus million, maybe as many as 60 percent, though this is something we don't have a firm figure on, now own homes, but as they move around, and as they move up in income levels many of them would be coming back into the market.

Mr. Widnall. So that actually you can't say there are 9 million veterans who are looking for homes?

Mr. Brownstein. Oh, no, sir, clearly not.

Mr. Widnall. I notice in your statement that the average mortgage, or the average cost of the home was in excess of $14,000, the average GI loan.

Now, how does that relate to the figures for the previous years 1958 and 1957?

Mr. Brownstein. It is up in both years, Mr. Widnall. I don't have with me the precise figures for those 2 years, but will include it in the record.

Mr. Widnall. Did you notice in the operation of your own program, after that emergency program went through back in 1957 that there was an upping of construction costs? That was mentioned this morning by Mr. Mason.

Mr. Brownstein. I now have those figures, Mr. Widnall. In 1957, the average purchase price of a VA guaranteed home was $13,533. It was $13,841 in 1958. Now, so far as the increase is concerned, probably the best source is the Boeckh Index of Construction Costs, and that would have shown an increase.
Mr. WmNALL. Well, do you notice any immediate impact as a result of the last emergency housing bill?

Mr. BROWNSTEIN. We did have an increase in our activity, but there were two things that happened. Not only was there the special assistance authorization, but in addition the VA rate was increased from 4.5 to 4.75, and we got a lot of private lenders who again became interested in the program at that time.

Mr. WmNALL. Thank you. That is all.

Mr. ADDONIZIO. Mr. Rutherford?

Mr. RUTHERFORD. Is there any justification for the expense and cost of operation of a separate housing bill and housing administration for veterans?

Mr. DRIVER. I think it would be important to break it down into two pieces, to discuss the World War II veteran, and secondly the Korean veteran. So far as the Korean is concerned, it would be fair to say, with the economic circumstances in effect, there is still a readjustment need for those veterans in the housing field.

Insofar as the World War II veterans are concerned, Mr. Widnall discussed that, or touched on the subject of how many of them remain who want housing under the GI program.

If we relate the question to the idea of readjustment for them, too, then I think in fairness and equity to those who have not already obtained loans under the GI program you must say that anyone who has been disrupted from getting it because of his service in the war, that there would be a need for the program for them, too.

Mr. RUTHERFORD. On the basis of readjustment, or the basis of "he didn't take advantage of it at the proper time, and he had his reasons"—because of tight money, the availability of it. In other words, if he didn't take advantage of it on a personal basis, how long? This is indefinite.

Mr. DRIVER. I don't think I could say, and I wouldn't certainly take the position we are holding this open indefinitely because of a personal whim he didn't take advantage of it.

I think the program is predicated on the principle of adjustment.

Mr. RUTHERFORD. If you are going to base it on that, on the basis of readjustment, what length of time is considered in studying the problem, what is the period of readjustment for a man who is disrupted from owning a home because of service in the war?

Mr. DRIVER. Congress fixed that period to July of this year, and I think certainly you could hardly quarrel with the specifics and say that that is wrong, except to point out that there have been innumerable times, such as there are now, when it is practically impossible to take advantage of the beneficial effects of the law because of conditions beyond the veteran's control.

Now to the extent that that might figure in your thinking in lengthening the program, I would assume you could then defend a readjustment period for some longer period.

Mr. RUTHERFORD. Could we, without the matter of veterans? I think the mortgage bankers, builders, and everybody else is riding this veterans' bandwagon, claiming to be for the poor old veterans, and say all they want to do is put a roof over their head.

Of course, when the veteran goes out there, the mortgage banker and everybody else has the dollar flag up there. "It is cash on the barrelhead when you come to see us."
The mortgage bankers just came out and said in fact their legisla-
tive program should be extended to 1965, the VA housing.

What I am saying is this: What was the possibility of coordinat­ing and putting one housing for all FHA, VA, and such, and cut out the
duplication of administration and give the veteran a real break, take
it away from the title of "Veterans' Housing," and let all Americans
obtain a house, liberalize it, and not have two separate programs.

Mr. Driver. That is perfectly possible. I think the intention was
to segregate the veteran because of his war service and to give him
an advantage in the home-buying field.

Mr. Rutherford. I recognize the origin date and the purpose be-
hind it.

Mr. Driver. That purpose still has to be in our minds today if we
feel a GI housing program is essential. You must remember that
today in this country we have approximately—and this is for all
wars—about 22 million living veterans, with about 77 million people
either being veterans or dependent on a veteran for support, so that
there is a very large area, and I am speaking now from the stand-
point of investors, builders, or what have you, where they could find
interest in the housing field.

The Congress, I would assume, would have to think in this area:
Do we still at this point, for the World War II veterans, feel there
should be a separate entitlement with special privileges, or special
benefits attached to it which other people in the population do not
get?

Mr. Rutherford. Are they so special, though? What percentage
of your people who are eligible for VA benefits in housing have ob-
tained FHA in preference over VA?

Mr. Driver. It is demonstrable there are advantages to the GI
buyer over the person buying under FHA or conventional financing.
I would also like to indicate here that the position of the Veterans'
Administration taken officially is not for an extension of the World
War II program, but rather for the duration of it, as presently au-
thorized, and certainly for the duration of the Korean program which
has several years to run, that the program be made competitive so
that the veteran, for the advantages which are inherent in the pro-
gram, will be able to get housing and not just have a meaningless
law on the books with no practical effect. That is why we advocate
that the interest rate be made competitive so that there will be some-
thing for him to get.

Mr. Rutherford. So that my position can be made clear, I am for
a housing program for all America, plus the fact that I am for some
preference to a man who did render service to the country in time of
war.

In fact, I would even go so far as to say the man who bore the
brunt of battle should get extra preference over the man that just
passed under the recruiting sign and came back and paraded around
in organization conventions, and such as that, but I am just wonder-
ing whether, while we are for the veteran, we might sometimes be
politically smart. I am wondering if we are fair to the veteran home
buyer in having so much administrative cost, the duplication of the
program, or whether we couldn't have the same thing you have, a
preference, without two different types, with the veteran getting a
preference, whether we couldn't have one housing program with the veteran getting preference under that particular housing program.

Mr. Driver. You could have that. There is no question about that. I think, though, that it is fair to say that when we do have a veterans' program, whether it is in housing or whether it is in the area of compensation, that it is essential, if it is to be administered along a certain line with a certain principle in mind, because it is a veterans' program, that the Government has found that it should be in one agency. I think that that is fair, and I would certainly agree with this.

Of course it could be placed in some other agency with a general program for everyone.

Mr. Rutherford. This period of readjustment I think is getting ridiculous, from the basic reality of readjustment, just because a man had war service 15 or 18 years ago.

Mr. Driver. We are still in the readjustment period Congress established. We are not in favor of extending the period, but we do believe that for the duration the periods have to run we should make the benefit attractive enough so there is a real gain to the veteran.

As it is now, without a competitive rate, he isn't getting it.

Mr. Rutherford. If we are going to have a veterans' program, let's make it work efficiently, let's make it work in such a manner where the veteran is not the scapegoat of the whole housing industry, and where those who prey on the veteran cannot do it under this program.

I think the veteran should get it. He is not getting it under the program now.

Mr. Driver. Not today, because the rate doesn't compete.

Mr. Rutherford. The rate does not mean the more availability of mortgage money. It hasn't in the past. It doesn't mean by any stretch of the imagination if you increase the rate that the money will become more available, that mortgage money will become more available.

Mr. Driver. We have done our greatest business only at a time when the rate was competitive, and we feel that if it is not competitive, we will not do any volume of business, and thereby the veteran will not get the benefit. If we were to increase the rate by some percentage from what it is now, and other rates went up, we would be in relatively the same position, but I think there are factors that would affect the others from going up.

Mr. Rutherford. This special assistance program here, don't you think that will have the effect on other mortgage money available that it will loosen up that money, that it will come into the market in competition against your direct funds?

Mr. Driver. I don't think it would to the extent that veterans would be treated equitably in all parts of the country. We think it would not have the same general good effect that a healthy, competitive interest rate would have.

Mr. Rutherford. What is a healthy, competitive rate?

Mr. Driver. One that would attract investors in the market to the same general extent that it is attracted in other fields, conventional financing or FHA.

Mr. Rutherford. If we increased the interest rate on this, it is just going to be a stairstep, it will spiral the rest of them, and there won't be any limit, because the boys who lend the money are interested
in the return on their money. You are reaching for 100 percent, and when the American dollar doesn't get but 10 percent here it goes overseas, and you are not going to attract money at anything less than 10 percent, if that is what you are shooting for, because that is eventually what you are going for is a 10-percent minimum.

Mr. Driver. Specifically in Government we have two programs, two interest rates. One is lower than the other, the GI is lower, and obviously is at a disadvantage. If they were both the same, at least that difference would be wiped out.

Now, how far beyond that conventional rates might go is something for the future.

Mr. Rutherford. We tried it on FHA, and it didn’t materialize. The discount is just as great, with 15 percent less mortgage money availability.

Mr. Driver. If our rate were at least competitive, for example, with the FHA rate, we would have more uniform, widespread application under the GI program.

Mr. Rutherford. What is your explanation of why there is a differential between the two rates, other than the opinion of Congress?

Mr. Driver. I think the opinions of individual Members of the Congress and other people today in many cases is that because this is a GI program, the veteran should be given an advantage, and we should try to keep the rate down.

Now, this of course is good philosophy if you are interested in something special for the war veteran, but if in doing that he gets no benefit, it seems to me that one washes out the other, and where you are erring on the side of good intention, you are solving nothing from a practical standpoint.

Mr. Rutherford. Well, I will be frank with you. One thing that galls me, and I think the members of the subcommittee are aware of it, and sometimes I might leave the impression that I am antiveteran. I am anti these fat cats who pass resolutions against the veterans, and who are constantly using the veterans as a scapegoat for economy in Government, and then in their resolutions within their conventions are always interested in continuing some veterans program that will line their pockets.

Now, the mortgage bankers association just came out in their scandal sheet where they are for this program. At the same time they also come out in the local clubs where they are opposed to the continuing cost of the veterans’ program.

You will also find they are possibly also opposed to GI education. At the same time, the college organizations for some reason or other have taken the veterans’ program and are utilizing it to continue the fulfillment of dormitories as well as the college itself. In other words, it disturbs me greatly that here the veteran is being used, he is being used for a program of those who are flying the flag high for the poor old veteran, and they are just using him as a third party, as a vehicle for more business.

Now, the only thing I want to do is just come out and start being honest about this “durned” thing. If you are for a veterans’ program, let’s be for it, but this old foolishness of coming out and saying that we are opposed to a GI bill of rights on the one hand, and then coming out for the continuation of the program on the other hand for one thing—for material benefit only—just about galls me.
What I am trying to say is this: I want the veteran to get a house, but let’s put it all under one housing program, giving him preference under that housing program so that we won’t have the GI house, with the boys running these big full page ads, for the veteran who does not want the program or is paying his share of the program, that the whole veterans community will not be stigmatized because of this socialistic trend in that particular aspect of it. That is all I am asking.

I am trying to relieve from him this particular thing. The housing program itself, or the education program itself, has been taken from the veterans and from the veterans organizations and is being used by those that can materially gain from it.

I think the best program is under one housing program. I think the readjustment period for World War II has under any reasonable criteria passed, and I think it is time now that we come under one housing program.

Mr. Driver. The law, of course, states that it will close in July, but we must still, I think, speak on principle. If we are to have a veterans program, if he is to receive a preference, our feeling is that something should be done to make the program workable.

Now, when you talk about education, whether people are for or against it, I think that the Government’s position in favor of a readjustment program for war veterans has been consistently supported. Our opposition in this area, and from others I have heard, has only been in the area concerning the so-called peacetime veteran.

Mr. Rutherford. I think the housing program is good and education is good. I just don’t like it being prostituted.

Mr. Driver. We would agree. A readjustment program of real benefit to the veteran is our point.

Mr. Addonizio. Mr. Ashley.

Mr. Ashley. Mr. Driver, on the last page of your statement, you say—

the future activity in the GI loan program depends upon one of the following:

(a) An increase in the supply of investment funds, or a lessening of the demand, which will result in the GI loan with a 5¼-percent interest rate again attracting investor appeal. This seems quite unlikely in the months immediately ahead.

Were you here this morning and did you hear what Mr. Mason had to say on this subject?

Mr. Driver. I heard part of it.

Mr. Brownstein. I was here, Mr. Ashley.

Mr. Ashley. How do you think that gibles with his statement on page 4 of his statement to the committee in which he says

It is our judgment that this credit situation will permit a high level of homebuilding during 1960. Although an increase is expected in loans to finance the expansion of the business, plant equipment inventories in 1960, there should be a great increase in the availability of loanable funds.

Mr. Brownstein. Even if there is an increase in the availability of loanable funds, Mr. Ashley, I certainly see nothing in the months ahead that would indicate that the GI 5¼ percent loan is going to command any great attention from the standpoint of investor appeal.

Mr. Ashley. In other words, you don’t think that a 5¼ interest rate will attract any action, that the program will attract any action; is that right?
Mr. Brownstein. It will not attract any reasonable amount of action, and I didn't hear Mr. Mason say he believed there would be any substantial decline in the current interest rate levels which it would take in order to make the 5¼ percent loan attractive.

Mr. Ashley. Well, the statement is perfectly clear, there is going to be a great increase in the availability of loanable funds, but not so great.

Is it your interpretation that interest rates will drop; is that what you are saying?

Mr. Brownstein. I don't see anything that is going to cause interest rates to drop to the level where a 5¼ percent loan will result in general attraction to investors.

Mr. Ashley. Well, of course what you are saying, the way you interpret Mr. Mason, whose position, of course, is that we shouldn't consider any of this legislation because it is not needed, because there will be plenty of loanable funds—the way you interpret this, then, is that there would be plenty of loanable funds at this high interest rate which can add up to $5,000 on the price of a medium-priced home; is that right?

Mr. Brownstein. I don't believe I should try to interpret Mr. Mason's statement.

Mr. Ashley. Is there any other way of interpreting it?

Mr. Brownstein. So far as we are concerned, there is nothing in the picture that indicates to us that investors are going to be interested in any large volume of VA 5¼ percent loans, and let me say that even if lightning should strike, and this should occur, it would be highly desirable for us to have the authority to fix rates upward or downward as market conditions require.

Mr. Ashley. Well, I am not in such great disagreement with your position on that, as a matter of fact, but I think it is extremely interesting that your position is at variance with that of Mr. Mason, or if it isn't at variance, that you force him into the position, by your interpretation of stating to the committee that there will be availability of mortgage funds, but at such a high interest rate that the average homebuyer will be assessed an extra three, four, or five thousand dollars or upward in interest rates alone.

There is no other interpretation.

Mr. Brownstein. All I can do is repeat the conviction that we see nothing in the current market that leads us to any conclusion that the 5¼ percent GI loan is going to attract appeal.

Mr. Ashley. Let me say I couldn't agree with you more, not possibly.

Mr. Addonizio. Mrs. Sullivan?

Mr. Sullivan. No questions, Mr. Chairman.

Mr. Addonizio. Mr. Miller.

Mr. Miller. Mr. Driver, with VA's selling at 10 points discount, and with the FNMA, all things being equal, at 9 points, and with a 12 percent profit for the builder, is it not possible that some of this discount is getting into the price of a home?

Mr. Brownstein. Well, Mr. Miller, our instructions to all of our field offices are and always have been that we will not recognize any part of the discount payable by the builder in our reproduction costs.
Now that is not to say that appraisal is a sufficiently exact science, that one always can appraise out any single element. However, to the extent that it is possible to do so, we do it. I think that what really happens, Mr. Miller, is this, instead of the builder adding it to the price, he just leaves the program, and that is why we find it drying up.

Mr. Miller. Thank you, Mr. Chairman.

Mr. Addonizio. Are there any further questions? If not, may I thank you gentlemen for your statement.

The committee will be in recess until 10 o’clock tomorrow morning.

(Whereupon, at 2:45 p.m., the subcommittee adjourned until 10 a.m., Tuesday, Jan. 26, 1960.)
EMERGENCY HOME OWNERSHIP ACT

TUESDAY, JANUARY 26, 1960

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING OF THE
COMMITTEE ON BANKING AND CURRENCY,
WASHINGTON, D.C.

The subcommittee met at 10 a.m., pursuant to adjournment, in room 1304, New House Office Building, the Hon. Albert Rains, chairman of the subcommittee, presiding.

Present: Mr. Rains (presiding), Mr. Barrett, Mrs. Sullivan, Mr. Ashley, Mrs. Griffiths, Messrs. Rutherford, Widnall, and Miller.

Mr. Rains. The committee will please come to order.

Our first witness this morning is Mr. Martin L. Bartling, Jr., president of the National Association of Home Builders. You may come around, Mr. Bartling.

With Mr. Bartling are our friends Herb Colton and Joe McGrath of the National Association of Home Builders' staff.

Mr. Bartling, I want to congratulate you on the efforts made by your great organization. I was out in Chicago last week, as you know, and everybody I saw at your convention had on a “Bartling button”. I think it did very well indeed in selecting you, Mr. Bartling. We are glad to have you here. You may proceed with your statement.

STATEMENT OF MARTIN L. BARTLING, JR., PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS; ACCOMPANIED BY HERBERT S. COLTON, GENERAL COUNSEL; AND JOSEPH B. McGRATH, LEGISLATIVE DIRECTOR

Mr. Bartling, Mr. Chairman and members of the subcommittee, my name is Martin L. Bartling, Jr. I am a homebuilder from Knoxville, Tenn. At the annual convention of the National Association of Home Builders, held last week in Chicago, I had the honor to be elected president of the Association for the current year. In that capacity, I appear before you to present the views of the organized homebuilding industry on H.R. 9371, the Emergency Home Ownership Act.

As this subcommittee knows, NAHB is the trade association of homebuilders. Its membership now totals over 43,000 organized in 342 affiliated local and State homebuilder associations.

This hearing provides a welcome opportunity to present to you the views of our association as formulated just last Wednesday in the annual policy statement for 1960 adopted for the association by the unanimous vote of its 504-man board of directors.
In accordance with our usual practice, this policy statement is based on reports from the association's standing committees which were then developed by our resolutions committee meeting in almost continuous session during our 5-day convention. Its recommendations were then further discussed by our executive committee and, finally, the statement was approved by our board as an accurate expression of the consensus of their free debate during the entire meeting.

As a result of this lengthy and, we believe, thoroughly democratic process the statement was, as I have indicated, unanimously approved. Those of you who are familiar with the vigor, variety of views, and vocal strength of our membership will agree with me, I am sure, that obtaining unanimity on these complicated and important matters represents no inconsiderable accomplishment. I should like to offer our entire policy statement for inclusion in the record of this hearing. A copy is attached to this testimony marked "Attachment A."

Mr. Rains. It may be included, Mr. Bartling.

(The policy statement referred to is as follows:)

**ATTACHMENT A. NAHB POLICY STATEMENT FOR 1960**

The number and kind of homes available to American home buyers in 1960 again will be determined largely by Federal fiscal and credit policies. We face a year in which homebuilding will decline while the rest of the economy booms.

Scarcity and expensive mortgage credit accelerates steady retrogression from the low down payment, long-term mortgage—predominantly responsible for homebuilding's phenomenal progress in the past quarter century—to financing methods proven unsound 30 years ago.

Home buyers are the Nation's largest private users of long-term credit. They—and the thousands of small businessmen who build homes for them—are of course as deeply concerned as are our fellow citizens that the soundness of the American dollar be maintained. But we have grave doubts both of the effectiveness and the fairness of a governmental anti-inflationary policy which relies solely on monetary restraint.

The attempt to control excessive total demand for credit and to stimulate savings through ever-rising interest rates has obviously failed. Meanwhile it has inhibited economic growth and placed the greatest burden on those who can afford it least. Interest rates approach—and in some cases exceed—the legal limits of usury. One major group of Americans has been successfully "controlled"—the tens of thousands of modest-income home buyers who only a short time ago could have bought homes well within their means but are now disqualified by the high cost of credit. Home buyers are hurt first and worst by the impact of "tight money."

All this makes as little sense as raising the price of bread to combat a food shortage.

Homebuilders and home buyers are convinced there is something fundamentally wrong—however worthy its stated objective—with a national policy which, in the name of "curbing inflation," denies to creditworthy, moderate-income families the opportunity to own their own homes while allowing credit to continue freely available for many less essential uses.

The National Association of Home Builders is fully aware that, when the total credit sought by the economy exceeds the available supply, the Government must in the interest of all the people dampen exuberant demand. But we are equally convinced that, when this becomes necessary, the Nation is best served by equitable application of the credit brakes and by full use of all the vast powers of the Federal Government to assure for all a fair share of available credit.

In 1957 the same combination of restraints now imposed on our industry caused a severe drop in construction that triggered a general business recession. Unless immediate effective action is taken to distribute more fairly the impact of "tight money" this pattern will inevitably be repeated. If the credit system is not soon modernized to permit homebuilding access to credit as befits
its place in the economy, we can see no alternative but a severe decline in home
construction or for Congress again to authorize the purchase, under appropriate
safeguards, of large amounts of mortgages in areas where mortgage money
is unavailable at reasonable prices.

The 42,000 members of the National Association of Home Builders therefore
declare their policy for 1960 as follows:

I. Government housing policy.—We urge a clear definition of current Govern­
ment housing policy to the end that programs of the Government in this area
can be better coordinated in the interests of housing for the American people.

The best interests of homebuilding are no longer adequately served by the
present governmental housing agency complex—taking into account the size
of the homebuilding industry, its position in the economy, and its capital needs
and requirements. The problem of building and financing homes for the pre­
dicted “population explosion” of the decade just starting make essential a voice
for homebuilding at the highest governmental policy level. We recommend a
Cabinet department for housing and related matters.

II. Modernization of the credit system.—It must be recognized that the credit
structure of the United States is today vastly different and more complex than
when the Federal Reserve System was established prior to World War I. The
time is long past due for a complete reexamination by a commission of Gov­
ernment and industrial specialists of this whole complicated, important field
to determine whether—and what—additional tools are needed to provide a
fairer and more rational distribution of our available credit resources.

The immediate difficulties of “tight money” obscure the fundamental problem
to which credit—on which homebuilding depends—will be increasingly diverted
into the stock market through mutual investment funds (which enjoy favor­
able tax treatment not available to real estate investments); into consumer
credit; and more recently into Government bonds through the “magic 5's.” Resi­
dential mortgage financing must be given a place in the total credit picture
commensurate with the vital importance of the vast homebuilding industry
dependent on it.

We have long urged further modernization of the residential mortgage sys­
tem. The practical and progressive management of FNMA—under the most
difficult conditions—has been deservedly praised by the Congress and financial
observers; but there should be a true central reserve facility adequate to render
fully effective all types of mortgage lending in today’s dynamic economy.

III. Mortgage finance.—High interest rates and the high costs of money
have been and are a major factor in the rising cost of housing. The highest
interest rates in three decades—now at a level which causes lenders and Gov­
ernment agencies concern for possible violation of State usury laws—have failed
to reduce discounts. Increasingly some lenders are exploiting current condi­
tions by exacting unconscionable charges. Inevitable reaction against these
excesses will further increase pressure for governmental controls and for direct
governmental lending. Pending effective means to apportion available credit
equitably to our industry and to other desirable uses, we urge lending institu­
tions—and their trade associations—to cooperate with us in avoiding abuses
which in the end can only discredit home financing and hurt the home buyer.

The soundness of the low downpayment, low monthly payment mortgage suited
to the pocketbooks of American home buyers has long been amply proven. We
shall work for increased ratios of loan to value and longer terms on conven­
tional loans.

We pledge our cooperation and support to the savings and loan industry to
fight an increased tax burden which would further curtail the proportion of
total savings flowing into mortgage lending institutions. We shall, further,
cooperate with commercial banking leaders to improve the understanding by
that segment of the industry of the problems of the homebuilding industry.
Commercial banks should have the same tax treatment on earnings from long­
term mortgages as now provided to thrift institutions.

As interest rates have increased and credit has become less available the trend
away from FHA new home financing has unfortunately been accelerated by
increasing impatience with impractical FHA regulations and procedures. The
evident shift from stimulating new construction to the financing of existing con­
structive indications that FHA procedures should be reviewed to the end that
FHA returns to acting the part given it when the National Housing Act was
first enacted. It is essential that FHA immediately revise its regulations and
procedures in order that it may again become a fully effective force for home
ownership in America.
Certain growth areas in the United States must depend on mortgage investment funds from older established areas on Government-insured or guaranteed loans. The continuing confiscatory charges current today will force a recession of building in such growth areas because the home builder cannot absorb these high charges and stay in business. Such a development will bring about serious economic dislocation in all industries in these areas, and this in turn will cause a serious dislocation of the entire economy.

To prevent this, we propose the following alternative courses of action. First, the Congress could authorize the national service life insurance fund to invest a reasonable proportion of its funds in long-term FNMA debentures for use by FNMA, through a special function for that purpose, exclusively to purchase VA mortgages for new construction at an interest rate equivalent to the FHA rate and at prices at or as near par as possible considering the interest rate on the mortgages bought, the interest rate carried by such debentures, and the minimum administrative cost to FNMA in making and servicing such mortgages. Second, legislation could be passed recognizing that if homebuilding must endure discounts, where and while they prevail they must be recognized for what they are—a part of the cost of producing a home—and therefore added to the mortgage. Third, as a last resort, the only remaining alternative is for Congress to provide to FNMA, by appropriation, an adequate fund for use in areas where home mortgages are not otherwise available, at prices which the building industry can absorb while providing an adequate supply of moderate priced homes, and under regulations which will prohibit a disproportionate use of such funds by any single builder.

FHA should immediately make operative those provisions of the Housing Act of 1950 not yet placed into effect.

We urge that FHA develop a form of mortgage insurance to finance the development of land.

To prevent demoralizing uncertainties of last year the Congress should (a) provide adequate continuing FHA insurance authority, and (b) permit FHA to use its earned income flexibly in accordance with its workload.

We commend the sound approach of the Home Loan Bank Board in its regulations governing the experimental field of lending for land development.

IV. Research.—Research can be effective only if its results are used in revamping outmoded codes.

As one of the basic objectives for which it was formed, NAHB, in cooperation with material and equipment manufacturers and all others concerned with homebuilding and home financing, has constantly worked to improve the quality and lower the cost of homes to the buyer through its national housing center exhibits and committee activities, its annual exposition, and the daily activities of its research institute. As the latest step in this broad and continuing program, our research institute during the year opened its research laboratory. We shall continue to explore ways in which this association can work with manufacturers for better, more economical materials, and better ways to design, build, and merchandise homes. We regret that high interest rates and inordinate discounts during the past year have diverted from the home buyer the savings effected by better technology.

V. Urban renewal.—We commend the growing trend, both at Federal and local levels, to develop and test new tools and techniques for the conservation of our present useful housing inventory through rehabilitation. Unless this process is speeded, clearance and redevelopment cannot long enjoy the support of public opinion. We have stated before—and now repeat—that only as urban renewal projects are developed in unit sizes within the capacity of the local builder can this program succeed in its fundamental purposes. The increasing demands for relocation housing require immediate study of this difficult problem.

VI. Community facilities.—As we face the prospect of dramatic population expansion, we once again call attention to the needs of our local communities for the necessities and amenities which make possible both urban and suburban life. These have been pointed up by our community growth conferences throughout the past year. The time is drawing late for the preparation of the water, sewer, and storm drainage installations—as well as the public parks, recreation areas, and schools—which will be needed. Federal and State aids must be developed to prevent municipal chaos.

VII. Rental housing.—As the proportion of multifamily housing to total construction has risen the importance—both economically and sociologically—of modest rents has increasingly been ignored. In rental housing, as in other...
segments of building, "tight money" breeds unsound and potentially dangerous financing.

We earnestly hope that FHA's current study of its rental housing operation will reinvigorate this activity—particularly in the moderate rental field. It is particularly necessary that FHA recognize the predominant importance of tax considerations to attract investors to rental projects.

Real estate rental corporations must receive the same favorable "partnership tax treatment" provided in 1958 to all other small corporations.

During the past year NAHB's rental housing service expanded into a complete association department fully prepared to speak for this specialized branch of the residential building industry. Our activity on behalf of those who build, operate, and occupy rental properties will increase in keeping with the growing importance of multifamily housing.

VIII. Labor.—Technological advances in homebuilding to satisfy the certain expansion of consumer demand for housing require cooperation of labor. Apprentice training of skilled workmen must be expanded to provide the willing hands needed in the next decade. Outdated opposition to advances in new methods of construction, new materials, and increased mechanization at the construction site must be abandoned. The Nation will demand increased productivity and elimination of featherbedding practices in housing. This can be done only if labor, builders, and manufacturers work together in enlightened self-interest.

We vigorously oppose any legislation that would weaken the secondary boycott sections of the Taft-Hartley Act.

We will continue to support legislation which would eliminate those legal immunities in our Federal laws which exempt trade unions from obligations now required of business concerns, particularly in regard to coverage by the Federal antitrust laws, engagement in political activities, and responsibility for other civil obligations.

IX. Public housing.—The growing realization that public housing has failed, now shared with us by many of its former proponents, has resulted in an active search in which we are participating for a more acceptable effective private enterprise substitute to aid in the provision of homes for the decreasing number of low-income families. It is time to stop building further public housing.

Mr. Bartling. To be brief and save the time of the committee and yet at the same time to present to you a correct expression of our views, I should like to use as part of my testimony this morning direct quotes from the preamble and certain other sections of our policy statement which concern residential mortgage finance and bear upon H.R. 9871, the bill now before you.

Naturally, the conditions in the homebuilding and mortgage finance markets prevailing in one area of the United States may not necessarily prevail everywhere, since ours is a large country.

Accordingly, my testimony and our policy statement, from which I will now quote, necessarily represent a synthesis of many points of view from widely varying areas.

The number and kind of homes available to American home buyers in 1960 again will be determined largely by Federal fiscal and credit policies. We face a year in which homebuilding will decline while the rest of the economy booms. Scarcity and expensive mortgage credit accelerates steady retrogression from the low downpayment, long-term mortgage—predominantly responsible for homebuilding's phenomenal progress in the past quarter century—to financing methods proven unsound 30 years ago.

Homebuyers are the Nation's largest private users of long-term credit. They—and the thousands of small businessmen who build homes for them—are of course as deeply concerned as are our fellow citizens that the soundness of the American dollar be maintained. But we have grave doubts both of the effectiveness and the fairness of a governmental anti-inflationary policy which relies solely on monetary restraint.

The attempt to control excessive total demand for credit and to stimulate savings through ever-rising interest rates has obviously failed. Meanwhile it has inhibited economic growth and placed the greatest burden on those who can afford it least. Interest rates approach—and in some cases exceed—the legal
limits of usury. One major group of Americans has been successfully "controlled"—the tens of thousands of modest-income buyers who only a short time ago could have bought homes well within their means but are now disqualified by the high cost of credit. Home buyers are hurt first and worst by the impact of "tight money."

All this makes as little sense as raising the price of bread to combat a food shortage.

Homebuilders and buyers are convinced there is something fundamentally wrong—however worthy its stated objective—with a national policy which, in the name of curbing inflation, denies to creditworthy, moderate-income families the opportunity to own their own homes while allowing credit to continue freely available for many less essential uses.

The National Association of Homebuilders is fully aware that, when the total credit sought by the economy exceeds the available supply, the Government must in the interest of all the people dampen exuberant demand. But we are equally convinced that, when this becomes necessary, the Nation is best served by equitable application of the credit brakes and by full use of all the vast powers of the Federal Government to assure for all a fair share of available credit.

In 1957 the same combination of restraints now imposed on our industry caused a severe drop in construction that triggered a general business recession. Unless immediate effective action is taken to distribute more fairly the impact of tight money, this pattern will inevitably be repeated. If the credit system is not soon modernized to permit homebuilding access to credit as befits its place in the economy, we can see no alternative but a severe decline in home construction or for Congress again to authorize the purchase, under appropriate safeguards, of large amounts of mortgages in areas where mortgage money is unavailable at reasonable prices.

High interest rates and the high costs of money have been and are a major factor in the rising cost of housing. The highest interest rates in three decades—now at a level which causes lenders and Government agencies concern for possible violation of State usury laws—have failed to reduce discounts. Increasingly, some lenders are exploiting current conditions by exacting unconscionable charges. Inevitable reaction against these excesses will further increase pressure for governmental controls and for direct governmental lending. Pending effective means to apportion available credit equitably to our industry and to other desirable uses, we urge lending institutions—and their trade associations—to cooperate with us in avoiding abuses which in the end can only discredit home financing and hurt the home buyer.

Certain growth areas in the United States must depend on mortgage investment funds from older established areas on Government-insured or guaranteed loans. The continuing confiscatory charges current today will force a recession of building in such growth areas because the homebuilder cannot absorb these high charges and stay in business. Such a development will bring about serious economic dislocation in all industries in these areas, and this, in turn, will cause a serious dislocation of the entire economy. To prevent this, we propose the following alternative courses of action.

First, the Congress could authorize the national service life insurance fund to invest a reasonable proportion of its funds in long-term FNMA debentures for use by FNMA, through a special function for that purpose, exclusively to purchase VA mortgages for a new construction at an interest rate equivalent to the FHA rate and at prices at or as near par as possible considering the interest rate on the mortgages bought, the interest rate carried by such debentures, and the minimum administrative cost to FNMA in making and servicing such mortgages.

Second, legislation could be passed recognizing that if homebuilding must endure discounts, where and while they prevail they must be recognized for what they are—a part of the cost of producing a home—and, therefore, added to the mortgage.

Third, as a last resort, the only remaining alternative is for Congress to provide to FNMA, by appropriation, an adequate fund for use in areas where home mortgages are not otherwise available, at prices which the building industry can absorb while providing an adequate supply of moderate-priced homes, and under regulations which will prohibit a disproportionate use of such funds by any single builder. * * *

In addition to what I have already presented in quoting from our policy statement, I should also like to present to the subcommittee our
support for certain provisions in H.R. 9371 upon which favorable resolutions were adopted as recommended in our convention committee reports. In some cases these expressed existing policy or were of such a detailed nature that their inclusion within our policy statement was not warranted. We support the amendments contained in H.R. 9371 which would—

(1) Provide FHA with authority to insure mortgage loans made by individuals (sec. 2 of the bill);

(2) Require FHA to reduce its mortgage insurance premium from one-half of 1 percent to one-fourth of 1 percent for a period of 1 year following enactment (sec. 3 of the bill);

(3) Require FNMA for 1 year after enactment of the bill to buy any FHA or GI mortgages offered to it (sec. 5 of the bill);

(4) Require FNMA to reduce its secondary market stock purchase requirement from 2 to 1 percent (sec. 7 of the bill).

Further, it has for some time been NAHB policy—requiring no specific reiteration of this year—to support those provisions in H.R. 9371 which would make clear that FNMA’s objective should be to seek maximum stabilization of the mortgage market within the limits of the funds available to it (sec. 4 of the bill). We also support this provision.

It is our understanding that there will be further hearings later in this session. Therefore, I have not touched on a number of other items which we would like to bring to your attention at the proper time. However, I would like to submit to you now—for preliminary study by the subcommittee—our proposal for a Central Mortgage Reserve facility.

As you know, this is a subject on which there has been widespread discussion during the last several years. We have advocated such a facility in general terms before this subcommittee in previous years. This proposal was developed by our economics and planning for industry committee, headed by our past president R. G. “Dick” Hughes, of Texas, and it was approved unanimously by our board.

Mr. Rains. It may be included in the record.

(The information referred to is as follows:)

ATTACHMENT B. A Proposal for a Central Reserve Facility To Aid in Stabilizing the Mortgage Market

(NAHB, January 1960)

The need for a Central Mortgage Bank is now well established and its creation is long overdue. Systems for the conversion of mortgages into more acceptable investment instruments have been used in other fields for many years. Mortgage bonds are still in use for industrial borrowing and the railroads make excellent use of equipment trust certificates in financing the mortgages on their rolling stock. The modern FHA or VA mortgage is an excellent instrument for the home buyer, but remains a difficult investment instrument for all but a few types of investors. Competitive seekers of investment funds have developed many new devices tailored to meet the demands of every type investor and have placed mortgages at a further disadvantage.

This is a proposal to stabilize the mortgage market through a Central Mortgage facility empowered to issue notes and debentures backed up by its mortgage portfolio. Through such notes and debentures of various maturities and size it would reach the broad general investment market. To stabilize the mortgage market the Central Mortgage Bank would be empowered to sell mortgages from its portfolio, and to issue advance commitments for the purchase of mortgages. It would also have the power to make short-term loans against the collateral of insured and guaranteed mortgages.
The justification for the Central Mortgage Bank is the need for another instrumentality in the mortgage and finance field so that the mortgages can complete effectively in the open market. It must be remembered a Central Mortgage Bank is not a panacea for all money problems. Operated properly, it is a device to stabilize housing finance by both curtailing overexpansion of housing, as well as preventing serious disruption of housing in times of money stringency.

In addition, even when money is readily available, there are many fields in many areas where housing is badly needed and financing is not available for home ownership. While it is anticipated that the Central Mortgage Bank will operate at a nominal profit, its motivation shall be to provide a needed service in the economy, and not basically as an operation for profit.

OWNERSHIP

The Central Mortgage Bank should be an independent Government corporation of mixed ownership with stock sold to its members as a requirement necessary to do business with the facility; also, so as to qualify as an independent Government corporation. The Government should provide the necessary initial capital for it to properly perform its functions. It should have a chairman and a board of 12 directors, appointed by the President, for staggered terms and representing the 12 Federal Reserve districts, and also broadly representative of the housing industry and the public. The Board should meet periodically and set the policy for its operations.

COORDINATION WITH MONETARY AND FISCAL AUTHORITIES

The activities of the Central Mortgage Bank should be coordinated with, but not controlled by, the Federal Reserve Board and the Treasury. The importance of homeownership and the home building industry to the American economy are such that the Central Mortgage Bank should have major status in the Government structure. In the event serious conflicts arise, they should be resolved by the President.

Basic to any ultimately satisfactory solution of our mortgage problem is the modernization of the whole credit and monetary structure of the Nation. In the long run it will undoubtedly be necessary to provide for a single responsible, overall coordinating authority to make certain that the financial powers of the Federal Government are not operated in an inconsiderate or, perhaps, even competitive way. We should recognize the absolute necessity that the allocation should be determined in the final analysis by free bidding in the marketplace, but that such an important user of long-term credit as home building has now become, does not go into the marketplace under handicaps.

The need for a major overhaul of our money and credit structure has long been apparent and is underlined by the major economic changes that have taken place in the last generation. For example, since 1940 alone:

1. GNP has increased from $100 to $485 billion.
2. Consumer debt has increased from $6 to $46 billion.
3. The mortgage debt has increased from $17.4 to $133 billion—and a new report from U.S. Savings and Loan League indicates this mortgage debt will reach $310 billion by 1970.
4. Home ownership has increased from 41 percent to 60 percent plus. Home ownership will continue to increase in popularity if we continue to provide proper opportunities for mortgage credit.

MANAGEMENT AND OPERATIONS

The board of directors of the banks should set the buying price for mortgages from time to time and the posted prices should reflect all the cost to members doing business with the facility. Purchase prices, fees, and charges should be set by the board. Its prices, fees, and charges should be based upon its ability to secure funds by the sale of its debentures and through its prices and fee structure stabilize and improve the mortgage market to the full extent of its ability, operating within income of its debenture sales.

The prices paid for mortgages should at all times be at a level that permits and encourages the usual investors in mortgages to continue their direct purchases from originators. The bank could, by raising and lowering prices and fees, exercise control over the volume of its purchases.
Of necessity the board should have the authority to set interest rates on FHA and VA loans within maximums established by Congress, such rates to be as low as possible, consistent with the average cost of the money raised by the sale of its notes and debentures in the open market with a differential purchase of operating expenses and the accumulation of a sensible reserve.

ELIGIBILITY OF LOANS

The banks should buy any mortgage insured or guaranteed by the FHA or VA that is not in default at the time of submission and in which there are no title defects.

DISCOUNT FACILITY

The board shall set from time to time the term charges and interest rate for making loans against eligible mortgages and should stand ready at all times to make such loans. These loans should be for a renewable term of 6 months with such margin as the board may require, and shall be made with full recourse to the borrower. This function shall be available to stockholder members, and shall function to stabilize the mortgage market through assisting existing lending institutions by standing ready and willing at all times to loan money to any existing lending institution for short terms. Indenture trusts that may be created should be given authority to borrow from this bank.

NOTES AND DEBENTURES

The board shall have the authority to issue at its discretion notes and debentures for sale on the general market, and at no time shall the total amount of such outstanding notes and debentures be in excess of the acquisition cost of the insured and guaranteed mortgages in its portfolio.

The legislation creating the central mortgage bank should also amend the National Banking Act and such other legislation as is necessary to make such notes and debentures legal investments for all federally operated and supervised institutions. These debentures should also be eligible for purchase by the Treasury at the direction of the President or by act of Congress when, at their discretion, such action is necessary to support the market or stimulate the construction of housing. Inasmuch as the notes and debentures are fully backed by loans guaranteed and insured by agencies of the United States, it should be possible to classify all debentures issued as insured debentures, as was done in the case of the maritime loans. There is even some justification for having notes and debentures of the central mortgage bank fully guaranteed by the U.S. Government as is done in the case of public housing bonds.

MEMBERSHIP

The right to sell loans or to buy advance commitments, to use the discount facility, or otherwise deal with the central mortgage bank, would be restricted to members owning and holding a prescribed amount of stock. This amount should be set by the Board, but to encourage wide use, the initial requirement as set by Congress, should be nominal and not based on the members' assets. It is believed this is essential to encourage participation in the initial operations, and after the bank is functioning, members may be required to increase their holdings based on the volume of their transactions, but all at the discretion of the board of directors. The stocks should not be transferable and the bank should stand ready at all times to repurchase at par any outstanding stock that may be offered.

BRANCHES

The central mortgage bank should operate in Washington, and all its fiscal affairs handled from this city. However, such branches as may be necessary to the proper conduct of its operations may be set up at the discretion of the board.

SUMMARY

Essentially, the central mortgage bank is to be a fiscal device for converting hard-to-sell mortgages into notes and debentures acceptable in the private marketplace. Such universally acceptable notes and debentures will have the ability to attract all sources of investment funds. In addition, the establishment of a central mortgage bank with rediscount powers would encourage
those lenders who already have the facilities for making and servicing mortgage loans to use more of their resources for mortgages. The central mortgage bank would stand by to aid, assist, and stabilize these lenders by making loans to them on their mortgages should the need ever arise.

There is no intention, in creating a central mortgage bank, of opening a back door to the Treasury for general use of Treasury funds to support the mortgage market. As in the case of most other Government credit agencies, Government help may be necessary at certain times.

We can no longer rely on the hope that private enterprise alone can provide a successful debenture-issuing facility on a scale necessary to stabilize the mortgage market. Actually, the margin between a high-rated bond and a suitable interest rate on mortgages provides little or no leeway and no profit possibility without huge discounts. In addition, private corporation bonds or debentures would not be highly rated. The problems of doing business in various States, together with the Federal requirements as to the issuance of securities, offer very little hope in this field. The independent Government corporation provides the highest rating for bonds, crosses State lines easily, offers the greatest stability and security to the operation, and eliminates the demand for higher profits and increased dividends.

This is a proposal for a new device necessary to the economy and to develop homeownership and redevelopment operations, relieve the problems of the remote areas, minority groups, and eliminate the unnecessary criteria imposed by investors, even on insured and guaranteed mortgages.

Mr. Bartling. We respectfully submit this proposal for the record and for the attention of the subcommittee at your earliest convenience. It is attachment B to this testimony.

We will be happy to make available our studies on the subject and to place at your disposal the entire facilities of our organizations, hoping that it can be developed into acceptable legislative language this year.

It may be helpful to the subcommittee for me to comment briefly upon the present status of the home building industry and its prospects for 1960 as we see them.

In 1959 private housing starts totaled 1,341,500. While private housing starts for December were surprisingly strong at a seasonally adjusted annual rate of 1,310,000, it is worth noting that they were down very sharply from December of 1958 when they were at an annual rate of 1,432,000. Moreover, it has become clear for the past 3 months that there is a drastic shortage of advance commitment funds for FHA and VA loans, particularly in certain growth areas. On the west coast, in the southwest and south such funds are now virtually nonexistent.

It is not an easy task to forecast conditions which, because of the long lead-time in our industry, will not be reflected in housing starts until 6 to 18 months in the future.

Nevertheless it is clear that the trend for the industry as a whole is down. You will recall, I am sure, that the seasonal rate of home-building declined from a peak of 1.4 million in early 1955 to less than a million in 2 years and that this decline foreshadowed—and we believe importantly contributed to—the economic recession of 1957. We would not like to see that pattern repeated.

The views of our economics department are set forth in an analysis entitled "Home Building and the Economy—Recent Experience and Current Outlook." I believe this analysis is of major importance to the subject you are considering and I should like to offer this document for the record.

Mr. Rains. It may be included in the record.

(The information referred to is as follows:)

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Federal Reserve Bank of St. Louis
EMERGENCY HOME OWNERSHIP ACT

HOME BUILDING AND THE ECONOMY—RECENT EXPERIENCE AND CURRENT OUTLOOK

National Association of Home Builders, Nathaniel H. Rogg, director, Economics Department, January 25, 1960

To: Members of the epic committee.

From: Dick Hughes.

Attached hereto is an analysis of homebuilding in the economy prepared for your use at my request, which focuses attention particularly on the recovery in 1958 and the job done by FNMA's special assistance program 10.

I would like to add my own comments to the appraisal of the special assistance program during this period.

1. The availability of FNMA program 10 funds available early in 1958 dramatized for the building industry the major turn around that was taking place in mortgage credit. It gave builders courage to use land and building facilities which had been lying dormant or partially dormant for nearly 2 years, and they started to work immediately—some with some without commitments. If it had not been for program 10, it would have taken a much longer time for the building industry to realize what changes were actually taking place in the mortgage market and the recovery would, undoubtedly, have been slower.

2. On the other hand, without the changes in the monetary and fiscal policy, program 10 could have been dangerous. It might have encouraged increased starts for which mortgage funds and buyers would not have been available when the houses were finished. Thus, program 10 without the changes in the monetary and fiscal policy might have created a very undesirable condition. It could have led to a situation benefiting only the select group fortunate enough to get commitments under this program: The unfortunate builders who, for one reason or another, were unable to participate in the program, and also unable to find any other mortgage market place would have been very resentful.

3. It took both program 10 and the courage and heart which it gave builders to get started quickly, and the changes in the Government's financial policy to bring about the 1958-59 housing boom.

4. On the other hand, because both came at the same time they probably stimulated a 1959 level which placed strain on the supply of mortgage funds and was, in part, responsible for the current mortgage money crisis. As one illustration of this, I would like to call your attention to the fact, that mortgage fund requirements net for 1959 are about $15 billion, as against the $11 billion anticipated at the beginning of the year and $10.4 billion in 1958.


THE BACKGROUND

At the beginning of 1958 the economy was in the middle of a recession which had begun about a half year earlier. From a high point of $454 billion in mid-1957, the gross national product dropped to $433 billion in early 1958. National income, sustained by transfer payments, social security, unemployment relief, et cetera, remained relatively stable, but the index of industrial production had declined about 14 percent.

Housing starts had begun their decline considerably before the general fall-back in economic activity, starting to drop all through 1956 and 1957, and reached a low point in a seasonally adjusted rate of 915,000 by February of 1958. As a matter of fact, throughout much of 1957 and early 1958, the rate had hovered between 915,000 and a million.

This, then, was the background as we moved into the early part of 1958: An economy still in the grips of the sharpest and shortest postwar recession and a housing volume which had been at low levels for more than 2 years. While the recession lasted slightly more than a year, the decline from the prior peak was more intense than that of the recessions of 1949 and 1953. If we can apply time periods, it would appear that the overall recession began in the spring of 1957 (although the statistics did not reflect this for some months) and ended about July of 1958.

Beginning about mid-1958, the statistics reflected very rapid economic recovery. Gross national product started moving up quarter by quarter and by mid-1959, it had reached a total of $478 billion, up $45 billion from the 1958
low. The index of industrial production moved up comparably and by June of 1959, it was nearly 30 points or about 23 percent ahead of the low for the previous year.

On the money and credit side of the ledger, there were very significant changes. The Federal Reserve shifted to a policy of active ease at the end of 1957 and moved to stimulate business through:

1. Open market operations.
2. Changes in the rediscount rate.
3. Changes in the reserve positions of the banks.

Beginning in October 1957, through the spring of 1958, the Federal Reserve System purchased $1.8 billion in Government bonds from the commercial banks which had the effect of releasing a potential monetary expansion of more than $10 billion for business loans and investments.

Beginning with mid-November 1957, the rediscount rate was lowered by a series of successive steps from 3½ to 1¾ percent by May of 1958:

- November 15, 1957, dropped to 3 percent.
- January 24, 1958, dropped to 2¾ percent.
- March 7, 1958, dropped to 2¼ percent.
- April 18, 1958, to 1¾ percent.

The Federal Reserve Board further eased the money market by reducing reserve requirements for all member banks. This was done in four successive steps over a 2-month period. For example, central Reserve city banks fared as follows:

- February 27, reserve requirements lowered from 20 to 19½ percent.
- March 20, reserve requirements lowered from 19½ to 19 percent.
- April 17, reserve requirements lowered from 19 to 18½ percent.
- April 24, reserve requirements lowered from 18½ to 18 percent.

Overall, the effect of the lowered reserve requirements was to free about $1.5 billion of bank reserves and thus increase commercial bank lending and investing potential by approximately $10 billion.

This is, of course, an oversimplified explanation of the dollar effect of massive changes in Federal Reserve Board policy—since reserves were also affected by a net outflow of gold, a seasonal decline in currency and circulation, and various other complex factors.

But these actions by the Federal Reserve Board produced immediate changes. Money became readily available in early 1958. Banks shifted from a negative reserve position with the Fed to one of net free reserves of $500 million. During 1958, bank loans and investments rose over $17 billion and the total volume of currency in circulation and deposits increased by $15 billion.

Short-term interest rates fell sharply and the rate on 91-day Treasury bills was below 1 percent by May. The yields on outstanding long-term Government issues fell to 3.0 percent in April 1958, a decline of 18 percent from the high of 3.73 percent in October 1957.

Government fiscal and budgetary policies also aided business expansion. Fiscal year 1959 saw a budget deficit of nearly $13 billion. Thus, Federal budget policies by deficit financing in time of recession poured additional funds into the economy. As a matter of fact, the budget situation resulted in a somewhat embarrassing position: It made necessary continued Federal borrowing through the latter half of 1959 and put the Federal Government in the position of competing in the capital markets when the markets were already overburdened with demand.

In summary, the latter part of 1958 saw a considerable turnabout in economic activity with a very sharp shift in money and credit policies which had the effect of pumping additional billions of dollars of credit and of Federal expenditures into the economy overall.

1958: The rate of homebuilding increases by 57 percent within 10 months

Perhaps the most dramatic changes to take place anywhere in the economy in 1958 occurred in residential construction. Depressed for more than 2 years, hovering somewhere around the million rate ever since 1956, and at a 7-year low in February 1958 of 915,000, homebuilding rebounded vigorously in 1958, and by December the seasonally adjusted rate reached 1,432,000, an increase in rate of better than a half million units. The vigor of this rebound is eloquent testimony to the fact that homebuilding volume in the preceding years had been far lower than was required to meet the needs of our dynamic economy.

What happened to bring about the extraordinarily rapid change? It is clear that one basic difference is that funds became available beginning in early
1958 to finance this increased volume of homebuilding, and that such funds were not available during 1956 and 1957.

We have already discussed actions by the monetary authorities to free credit for business loans through lowering of bank reserve ratios through open market operations. Mention has also been made of the changes in the rediscount rate and the lowering of interest rates all along the line. The banking system increased loans and investments by at least $17 billion during 1958 as a result.

Specifically with reference to homebuilding alone, a whole series of actions—were taken of which the most significant was FNMA's program 10, providing $1 billion of par funds for the purchase of FHA and GI mortgages, beginning April 1, 1958. In addition—

Minimum downpayments on FHA and GI loans were lowered.

The VA interest rate was increased to make it more competitive.

A new program was undertaken by the Federal Home Loan Bank Board to make loans available on a 5-year basis to member associations.

Some $200 million was released by the President for use in FNMA special assistance programs (other than program 10).

Some $325 million of FNMA funds was made available for the purchase of mortgages on elderly and military housing.

It is obvious, however, that of the actions taken which affected housing alone, the FNMA program 10 was the most significant. It is important to assess this program so that we may understand just what happened.

How much of the homebuilding recovery was attributable to changing economic conditions, how much to program 10 itself is, at best, debatable. It is clear, however, that program 10 alone could not have done this job. And there is the additional possibility that some of the units started under program 10 would have been started, even without the program.

**WHAT DID FNMA'S PROGRAM 10 ACTUALLY DO?**

Tables 1, 2, 3, and 4 attached indicate the sweep and significance of this program. Under it, commitments were issued for 83,000 units covering about $1 billion in FHA and GI lower priced mortgages; through 1959 some 70,000 such mortgages had been acquired.

Table 2 attached shows a percentage distribution of housing starts during 1959 by States, and a similar percentage distribution of program 10 activity. It should be noted that despite the widespread use of program 10 in many communities, the bulk of its effects were concentrated in five States which used nearly half of the program. In turn, these same States accounted for about 37.5 percent of all starts. In some 15 States using the program, less than 500 units per State were covered by commitments, and in 6 other States no commitments at all were issued. On the basis of commitments issued, Texas was the largest single user of the program accounting for over 15 percent of all commitments, followed by Michigan, California, Florida, and Arizona.

There were approximately over $100 million in the original commitment volume. However, this volume stimulated new-home building in 1,556 communities in 45 States. As table 3 indicates, 646 lenders participated in the program and over 3,800 builders were encouraged to move ahead with new housing programs as a result. Thus, its direct effects were widespread and measurable.

At the same time, a comparison of the 12-month period, shortly after this program became effective (May 1958 through April 1959) with the prior 12 months (see table 1), reflects an increase in privately financed units of over 286,000; of this increase, it is estimated that only about 65,000 units were covered by FNMA program 10, or less than one-fourth of the total increase during the period.

On further examination, of the increase in this 12-month period, about one-half was in FHA units (143,000), 116,000 were conventionally financed, and 28,000 of the increase were started under the VA program.

As table 1 indicates, most of the FNMA mortgage acquisitions were VA mortgages. (The statistics let us down somewhat at this point since many homes started under FHA applications, were sold to GI's and showed up in FNMA's portfolio as such, although they would not show up as such in the statistics as VA starts.)

In any event, and no matter how the figures are analyzed, it is clear that the volume of new units started during 1958 and 1959 was far in excess of the direct effects of program 10. Reports from all over the country during 1958 indicated a ready availability at good prices of mortgage funds. Without basic changes
in the mortgage money picture, and the overall economy described earlier, special assistance alone could not have lifted the homebuilding economy out of its slump.

Nevertheless, here is what program 10 did do:

1. It provided part financing for over 70,000 new homes.
2. It provided such financing for 3,847 builders in over 1,500 communities all over the Nation, although it was most heavily used in areas of major concentration in the South, Southwest, and West.
3. The par purchase support program, under program 10, probably influenced lenders into making funds available for other types of homebuilding at somewhat better prices. While this is difficult to prove statistically, nevertheless, all through 1958 field reports indicated continuing improvement in mortgage prices. While much of this, undoubtedly, reflected the general easing of mortgage credit, some of it also reflected the fact that FNMA support was available in the marketplace for certain kinds of mortgages.
4. Program 10, undoubtedly, focused attention on the lower priced house. Since it was limited to mortgages under $13,500, the competition from such lower priced FNMA-financed units influenced a lower price throughout the market, regardless of the method of financing, not alone for units financed through FNMA.

The experience in recent years suggests that when money is tight, the median sales price of new homes rises, primarily because tight money affects first the volume of lower priced homes. This is what happened in 1957, when, as the table below indicates, the median sales prices rose by nearly $1,000. In 1958, largely as a result of the redirection of effort through program 10, the median sales price dropped by nearly $1,000, a decline which continued through 1959 as the table below shows.

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1 No BLS surveys or any other Government surveys as to prices of new homes have been made since 1956.

5. Finally, it is not possible to assess the full impact of special assistance in terms of the number of units alone. Undoubtedly, a large part of the overall improvement in homebuilding was psychological. The knowledge that the Government was actively supporting the mortgage market by special assistance purchases at par heartened many builders to the point where they were willing to undertake the speculative risks involved in new homebuilding enterprises.

In summary, program 10 had a very direct and measurable effect on 1958 homebuilding. Its mortgage purchases provided par financing for 22.8 percent of the increase of 286,200 in housing starts in the 12 months after it went into effect, it directed attention toward the production of lower priced homes, and it provided an important psychological lift early in 1958 for an industry harassed and depressed for the 2 preceding years. On the other hand, there is always the possibility that some of the units built with mortgages purchased under this program might have been built in any event.

Its effects were felt in many areas of the country, but by and large, greater use was made of it in a relatively few growth areas. Although many individual builders participated, the great majority did so on a very small scale; unfortunately, the data available do not permit analysis of this aspect in any detail.

In assessing its impact during the 1958 recovery, there is reason to believe that it would have been far more helpful to the homebuilding industry had it been available a year earlier, in 1957, and by the time it did go into effect in
1958, its direct results were not nearly so significant as were the overall changes in the economy, and particularly the improvements resulting from changes in money, credit and fiscal policies.

THE 1960 OUTLOOK

As we move into 1960—most indicators are pointing upward—including the cost of money and price levels generally. The ending of the steel strike removes one major economic uncertainty. There is reason to believe that in practically every field of activity—except homebuilding—the economy will set new production records in the coming year. As a matter of fact, 1960 will probably be the first postwar year in which the dollar volume of all new construction will fall below the level of the previous year, and this is primarily because of the decline anticipated in homebuilding volume.

The current recovery in the economy began in about mid-1958. It has been going on for a year and a half. The steel strike in the latter part of last year moderated some of the upward pressures, and consequently, may result in lengthening the boom a little longer than has been customary for postwar booms, which have generally lasted from 2 to 3 years. This one still has at least a year to go.

Homebuilding volume is declining because it is bumping against a tight-money ceiling. We have had some scattered reports of sales difficulties with some indication that the softness in sales reflects high interest rates and the difficulty in qualifying clients. In general, however, from all signs, housing demand as we move into 1960 is still strong. Vacancy rates are relatively low according to the Census Bureau. There are no general indications of large inventories of unsold houses. The 1959 fall residential property study by NAREB concludes: "The volume of housing demand is greater today than it was a year ago."

It is now clear, however, that any forward surge in housing volume is definitely stalled until the current tight money situation is eased. The prospect for any quick changes are not particularly bright. Business expansion—now that the steel strike is over—will probably accelerate. New plant and equipment spending should be up at least $4 billion over last year; requirements for consumer credit, particularly installment credit, will undoubtedly be high.

There are many factors involved in the tight-money situation. As a side comment, it is worth noting that homebuilding is the largest single user of long-term credit in the country. As a matter of fact, 1959's mortgage tightness was aggravated by the very high volume of new mortgage funds required for homebuilding. In early 1959, most experts anticipated net new mortgage requirements of about $11½ billion. When the 1959 totals are finally available, it is likely that the increase will be in the order of $15 billion, nearly 40 percent more than had been expected at the beginning of the year. Thus, the increase in homebuilding in 1959, beyond levels anticipated, was in itself one of the factors in making mortgage credit costly and difficult to obtain. On top of this, the shift by the monetary authorities from a policy of "active ease" to one of "restraint," failure of savings to keep pace with the demand for long-term funds, and the Government's refinancing difficulties all contributed to tight money.

The truth of the matter is that the homebuilding industry suffers from the economic consequences of growth—its own growth as well as that of the economy. As each of the postwar expansions has gotten well underway, shortages of long-term funds became apparent and had had their most immediate impact on residential construction.

There are two bright spots in the 1960 credit picture. One, in 1960, the likelihood of a budget surplus means that Government funds needs will not be a major factor in the 1960 capital markets as they were indeed in 1959. Another factor (of somewhat questionable luster) tending toward some ease for mortgage credit in the capital markets, is that housing volume itself has been coming down. Thus, those who survive will be competing for funds with a smaller number of rivals and against a smaller demand than in 1959.

In summary, on mortgage credit, we have probably seen the worst of the tightening, but there is little likelihood of any immediate easing of the cost or availability of long-term credit for homebuilding under current monetary and financial policies.

Housing starts throughout 1959 held up somewhat better than had been anticipated, considering the money problem. Although tight money became evident in the economy by the end of the first quarter of 1959, its impact on starts did
not show up until the fall. By October, the high volume of forward financing commitments, taken out early in 1959, had largely been worked off; housing starts in that month dropped 11 percent. They rose slightly in November to a level of about 1,200,000. Although December data are not available at the time of this writing (January 8, 1960), it is likely that December starts will be close to the November figure.

Thus, we are moving into 1960, at a level of about 1,200,000 or some 200,000 less units than the level at which we moved into 1959. Current indications are that starts will fluctuate at around this level, or somewhat lower, and will continue relatively soft through the first half of this year.

In terms of a national summary, the picture looks like this: A 10- to 12-percent drop, with starts for the year very likely in the range of 1,150,000 to 1,200,000, or somewhere between 170,000 and 225,000 less than 1959.

The 1959 total is approximately 1,370,000, a gain over 1958 of about 160,000 units.

Of the 1959 total, close to 900,000 have been conventionally financed, an increase of 150,000 in this category from any previous year. It is this factor which permits us to do some estimating for the period ahead with a little more confidence.

Indications are strong that somewhere close to this level conventional financing should be available during 1960. Thus, we can probably count on about 900,000 conventional units in 1960. The 1959 Government-insured and guaranteed volume is about 450,000 units. Thus, we would need only half the 1959 FHA and GI starts volume to bring 1960's starts to the 1.150 to 1.2 million range.

Examining it in this manner, we find a pattern emerging for 1960. There will be a vital market drop. But the 1960 decline will be largely a GI and FHA decline. But it will be a serious decline in these sectors. If past patterns hold, it will be a decline in lower priced sales units. It will be a decline in certain geographical areas, notably in the South and the West that had depended on such financing. The drops in these areas will be more serious than the national decline. It will be a decline in sales units, since rental housing volume will probably hold at close to the 1959 level. Thus, even though the national volume is not catastrophically off, there will be major business problems concentrated in certain sectors of homebuilding—in the South and the West—and in the volume of lower priced homes available for sale with GI or FHA financing. Builders whose business is largely concentrated in these types of housing will, undoubtedly, find major problems as the year wears along.

In addition, we have before us something of a time bomb with a long fuse. Planning ahead for 1960 was seriously disrupted. Psychology in this situation is an important factor. If builders "feel good" about the outlook, experience indicates they will make bigger plans, start more houses, sell harder, and generally do better. All our surveys indicate that they "don't feel so good." They are expecting that the time bomb will eventually go off.

What we are dealing with in the homebuilding field is a continuing slump and softness. The best prospect for any real improvement for homebuilders in the mortgage money markets would probably come from a moderate recession.

If an emergency can be defined as something which comes suddenly and passes quickly, then what we have is no emergency but a chronic state of inadequacy in the mortgage markets.

A volume of 1.2 million units in 1960 is certainly no indicator of crisis; at the same time it is scarcely cause for self-congratulations. There is reason to believe that some 200,000 additional units could be built and sold in the boom-
EMERGENCY HOME OWNERSHIP ACT

ing economy of 1960, if mortgage funds were available at reasonable prices. Certainly this added volume would place no great strain on the supplies of material and of labor.

It is 200,000 less units than were built in 1950 when our population was 25 million fewer than today, and when our gross national product was only $284 billion, compared with the over $500 billion expected this year. A volume of 1.2 million was exceeded in at least 4 of the last 10 years.

Such a volume, while certainly no catastrophe, is hardly the measure of a growth industry, and it is certainly far below any estimate of the volume required for any substantial improvement in American living standards. At best, it means that some hundreds of thousands of average American families who might otherwise be in the market will have to postpone their purchase of a new home on terms which they can afford.

A volume of 1.2 million is barely adequate to meet the requirements arising from the estimated level of new family formation and to replace the units that will probably be lost to the supply from demolition and other causes. It is certainly not adequate in 1960 to allow for any substantial improvement in the housing of our families.

A volume of 1.2 million means that we will merely be holding our own, and holding our own at this time is simply not good enough. At best it means that homebuilding will be limping into the decade of the sixties far in the rear of other industries in an expanding America.

HOMEBUILDING ACTIVITY IN 17 SELECTED METROPOLITAN AREAS AT THE END OF 1959

We have examined month-by-month homebuilding activities in some 17 selected metropolitan areas throughout the country in an effort to see whether any particular pattern exists, either by type of activity or on a regional basis. In the course of this analysis we have looked at building permits and proposed new units in both the VA and FHA programs. The results of this review are summarized in table 4, which compares these items for the last 3 months of 1959 (in which data are now available) with the same period of 1958. The 1958 period was one of rising activity. As is apparent from the table, the 1959 period reflects or foreshadows declines.

The building permits and patterns are by no means clear, particularly on a regional basis. On the west coast, Los Angeles and San Diego show an increase, while other cities are down. On the east coast, New York shows an increase, Washington holds steady, and Detroit, where FHA and GI programs are important factors, was off 33 percent, and other east coast cities are down. Chicago, which relies heavily on conventional financing, showed a 20-percent drop in permits; Kansas City showed a nearly comparable drop, while in the Mountain States, Phoenix and Denver held relatively steady, and Albuquerque, which boomed throughout most of 1959, reflected a very heavy drop of 30 percent.

On new units in both the FHA and VA programs, virtually all areas showed the same pattern—relatively large declines over 1958—with the surprising exception of San Francisco, where proposed new units in the VA program showed a 14-percent increase (units in FHA applications were down, however, by 27 percent). In both the FHA and the GI programs, more than half the selected areas showed a decline in new units in applications or in appraisal requests of 30 percent or more. Since these particular statistics foreshadow homebuilding activity in the months ahead (at least in these programs), there is good reason to anticipate declines in FHA and GI activity all over the country in the early months of 1960 at least.
TABLE 1.—U.S. housing starts by type of finance and comparative data for FNMA program 10 mortgage acquisitions

[1,000 units]

<table>
<thead>
<tr>
<th>Month</th>
<th>Private starts, seasonal adjusted annual rate</th>
<th>Private starts</th>
<th>FHA</th>
<th>VA</th>
<th>Conventional</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1957—January</td>
<td>962</td>
<td>60.1</td>
<td>7.7</td>
<td>12.0</td>
<td>40.0</td>
</tr>
<tr>
<td>February</td>
<td>935</td>
<td>63.1</td>
<td>9.3</td>
<td>11.4</td>
<td>43.9</td>
</tr>
<tr>
<td>March</td>
<td>933</td>
<td>79.3</td>
<td>11.3</td>
<td>13.6</td>
<td>56.6</td>
</tr>
<tr>
<td>April</td>
<td>962</td>
<td>91.4</td>
<td>12.1</td>
<td>12.0</td>
<td>59.9</td>
</tr>
<tr>
<td>May</td>
<td>994</td>
<td>96.9</td>
<td>14.9</td>
<td>12.0</td>
<td>69.9</td>
</tr>
<tr>
<td>June</td>
<td>995</td>
<td>94.5</td>
<td>15.3</td>
<td>13.0</td>
<td>66.2</td>
</tr>
<tr>
<td>July</td>
<td>1,015</td>
<td>95.9</td>
<td>13.7</td>
<td>12.3</td>
<td>65.9</td>
</tr>
<tr>
<td>August</td>
<td>1,056</td>
<td>96.8</td>
<td>17.7</td>
<td>11.6</td>
<td>67.5</td>
</tr>
<tr>
<td>September</td>
<td>1,012</td>
<td>90.2</td>
<td>16.4</td>
<td>11.8</td>
<td>62.0</td>
</tr>
<tr>
<td>October</td>
<td>1,030</td>
<td>88.4</td>
<td>18.7</td>
<td>9.7</td>
<td>60.0</td>
</tr>
<tr>
<td>November</td>
<td>1,009</td>
<td>75.7</td>
<td>15.0</td>
<td>6.4</td>
<td>54.3</td>
</tr>
<tr>
<td>December</td>
<td>1,000</td>
<td>62.5</td>
<td>14.2</td>
<td>4.6</td>
<td>43.6</td>
</tr>
<tr>
<td>1958—January</td>
<td>1,020</td>
<td>62.9</td>
<td>13.3</td>
<td>4.1</td>
<td>45.5</td>
</tr>
<tr>
<td>February</td>
<td>918</td>
<td>61.0</td>
<td>11.3</td>
<td>2.8</td>
<td>46.9</td>
</tr>
<tr>
<td>March</td>
<td>918</td>
<td>77.3</td>
<td>16.5</td>
<td>3.1</td>
<td>57.7</td>
</tr>
<tr>
<td>April</td>
<td>983</td>
<td>94.3</td>
<td>22.7</td>
<td>4.8</td>
<td>68.8</td>
</tr>
<tr>
<td>May</td>
<td>1,039</td>
<td>101.3</td>
<td>28.0</td>
<td>6.0</td>
<td>69.3</td>
</tr>
<tr>
<td>June</td>
<td>1,057</td>
<td>101.3</td>
<td>28.0</td>
<td>8.5</td>
<td>64.8</td>
</tr>
<tr>
<td>July</td>
<td>1,174</td>
<td>108.6</td>
<td>29.7</td>
<td>10.6</td>
<td>68.3</td>
</tr>
<tr>
<td>August</td>
<td>1,228</td>
<td>114.6</td>
<td>30.5</td>
<td>13.2</td>
<td>71.0</td>
</tr>
<tr>
<td>September</td>
<td>1,255</td>
<td>110.9</td>
<td>31.9</td>
<td>14.4</td>
<td>64.6</td>
</tr>
<tr>
<td>October</td>
<td>1,303</td>
<td>112.9</td>
<td>34.7</td>
<td>14.7</td>
<td>65.5</td>
</tr>
<tr>
<td>November</td>
<td>1,427</td>
<td>107.0</td>
<td>25.8</td>
<td>11.0</td>
<td>70.2</td>
</tr>
<tr>
<td>December</td>
<td>1,432</td>
<td>89.5</td>
<td>25.0</td>
<td>9.0</td>
<td>55.5</td>
</tr>
<tr>
<td>1959—January</td>
<td>1,364</td>
<td>84.1</td>
<td>19.8</td>
<td>6.9</td>
<td>57.4</td>
</tr>
<tr>
<td>February</td>
<td>1,463</td>
<td>93.5</td>
<td>20.0</td>
<td>6.2</td>
<td>67.4</td>
</tr>
<tr>
<td>March</td>
<td>1,403</td>
<td>118.1</td>
<td>30.0</td>
<td>9.7</td>
<td>75.3</td>
</tr>
<tr>
<td>April</td>
<td>1,494</td>
<td>139.4</td>
<td>33.5</td>
<td>11.0</td>
<td>92.8</td>
</tr>
<tr>
<td>May</td>
<td>1,370</td>
<td>133.5</td>
<td>34.3</td>
<td>10.3</td>
<td>88.9</td>
</tr>
<tr>
<td>June</td>
<td>1,368</td>
<td>131.1</td>
<td>34.7</td>
<td>11.0</td>
<td>85.5</td>
</tr>
<tr>
<td>July</td>
<td>1,375</td>
<td>127.2</td>
<td>31.4</td>
<td>10.6</td>
<td>85.1</td>
</tr>
<tr>
<td>August</td>
<td>1,340</td>
<td>125.1</td>
<td>31.1</td>
<td>8.9</td>
<td>84.1</td>
</tr>
<tr>
<td>September</td>
<td>1,323</td>
<td>117.0</td>
<td>29.6</td>
<td>10.0</td>
<td>77.5</td>
</tr>
<tr>
<td>October</td>
<td>1,180</td>
<td>102.1</td>
<td>26.0</td>
<td>9.4</td>
<td>66.6</td>
</tr>
<tr>
<td>November</td>
<td>1,210</td>
<td>90.7</td>
<td>20.4</td>
<td>7.9</td>
<td>62.4</td>
</tr>
<tr>
<td>Total, 12 months total:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>70.3 18.1 52.2</td>
</tr>
<tr>
<td>May 1958 to April 1959</td>
<td>994.4</td>
<td>191.7</td>
<td>96.2</td>
<td>706.3</td>
<td></td>
</tr>
<tr>
<td>Increase: 1959 over 1958</td>
<td>266.8</td>
<td>143.2</td>
<td>25.0</td>
<td>116.8</td>
<td></td>
</tr>
</tbody>
</table>

1 All data for FNMA mortgage acquisitions have been advanced 4 months in order to give fair comparison with estimated time the home actually appeared in new starts data. May 1958 data actually includes a few units which were started in earlier months. Acquisitions were split about 25-75 percent between FHA and VA but these were originally committed about 50-50 with VA buyers eventually predominating.
Table 2.—Program 10 assistance by States—Distribution of program 10 commitments to purchase mortgages compared to U.S. housing starts

<table>
<thead>
<tr>
<th>State</th>
<th>Estimated percent of U.S. private starts (1958)</th>
<th>Percent of FNMA program 10 commitments</th>
<th>State</th>
<th>Estimated percent of U.S. private starts (1958)</th>
<th>Percent of FNMA program 10 commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>1.4</td>
<td>2.4</td>
<td>Nebraska</td>
<td>0.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Alaska</td>
<td>1.1</td>
<td>0</td>
<td>Nevada</td>
<td>0.4</td>
<td>0.8</td>
</tr>
<tr>
<td>Arizona</td>
<td>1.8</td>
<td>5.7</td>
<td>New Hampshire</td>
<td>0.2</td>
<td>0</td>
</tr>
<tr>
<td>Arkansas</td>
<td>0.6</td>
<td>0.6</td>
<td>New Jersey</td>
<td>3.1</td>
<td>0</td>
</tr>
<tr>
<td>California</td>
<td>16.6</td>
<td>8.7</td>
<td>New Mexico</td>
<td>1.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Colorado</td>
<td>1.5</td>
<td>3.8</td>
<td>New York</td>
<td>6.3</td>
<td>3.7</td>
</tr>
<tr>
<td>Connecticut</td>
<td>1.3</td>
<td>1</td>
<td>North Carolina</td>
<td>1.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Delaware</td>
<td>3</td>
<td>0</td>
<td>North Dakota</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Florida</td>
<td>8.3</td>
<td>6.6</td>
<td>Ohio</td>
<td>4.8</td>
<td>4.2</td>
</tr>
<tr>
<td>Georgia</td>
<td>2.1</td>
<td>1.4</td>
<td>Oklahoma</td>
<td>1.1</td>
<td>2.8</td>
</tr>
<tr>
<td>Hawaii</td>
<td>2</td>
<td>0.3</td>
<td>Oregon</td>
<td>.7</td>
<td>1.4</td>
</tr>
<tr>
<td>Idaho</td>
<td>2</td>
<td>0.4</td>
<td>Pennsylvania</td>
<td>3.6</td>
<td>3.3</td>
</tr>
<tr>
<td>Illinois</td>
<td>4.8</td>
<td>3.4</td>
<td>Puerto Rico</td>
<td>1</td>
<td>.5</td>
</tr>
<tr>
<td>Indiana</td>
<td>2.2</td>
<td>3.1</td>
<td>Rhode Island</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Iowa</td>
<td>1.1</td>
<td>1.1</td>
<td>South Carolina</td>
<td>.8</td>
<td>.7</td>
</tr>
<tr>
<td>Kansas</td>
<td>1.2</td>
<td>1.8</td>
<td>South Dakota</td>
<td>.3</td>
<td>0</td>
</tr>
<tr>
<td>Kentucky</td>
<td>1.2</td>
<td>1.1</td>
<td>Texas</td>
<td>7.2</td>
<td>15.4</td>
</tr>
<tr>
<td>Louisiana</td>
<td>1.4</td>
<td>2.8</td>
<td>Utah</td>
<td>.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Maine</td>
<td>.3</td>
<td>0</td>
<td>Vermont</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Maryland</td>
<td>2.2</td>
<td>.6</td>
<td>Virginia</td>
<td>2.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>1.6</td>
<td>0</td>
<td>Washington</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Michigan</td>
<td>2.5</td>
<td>9.8</td>
<td>West Virginia</td>
<td>.7</td>
<td>.2</td>
</tr>
<tr>
<td>Minnesota</td>
<td>1.6</td>
<td>1.0</td>
<td>Wisconsin</td>
<td>1.9</td>
<td>.3</td>
</tr>
<tr>
<td>Mississippi</td>
<td>.6</td>
<td>.7</td>
<td>Wyoming</td>
<td>.2</td>
<td>.7</td>
</tr>
<tr>
<td>Missouri</td>
<td>2.0</td>
<td>1.5</td>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Montana</td>
<td>.2</td>
<td>.1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3.—Selected data on FNMA program 10—Distribution of $1,000,000,000 special assistance authorization

<table>
<thead>
<tr>
<th>Contracts to buy mortgages</th>
<th>Number of contracts</th>
<th>Value of contracts</th>
<th>Average number of mortgages per contract</th>
<th>Total mortgages covered</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9,723</td>
<td>$1,000,019,000</td>
<td>8.5</td>
<td>82,995</td>
</tr>
<tr>
<td>Mortgages actually purchased</td>
<td></td>
<td>$941,306,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FHA</td>
<td></td>
<td>$250,106,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent FHA</td>
<td></td>
<td>.24</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VA</td>
<td></td>
<td>$536,199,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent VA</td>
<td></td>
<td>.76</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Number of builders covered in FNMA contracts to buy mortgages—3,847
Average number of mortgages per builder—22
Number of communities covered in FNMA contracts to buy mortgages—1,556
Number of lenders holding contracts to sell mortgages to FNMA—646
Average number of mortgages per lender—128

Types of lenders with contracts to sell mortgages to FNMA

<table>
<thead>
<tr>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage companies</td>
</tr>
<tr>
<td>Banks</td>
</tr>
<tr>
<td>Savings and loan associations</td>
</tr>
<tr>
<td>Insurance companies</td>
</tr>
</tbody>
</table>

Total | 100
Mr. Bartling. A limited number of copies are also available for members of the committee.

The analysis contains a pertinent and interesting history of FNMA's special assistance program, enacted as part of the Emergency Housing Act of 1958. This discussion of the effects of that program and of other concurrent actions by the Government and by the Federal Reserve System will, I am sure, be of interest to you in connection with this legislation.

You will find an analysis of the 1960 outlook on page 7 of this document. You should also know, I believe, that three leading economists who appeared on our economic panel last week were in agreement that homebuilding would decline at least 10 percent this year, although practically all other businesses will prosper.

On the basis of last quarter 1959 figures, we are moving into 1960 at a level about 125,000 to 150,000 units less than in the same period of time a year ago. This may well become a drop of 200,000 or more, however, if the lack of advance financing continues.

A 10 to 12 percent drop in 1960 with starts in the range of 1.1 to 1.2 million is no cause for self-congratulation. It would be 200,000 less units than were built in 1950, yet our population since 1950 has grown by 50 million and our gross national product has almost doubled.

Further, a volume of 1.2 million units was exceeded in at least 4 of the last 10 years and clearly would place no great strain on existing supplies of material and labor.

Finally, such a volume is hardly the measure of a growth industry and is certainly far below any estimate of the volume required for substantial improvement in American living standards.
In conclusion, therefore, we believe that there is presently a very grave problem sharply and adversely affecting homebuilding in several vital areas of our country which will be reflected in later months in a sharp curtailment of housing starts.

Further, even if a maximum expectation is reached in housing volume under current money market conditions on a national basis, the industry and the country will be maintaining a status quo that is simply not good enough for the future. Thousands of average American families who might otherwise be in the market will have to postpone their purchase of a new home on terms which they can afford and the homebuilding industry will move into the decade of the sixties at a production rate far below its potential.

I appreciate your courtesy and attention to our testimony. Together with members of my staff I will be happy to try to answer any questions the subcommittee may have.

Mr. Rains. Thank you, Mr. Bartling. The committee appreciates your statement. It is a very pointed and good statement.

There are a few things I would like to clear up. There may be differences as to the proper procedures to try to achieve a more adequate supply of mortgage money, but before getting into that, on page 3 of your statement, in which you quote from the policy statement adopted at your convention, you say that you face a year in which homebuilding will decline while the rest of the economy booms, and then later on, in the closing paragraph of your statement, you go more into detail to point that out.

I was interested in noting in the Wall Street Journal this morning an article entitled "Buoyant Builders," and this fellow who was out there at the convention must have seen different people than those you saw and I saw.

Perhaps you haven't read the statement, but did you find among the homebuilders generally—certainly it is not evidenced by your resolutions—the idea that 1960 was going to be a buoyant building year with plenty of credit available?

Mr. Bartling. I think I can answer that, Mr. Rains. I did read the article in the Journal yesterday, and, as you know, back in December we held a builders' intentions conference in our housing center, and based on that particular meeting we arrived at some of the conclusions that are set forth in this statement that building will drop 10 to 15 percent based on plans builders are making at this time.

With reference to the statement, I might say this: Builders are notoriously optimistic, otherwise they would not be builders. In reading the article, I noticed certain of these builders were from geographical areas where the impact of this money has not been felt as severely, and we point out in our statement it is in these growth areas where the dislocation is appearing at this time. We stand on our resolution which was unanimously adopted.

Mr. Rains. Now, on page 5 of the policy statement adopted by your association, first you suggest using the national service life insurance fund to invest in Fannie Mae debentures.

I am sure you will recall about 2 or 3 years ago I was the author of a bill that sought to do just that very thing, and that we put it in a housing bill which we presented on the floor, and we lost under a 2-to-1 vote, as you will remember, by six votes. One of the things that
received the most bitter opposition from the administration, and from some of my friends now proposing this legislation, was this proposal to use the national service life insurance fund to buy GI loans, as a means of providing additional credit for veterans housing. I will support the proposal, I will tell you that to start with, with certain restrictions and limitations on it, but you do recognize, I am sure, that that is even more controversial in this Congress than the Fannie Mae authorization would be, do you not?

Mr. Bartling. Well, I understand that any legislation of this type might bring up certain problems. However, before the appropriate committee, we hope to vigorously present our views and hope for favorable action on it. Times perhaps have changed, we hope slightly, in terms of thinking on this subject.

Mr. Rains. The point I am making is I am not opposed to the legislation, I am merely talking about the realities of life as we face them. I even remember that the veterans organizations opposed it when I had it up once before.

Mr. Bartling. Yes, sir; we have a job cut out for us.

Mr. Rains. Now, the only other suggestion which I don't understand, and which I think is a bit out of line, frankly, is the suggestion that Fannie Mae make GI loans at the FHA rate, which means a half of 1 percent increase. Of course, that is in the jurisdiction of another committee, and we have no say-so over it, but I think I sense that Congress doesn't much want to increase interest rates any more in the light of past experience. Also out at your convention, Mr. Bartling, I talked to many home builders, and nearly all of them told me personally that they didn't think an increase interest rate was an answer, that it just kept moving up with no end in sight.

Would you say there is some truth in that?

Mr. Bartling. Well, it has been our stand, for some time, as you are familiar, that there be a parity between the FHA and the VA program, and I must agree with you that the increasingly high interest rates have not solved the discount problem up to this time, but the differential between the VA loans and the FHA loans at the present time is such that the VA program for all practical purposes is unusable by builders because they can't afford to build under it, and if it will help to equalize the situation we have at the present time, we certainly would be in favor of a parity situation.

Mr. Rains. Well, of course, I don't think that will happen. Even if the bill which you refer to on the national service life insurance should be adopted, I assume it would be enacted at the present interest rate, from what I hear here in Congress.

Now, the second alternative in your policy statement proposes to recognize discounts in FHA and VA appraisals. Of course, isn't it true that if we were to recognize discounts that this would increase the sales price by at least 10 percent or maybe more throughout the areas in the country, because it would be added into the mortgage?

Mr. Bartling. Well, our feeling on the question of discounts and mortgages is simply this, that since at the present time and for some time in the past and perhaps some time in the foreseeable future we must endure the discount situation, we have the feeling that this is just as much a part of the cost of the house as nails or shingles or anything else.
For example, the FHA presently in their valuation procedures allow in their cost valuation the cost of construction money which in most parts of the country is 1½ to 2 points. They allow the fees paid to real estate salesmen, they allow architects fees, and recognize all of what you might call the intangibles that are not directly reflected in terms of nails, boards, cement, and mortar that is in the house, and it is our contention that discounts are certainly as much a part of the cost of the house as the items that I have mentioned.

Mr. Rains. Mr. Bartling, that is the purpose of the bill we have before us, to try to get rid as much as we can of unreasonable discounts. We are all together on the idea that it is not right or fair for the builder to be required to carry the load of excessive discounts, and the danger is always prevalent that it will in some measure be passed on to the home buyer, but when you speak of VA and FHA loans allowing discounts, that would not be anything else other than just upping the interest rates on FHA and GI loans.

Now, the point I am trying to get over to you is to see which one of your proposals we can do business with. Congress, I am sure, is not about to adopt any proposal that will allow an increase in the VA and FHA interest rates, whether directly or by absorbing discounts, so as we go down the process of elimination I come to the point that it appears to me that the home builders and myself—I don’t know how the rest of the committee will be—are in accord that about the only answer, realistically and practically, is to adopt the Rains bill with provisions to provide some kind of adequate money supply in the mortgage market, isn’t that about correct?

Mr. Bartling. We get down to third, as a last resort, spelled out a minute ago, that in the event we are unable to do the things we are seeking to alleviate the present conditions in the market that we have no recourse but to have Congress recognize these disaster areas and situations, and as this last resort provide assistance of some nature.

We further specify that we hope this be done, if it does become necessary, on an equitable basis, one that will provide a fair share of available funds, and at prices that will be consistent with market conditions at that time—in other words, a fair proposition instead—we are not asking for a par purchase, but something close to it, recognizing the other costs that are considered.

Mr. Rains. Mr. Bartling, it is clear to you, and the home builders, that Government fiscal and monetary policies are likely to adversely affect the home building industry this year, you say that early in your statement.

Mr. Bartling. Yes, sir.

Mr. Rains. And further, if we are to face the needs, we must have some kind of legislation which will help to provide for mortgage credit for the home building industry in this country.

Mr. Bartling. That is correct.

Mr. Rains. I appreciate your statement, and I will now turn it over to Mr. Addonizio for further questions.

Mr. Addonizio.

Mr. Addonizio. Thank you, Mr. Chairman.

Mr. Bartling, were you present here yesterday morning?

Mr. Bartling. No, sir; I arrived at noon. I read newspaper reports of the testimony yesterday.
Mr. ADDONIZIO. May I say, you probably know it by now, that the Administration has opposed this bill. I believe that yesterday Mr. Rains pointed out that the only section they probably agreed with was section 1.

Mr. BARTLING. Yes.

Mr. ADDONIZIO. They feel very strongly against pouring this money into the credit market. As a matter of fact, I was left with the impression that all they want to see happen is that interest rates go up, and that we do not put any control on discounts or anything else. They base it mainly on the fact that the housing starts for December of 1959 were such that the bill is not needed.

Now, isn't it true that this is not a true reflection of the situation in December of 1959? In other words, a builder plans and gets his commitments and his money months ahead of time before he starts actual construction?

Mr. BARTLING. Mr. Congressman, our feeling on this is, based on the very best and latest available knowledge, that housing starts based on our own individual surveys, builders' plans and intentions for the year ahead will decline somewhere between 10 and 15 percent, and as you pointed out from the start of a project, acquiring of the land all the way through to the actual completion and offering for sale, this involves, depending upon conditions in parts of the country, a lead-time from a minimum of 6 months up to as much as 18 months in many areas, and I agree with you, sir, that the starts do not adequately reflect the coming trends based on our information.

Mr. ADDONIZIO. And it is a fair statement to say that as of this moment that the actual housing picture of starts will not have full impact on the housing figures for some time to come.

Mr. BARTLING. I imagine these will begin to show up perhaps in the next 3 months, will become more significant than they are at the present time.

Mr. ADDONIZIO. Mr. Bartling; Mr. Mason, with reference to a question that I asked him about tight money policy, indicated that he did not agree with the fact that we are presently in a tight market. He said we had been in one and that we are presently coming out of it.

Do you agree with that?

Mr. BARTLING. No, sir, I haven't seen these areas in which money is freely available to our industry. There may be isolated cases in certain parts, but generally speaking there is a very severe shortage at the present time.

I might say this, that in the State of Tennessee where I live we are in the 6 percent usury situation at the present time. Our State is being used as a guinea pig by the lenders to determine what is usury, and we have a peculiar situation in our State law that if usury is involved, then the person holding the mortgage on the house merely makes a gift to the homeowner, and there is no recourse. As a result, practically all of the insurance companies have pulled out of Tennessee, at the present time, and one company I do business with, with rather large volume mortgage loans, presently is completely out of the market and I might say I am out of the market, too, on some houses because I have no money to sell them with. It is a very serious situation.

Mr. ADDONIZIO. One of the other arguments that they made against the bill was the fact that if this money is put into the program, con-
struction costs will go up. They pointed to the action that the Congress had taken in 1958 when we were in that recession and said that was what happened then.

Now, isn't it true, actually when that program was enacted in 1958, and I am not disputing now whether construction costs went up or not, but what I am trying to show is that actually the average cost of an FHA house went down.

In other words, the builder built more lower-priced homes.

Mr. BARTLING. The medium-price dropped roughly $1,000, if I remember my figures correctly, and you are quite correct that the greatest impact at the present time is in the field of the moderate to low-income purchasers who presently, under present conditions, are not having housing made available to them at prices they can afford.

Mr. ADDONIZIO. And actually the 1958 recession was the effect of the credit policies in 1957, so perhaps if we don't do something here now we may find ourselves in a similar situation some time in 1960.

Mr. BARTLING. We point out that we are fearful of this kind of thing, and home building seems to follow a pattern, leading to events that take place in the future as it has in the past, and we go on record as stating that if something is not done to alleviate this situation, this conceivably could happen again.

Mr. ADDONIZIO. On page 3 of your statement, you state that the home buyers are the Nation's largest private users of long-term credit. I was wondering whether you could give us something to pinpoint that a little bit more, perhaps in dollar amounts or percentage.

Mr. BARTLING. That can be furnished to you. It is in the attachment that our economist has. I could ask him for the total amount.

Mr. ROGG. We used $15 billion of long-term credit net last year. The figures aren't in yet, but it will be about 25 percent of the total domestic investment.

Mr. BARTLING. It is pointed out to me that on page 7 of the economics department report we have the 1960 outlook with certain of these figures made available, which is an attachment. If it isn't sufficient, we will be glad and happy to give you what you need.

Mr. ADDONIZIO. Further down on page 3 of your statement, you say, and I quote you now, that "interest rates approach and in some cases exceed the legal limits of usury."

That is a rather strong statement. In effect you are saying there are a lot of people that are doing something illegal, and I was wondering whether you had some specific instances of where this might be taking place, or is it in certain areas of the country? I am not aware of it up in New Jersey where I come from.

Mr. BARTLING. Well, I am sure we can present documentation on which our statements are based. Our concern, as we have tried to point out here, is that in many, many areas of the country—specifically there are 12 States now with the 6 percent legal limit, and in these cases they are on the borderline, and as a matter of interpretation of discounts where other charges are considered, then we are in the usurious condition.

Mr. COLTON points out that under interpretations under the 203(i) program, the half point service charge is being considered as a violation of the usury charges, and as I understand it, some lenders are operating with their eyes open to this feeling it is safe and nothing
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will happen. Others have withdrawn from the market, or else have reduced the interest charge and increased the discount to compensate for it, but we consider it a very grave situation, and I might say this, that one of the things that worries us is that we seem to be leading into the type of situation we had back in the 1920's and early 1930's for which the FHA was created to solve these problems, and we seem to be going back into some of these practices which are not desirable at all.

Mr. Addonizio. Thank you very much, I have no further questions.

Mr. Rains. Mr. Widnall.

Mr. Widnall. Thank you, Mr. Chairman.

Mr. Bartling, I think you have made an excellent statement. It contains some things I can agree with you on and some with which I would quarrel.

On page 3, you say interest rates approach and in some cases exceed legal limits of usury. Do you have any specific examples of that?

Mr. Bartling. I refer back again to the comments I made to Mr. Addonizio that the attorneys general in many States have ruled that under the 203(i) program, and other programs, certain of the charges made do violate, when they are added to it. Some States have legal limits of 8 percent, 12 percent, and so forth, and obviously they have a long way to go before they do it, but the principal concern, and where these become actualities are in the 12 States at the present time that have a 6-percent legal limit, and these are our problem areas on this usury question.

Mr. Widnall. What States are those?

Mr. Bartling. I can provide you with those. I can name a few: Georgia, Tennessee, and Maryland. I should have brought those with us.

Mr. Rains. Will you give us those for the record?

Mr. Bartling. Yes, we will get those for you.

Mr. Widnall. I am interested in the application of the laws of those States as they affect housing starts in comparison with the States that do not have that limit.

Mr. Bartling. I am sure that information can be developed rather quickly for us by our economist, because he has been working on similar studies, I don't have it at the present time, but perhaps we could furnish this.

Mr. Widnall. Have any steps been taken by the Government of any of those States to change the laws or to enforce usury laws?

Mr. Bartling. Yes, sir, I mentioned earlier the State of Tennessee has been selected as the one State in which to settle this question because of the peculiarities of its laws. The case was entered in late December in Memphis into the chancery court last week. A ruling was given from the chancery court that the one-half of 1 percent mutual insurance premium was not considered a violation, and it is now moving on to the supreme court, and we anticipate sometime in the next 2 weeks that the supreme court of Tennessee will rule on this question as to whether the insurance premium is a violation of the usury laws or not.

Mr. Widnall. Well, in that case the interest rate was 5 3/4 percent and one-half of 1 percent added for FHA insurance.
Mr. Bartling. Made it 6 3/4.

Mr. Widnall. I would think there would be real substance for the lower court decision, because, after all, the homeowner gets money back out of that one-half of 1 percent when he pays the mortgage off. He has an investment there.

Mr. Bartling. It was anticipated such a ruling would come forth, but until it was clarified legally, very few of the insurance companies were willing to place money in our State because, as I say, if usury is proved, the person making the mortgage makes a gift to the home buyer of the house, and they have no recourse.

As a result, we have temporarily ceased operations to a large extent in our State.

Mr. Widnall. Do you have any figures to show how many housing starts were made by the 43,000 members of your association in 1959?

Mr. Bartling. Yes, sir, we do have.

Mr. Widnall. What is the total?

Mr. Bartling. Nat, do you recall exactly what those were?

Mr. Rogg. In the neighborhood of 950,000.

Mr. Bartling. Right at a million.

Mr. Widnall. In 1958, how many members did you have in your association?

Mr. Bartling. In 1958, we had somewhere in the neighborhood of 40,000; from 39,000 to 40,000.

Mr. Widnall. And what were the number of housing starts in 1958?

Mr. Rogg. 1,209,000, sir.

Mr. Widnall. Do you have the figures on 1957?

Mr. Rogg. I think it was 1,240,000, but I am not certain.

Mr. Widnall. Would you place the accurate figures in the record for me?

Mr. Rogg. Yes, sir.

Mr. Widnall. And how many members did you have in your association in 1957?

Mr. Bartling. At that time it was fairly close to the same number, around 38,000 or 39,000, in there. I could place that in the record, also, the exact number—it was close to 40,000, as I remember.

Mr. Widnall. Now, with this condition as you describe as unwholesome to homebuilding, what has happened to your builders? Have you been losing members, have they been going into bankruptcy, or how have they been affected by this unwholesome condition?

Mr. Bartling. We have gained members this year. We have gained roughly 3,000 members in our association.

According to the Dun & Bradstreet figures I read, the building profession has a higher ratio of bankruptcy generally than other businesses or professions. There have been many marginal builders in many areas, I am sure, deeply hurt and put out of business by the unavailability of funds with which to operate, but I do not have figures in terms of our association of how individuals were affected in this respect.

Mr. Widnall. Now, I understand with your rather tepid approval of this bill offered by Mr. Rains, as a third alternative, you do not recommend the purchase of mortgages at par by Fannie Mae.

Mr. Bartling. No, sir; we do not.
Mr. WmNALL. So you believe that supply and demand could in every instance, so far as purchasers are concerned, affect the price of the mortgages?

Mr. Bartling. If I remember our deliberation correctly when this was debated, it was our feeling that Fanny Mae special assistance provisions have broadened operations to come into these emergency or disaster areas as a floor. In other words, if conditions reach a point where it is clearly evident to the agencies involved that building will cease, then Fannie Mae should come in at prices that will permit the start of construction again in reasonable quantity.

Mr. WmNALL. Do you have any suggestion of your own as to what the U.S. Government should do by way of credit policy? On behalf of the association you have been rather critical of the present credit policy.

Mr. Bartling. I might answer you in this way, Mr. Widnall. We feel that within the Government, the Federal Reserve Board, the FDIC, the Treasury, and other aspects pertaining to our monetary system, that they have within their province the powers, administrative powers to take certain steps which can influence the flow of funds to certain types of objects.

For example, I remember, I believe it was in 1958, the Federal Reserve Board at that time frowned on some construction loans being made by the commercial banks, not as an official type of thing, but merely one of these suggestions of raised eyebrows, and all of a sudden we found by the mere fact the question had been raised builders were having a hard time getting construction money from the commercial banks.

We feel that, for example, consumer credit at the present time seems to be expanding by leaps and bounds. There seem to be no restrictions whatsoever on financing anything that you might want that I know of at the present time, but as an actual fact it is very, very difficult, as you know, to get commercial banks, for example, to take an active interest in many areas in the mortgage market just because of the simple fact that in the past the mere fact has been questioned that they have certain percentages on their books, and so forth.

We feel that they have vast powers of persuasion which they can use more effectively to get a more equitable across-the-board type of approach to it.

Mr. WINDALL. Has your association taken any steps to put on record their own views with respect to consumer credit?

Mr. Bartling. No, sir; we have not faced up to that question as yet. I assume you are referring to a selective credit control type of thing. We do not feel that it is necessary at this time. We feel as we say in our statement that the Government can, by their actions, encourage certain things which would help the mortgage market if at such time no other alternative seems to be possible we would study this very seriously and come up with some conclusions and recommendations at that time.

Mr. WINDALL. Mr. Chairman, at this point I would like to read into the record a section from the "Employment Growth and Price Level Staff Report of the Economic Committee," from page 365:
Prior to 1953, housing does not appear to have been influenced very much by general credit controls for the simple reason that relatively little use was made of such controls. The pronounced impact on housing since 1953 is chiefly due to the existence of a rather peculiar but very simple mechanism, due to restrictions on the interest rates that might be charged on mortgages insured by the Federal Housing Administration and guaranteed by the Veterans’ Administration, a rise in yield on competitive types of investment, such as corporate or Government securities has tended to attract the supply of investment funds away from these mortgages. On the other hand, when credit conditions have eased, the supply of domestic funds has tended to flow back into Government supported mortgage programs. This is the essence of the mechanism, although the picture is clouded in detail by statutory and administrative changes in the interest rate, and in the allowable terms, downpayments, on FHA-insured and VA-guaranteed mortgages, by use of discounts as giving a means of some flexibility to the yields on insured and guaranteed mortgages, and on variations given to support of the mortgage market by the association.

There follows a discussion of what had taken place over a period of time from 1951 to 1959, and the relationship of housing starts to interest rates showing a decline at one point in 1958 of FHA-financed starts of 45 percent, of VA-financed starts of 92 percent, and in the same period the conventional starts were rising 8 percent, and there is a very clear comparison of the market for mortgages, the relationship to interest rates in connection with the housing program.

Are you familiar with this report? Have you seen it?

Mr. Bartling. In a general sort of way. I have one comment.

It tends to overlook the geographic differences and dislocations that occur in our market.

Mr. Rains. Will the gentleman yield?

Mr. Widnall. Yes, sir.

Mr. Rains. I read that report, and I am surprised you want to put it in the record. It makes a very good case for the kind of thing we are trying to do here, which is to smooth out the fluctuations in the supply of monetary credit.

Mr. Widnall. Mr. Chairman, I think you missed my point on this. I read that due to ceilings on interest rates that may be charged on mortgages insured by FHA and VA, a rise in yields on competitive types—

Mr. Rains. If the gentleman will yield, that is still a staff report; we have boys that can write better ones than that, but all that can mean for purposes of your argument is if we take ceilings completely off and let interest rates rise to usury levels, we don’t need legislation.

We are not about to raise interest rates when they are the highest in history.

Mr. Addonizio. I said earlier that was the impression that was left here yesterday.

Mr. Widnall. Mr. Chairman, I think you read into the remarks things that you might wishfully want to read into them. I am sure no one advocated changing the usury ceilings, or advocated raising interest rates, but they do advocate the ability of flexible rates to meet supply and demand.

Now in Mr. Bartling’s testimony a few minutes ago, he said that he believed that the VA and FHA program should be operated on the same basis as far as interest rates, as I understood his testimony.

Mr. Bartling. That is correct.

Mr. Widnall. And he evidently feels that the VA program could get off the ground and do a better job in the event that took place. I heartily agree.
Mr. Bartling. That is right.
Mr. Widnall. That is all.
Mr. Rains. The only flexibility with relation to interest rates is that it hits the high ceiling, so that you can't have flexible interest rates. No matter where you place the ceiling, it flexes up to that. The only thing I know that is flexible is farm prices that have flexible supports, and they always flex down while everything else flexes up.
Mr. Barrett, do you have any questions?
Mr. Barrett. No questions.
Mr. Rains. Mrs. Sullivan?
Mrs. Sullivan. I want to apologize, Mr. Chairman, for not being here to hear Mr. Bartling's statement. I had to attend another meeting and got here as soon as I could.
Mr. Rains. Mr. Ashley.
Mr. Ashley. One or two questions. I am sorry, too, I wasn't here when you read your statement. I have had an opportunity, however, to go over it myself.
Yesterday when Mr. Mason was testifying, he said in his statement as follows:

Although an increase is expected in loans to finance the expansion of business plants, equipment and inventories in 1960, there should be a great increase in the availability of loanable funds—

and he went on to imply that because of the policies being followed by the administration that presumably this great increase in the supply of loanable funds will be available at reduced interest rates.

Now against that there is a rather considerable body of opinion which includes a good many of the business and financial editors of papers throughout the country, and Mr. White of the Christian Science Monitor had this to say in last Wednesday's edition of the Christian Science Monitor. He said:

In view of rising consumer debt, increased spending by the Federal Government, State and local governments, and by consumers, businesses, and institutions, the Federal Reserve System's tight money policy is regarded by most impartial economists as a necessity. They would not themselves ease money now. In fact, says Mr. White, interest rates are due to go higher. Lending organizations expect to pay more for money, they expect to charge more for money.

I wonder what the position of your association is. What do you look for as far as the credit picture is concerned?

Mr. Bartling. Well, we don't anticipate at the present time or in the near future any general loosening of credit.

There seems to be nothing in the picture at the moment that would indicate that all of a sudden the gates will open and we will be given money on reasonable terms.

The forecasts referred to or some of the statements are rather "iffy," if in the future certain things happen, and so forth, perhaps this will ease it, but I see nothing, and I think our association sees nothing at the present time that would indicate any general loosening of the credit situation for some time to come. The pressures on other parts of our economy are too great.

Mr. Ashley. If that is the case, would you say that considering the leadtime that is necessary and that the other peculiarities of your industry, would you say in view of the prospect creditwise that you just enunciated that it is unreasonable for members of this subcom-
mittee to regard as the legislative proposals that we are considering in the nature of emergency proposals?

Mr. Bartling. Well, our feeling is, as we have specifically stated here, that if certain things can't be done immediately to do this, then it will become in our opinion in the nature of an emergency, and I might point out again that the emergency varies geographically.

In other words, we have certain areas of our country which are hit much harder than other areas of the country. The statement would not apply to every community in the United States, but specifically to certain growth areas, particularly, where the problem is most acute. Although this is generally true, we have problems all over, but the severity changes with the locality.

Mr. Ashley. You did point out in your statement, too, that a fall-off of 200,000 or 150,000 in housing starts in the year's time can, as it has in the past, lead to recessions that affect the entire economy, isn't that true?

Mr. Bartling. I would like to insert some figures that I have used which I think have a bearing on what you are talking about. These are some figures developed by Mr. Rogg on housing starts, and if I remember these figures correctly back in 1925, we were building houses at the rate of 110 per 10,000 population. In 1958, we were building at the rate of 89 houses per 10,000 population, and my interpretation of this is that we are going forward backward in terms of our housing market.

Considering the growth in our population, our gross national product, I personally feel that we are underbuilding tremendously, and as I look ahead to the future, I view with considerable alarm the problems that will face us a few years from now if we don't attempt to bring the whole question of housing into focus now.

We really will have problems when the measures become so great we need to build 2 million a year just to satisfy and stay even. It is a very serious thing ahead of us.

Mr. Ashley. In other words, unless the right action is taken now, intelligent action is taken now, there will be an emergency of many kinds, not only as far as the economic implications are concerned, but as far as absolutely critical shortage in shelter is concerned.

Mr. Bartling. I think we are facing a critical shortage, looking ahead to the golden sixties, it may not be so golden for the people who want to buy homes.

Mr. Ashley. I think you have a telling number of points in connection with your statement. Thank you very much.

Mr. Rains. Mrs. Griffiths.

Mrs. Griffiths. What was the best year in the housing industry in the fifties—1955?

Mr. Bartling. The best year that we go back to is 1950, if I remember my figures, and I could be hazy on these, this last year was next to 1950. I make the statement I made a moment ago, if we go back 10 years, and this was in starts, we are really not solving the problems of our country in terms of making housing available to the people who want it and demand it.

Mrs. Griffiths. What has been the price increase of the average house from 1950 until today?

Mr. Bartling. Mr. Rogg, do you have those specific figures in the report?
It has been relatively slight, I might say, compared to other parts of our economy.

Mr. Rogg. I don't have the 1950 data with me. We go back to 1953. Of course, we are talking about different types of houses. The house of 1950 was more typically a 2-bedroom house, today's house is more apt to be three or four bedrooms with two baths, but taking the average house in 1953, the medium price is $12,300. According to the figures we have developed this year, the 1959 typical or median house price was $13,900.

Mrs. Griffiths. How much of this is attributable to increased interest rates?

Mr. Rogg. I don't think I could answer that question offhand.

Mrs. Griffiths. Could you supply it?

Mr. Rogg. Yes.

Mrs. Griffiths. What is the capacity of the housing industry to produce? How many could you start?

Mr. Bartling. Someone might quarrel with my figures, but we have demonstrated on at least four occasions during the last few years that we can sustain housebuilding at the rate of close to 1,400,000 without any strain in terms of men or materials, leaving money out of it for the moment.

It is my personal feeling that there would be no problems to sustain during the year ahead, or the next few years, a rate of 1.6 million without too much trouble.

Mrs. Griffiths. What was the number of starts in 1950?

Mr. Rogg. 1,395,00.

Mrs. Griffiths. Thank you very much.

Mr. Rains. Mr. Rutherford.

Mr. Rutherford. Thank you, Mr. Chairman.

Mr. Bartling, it has been told here that 1960 has been presented to be rosy. In the event it doesn't materialize, and, of course, we all hope for the optimistic viewpoint, what has been presented to you or your organization as an alternative if it doesn't materialize, as to your recommendation?

We have already been told the administration is very much opposed to this bill, they say the economy will be on the upswing, to sit back and wait for it because it is coming.

Now what representations have they made to you and your organization as to your proposals in helping the housing industry?

Mr. Bartling. I regret to say up to this point, none.

Mr. Rutherford. They have made no comment. Have they presented any alternative program?

Mr. Bartling. Not to my knowledge; no, sir.

Mr. Rutherford. In connection with the remarks on the peak performance of your industry, what is the saturation year with production—as Mrs. Sullivan brought out the other day, the delay in housing—as well as the new population? What is the length of this housing construction, because we hear quite frequently, although I might say this, the administration leaders did not submit this conclusion the other day that we had reached the saturation point now, that there are still houses needed, and I appreciate the fact they do recognize this need.

What is the estimated point of saturation at a peak performance of, say, 1.6 million?
Mr. Bartling. Oh, the saturation point, that is something in which we embark in a whole new field. There is a market in this country, if financing, land, and so forth could be made available, for at least a quarter million units of minority housing, for example.

We have the many thousands of small communities throughout the United States which presently are not building houses under the FHA or other types of programs—in other words, building houses by the old-fashioned way, you might say, of a few here, a few there, and there is really no house building.

I personally think that a figure of 2 million houses a year would be no problem, or actually may be even greater than that.

Consider for a moment the tremendous urban problems, the problem of blight and decay in our cities, the tremendous job that has to be done in every large city in the country. This is all a part and parcel of it.

Our problems are enormous to live up to the boast that we are the best housed people on earth.

Mr. Rutherford. Realizing you might have reached saturation in some localities, but what is the potential length—in other words, when will we reach utopia, you might say, as to 90 or above percent of the American people being properly, adequately, and substantially housed?

In other words, what is the life of your industry basically on the peak performance rate?

Mr. Bartling. I have some figures here which have been given to me which says that the rate of replacement today would take almost 200 years to replace at the present rate, replace the standing stock of housing.

In other words, I think in answer to your question, this Utopia never will arrive, as hard as we might work. We will always have this problem ahead of us.

Mr. Rutherford. The basic point I was trying to bring out, as you accomplished there, is that this is not an industry or a problem that can be solved within a short period of time, or in our lifetime.

Mr. Bartling. That is correct.

Mr. Rutherford. Frequently you hear we are about to reach the saturation point, there is no need for any increase, emergency bill or anything else, that we are reaching the level of the saturation point in the housing.

To comment on Mr. Widnall's analysis awhile ago of starts, and your membership, I noted in your remarks in regard to that that you are gaining membership, possibly, and losing starts. I think it is a significant statement that usually when builders—it does not necessarily indicate whether or not they are producing and producing profitably—it means they are in trouble, and when an organization or a group of people get in trouble, then they start organizing and getting into groups that can be of benefit to them.

Mr. Bartling. You are correct in that.

Mr. Rutherford. As long as everything is rolling along fine, they are getting all the money they need and labor is fine, why pay the membership dues, why go to conventions, why trouble yourselves with organizations, because who needs the organization?
But when they are in trouble, they come to the organization. This is the same in building, mortgage bankers, or any other group, so I think it is significant that your starts are dropping and your membership is increasing, indicating that the home construction industry is in trouble individually, and they recognize it by increased membership in an organization they feel might be of substantial help to them in solving this major problem.

Mr. Bartling. I must agree with you.

Mr. Rutherford. Thank you, Mr. Chairman.

Mr. Rains. We are running late on time, but Mr. Widnall has one more question.

Mr. Widnall. I was interested in the average price figures that you gave awhile back. What was the first one—was that 1953?

Mr. Rogg. 1953, sir.

Mr. Widnall. You say it has gone up about $1,000 since 1953?

Mr. Rogg. About $1,700, the median price.

Mr. Widnall. I find that difficult to understand when in my own area during that period of time house costs have gone up far more than that, and I think in most every area I have been that is true. Do you have a breakdown that you could put into the record?

Mr. Rogg. Yes, sir.

Mr. Widnall. Do you have any information that relates to what factors have entered into that increased cost?

Mr. Rogg. No. Unfortunately, as you well know, the statistics in this field are pretty dismal, and we have official Government figures from 1954 through 1956, and from that period on, nobody has made any survey of the median sales price except our own association, and we have relied upon our own surveys for this thing. We have tried time and again to get the Government to continue its series on this, but without any success.

Mr. Widnall. Would you put into the record what you have year by year?

Mr. Rogg. Yes, sir.

Mr. Rains. I want to include at the end of Mr. Bartling's testimony two newspaper articles, each from the Evening Star, one on Thursday, January 21, entitled “Home Builders Flay High Interest Policy,” and the other on Saturday, January 23, entitled “Builders Critical of Money Policy.”

Just for the record, I would like to include from the Star, also, of January 7, an article bearing on the usury charges, “FHA Charge Held Usurious in Maryland.”

Mr. Bartling, and gentlemen, we want to thank you; you have made a very fine presentation.

Mr. Bartling. Thank you, Mr. Chairman and members of the committee.

(The newspaper articles referred to above are as follows:)


BUILDERS CRITICAL OF MONEY POLICY

(By Robert J. Lewis, real estate editor of the Star)

CHICAGO, January 23.—When allowed free play, the force of circumstances seems continually to aline home builders' interests with important economic and social aims of the average citizen. That happened again this week at the Builders' National Convention, when the Eisenhower administration's high-interest-rate policy ran into a rough going-over. The big issue was what is happening to the most basic symbol of the American standard of living.
Builders thrive and make money only when the living standard is on the upgrade—and they know it. The basic symbol of that standard, here and abroad, is the American home and its general availability. When an economic policy makes it impossible for hundreds of thousands to have the opportunity of homeownership, then builders find themselves forced to be concerned.

True, they are concerned primarily because the existence of their industry is based on an opportunity to build and sell. But it is this very natural concern for venture opportunity that forces them, willy-nilly, into a defense of opportunity for average people. As a powerful industry, builders are thus committed 100 percent behind the idea that every family deserves the economic right to own a home that is spacious enough, clean enough, and modern enough to serve as a symbol of the good life in the United States.

POSITION IS CLEAR

It is in this relationship to the aims of average families that the building industry's harsh protests this week against the Eisenhower administration's tight money policy are most telling and significant. As businessmen, builders are ideologically favorable to sound money, and all that. But, almost to a man, they made clear that they think the current money policy is a mistake, and that the longer it is pursued the greater a mistake it will be.

That conviction they expressed eloquently and unmistakably, and almost with a stump speaker's vehemence.

“All this,” they said, in a reference to the high-interest policy, “makes as little sense as raising the price of bread to combat a food shortage.”

STATEMENT ISSUED

After debating the matter thoroughly for 3 days, they issued a statement that delivered the following series of verbal blows in an unprecedented attack on administration policy:

1. “The attempt to control excessive total demand for credit and to stimulate savings through ever-rising interest rates has obviously failed.”

2. “Interest rates approach—and in some cases exceed—the legal limits of usury.”

3. “Home buyers are hurt first and worst by the impact of tight money.”

4. “Scarce and expensive mortgage credit accelerates steady retrogression from the low-downpayment, long-term mortgage—predominantly responsible for home building’s phenomenal progress in the last quarter of a century—to financing methods proven unsound 30 years ago.”

5. The administration's policy “has inhibited economic growth and placed the greatest burden on those who can afford it least.”

6. “Tens of thousands of modest-income home buyers who only a short time ago could have bought homes well within their means, are now disqualified by the high cost of credit.”

7. “* * * There is something fundamentally wrong—however worthy its stated objective—with a national policy which, in the name of 'curbing inflation' denies credit-worthy, moderate-income families the opportunity to own their own homes while allowing credit to continue freely available for many less essential uses.”

8. “High interest rates and the high costs of money have been and are a major factor in the rising cost of housing.”

For the moment, builders as an organization are content to have expressed their disappointment clearly. This is in the apparent hope that someone—somewhere—will heed the warning. But there is little doubt that many are in a mood to go further if money is allowed to become even more tight, and more expensive, than it is today.

[From the Washington (D.C.) Evening Star, Jan. 21, 1960]

HOME BUILDERS FLAY HIGH INTEREST POLICY

(By Robert J. Lewis, Star staff writer)

CHICAGO, January 21.—The high-interest rate policy being pursued by the Eisenhower administration stood condemned here today by the National Association of Home Builders in the severest and most sweeping criticism by this 40,000-member group of a major Government economic policy since New Deal days.
EMERGENCY HOME OWNERSHIP ACT

Convention delegates assailed the policy for having "obviously failed," for boosting rates beyond the "legal limits of usury," for having forced a return to financing methods "proved unsound 30 years ago," and for bearing down most unfairly on small businessmen and moderate-income families.

It was the consensus of observers at the homebuilders sessions that if the Messrs. Stevenson, Humphrey, Symington, Kennedy and other Democratic hopefuls fail to study the protest, they will be missing a bet. For it reflects a deep disenchantment on the part of the industry with a basic administration policy now being pushed vigorously in Congress with a request for an unlimited interest-rate ceiling on long-term Government bonds, an effort widely interpreted as heralding a new round of rate increases.

HELD INEFFECTIVE

In its protest adopted yesterday, the association pointed out that home buyers are the Nation's largest private users of long-term credit. For the Government to rely on pushing interest rates still higher as its chief anti-inflationary activity is both ineffective and unfair, the organization said.

"The attempt to control excessive total demand for credit and to stimulate savings through ever-rising interest rates has obviously failed," the builders' statement said.

"Interest rates approach—and in some cases exceed—the legal limits of usury. One major group of Americans has been successfully 'controlled'—the tens of thousand of modest-income home buyers who only a short time ago could have bought homes well within their means but are now disqualified by the high cost of credit * * * ."

NEW RECESSION?

Warning that a new business recession could be the result, the statement said:

"In 1957, the same combination of restraints now imposed on our industry caused a severe drop in construction that triggered a general business recession. Unless immediate effective action is taken to distribute more fairly the impact of 'tight money,' this pattern will inevitably be repeated."

Mortgage banker members of the association and other conservative elements sought unsuccessfully in board sessions to soften the criticism, but were able to head off outright endorsement "at this time" of the Rains bill to provide $1 billion in Federal mortgage-buying aid.

They succeeded in accomplishing this chiefly with the argument that builders should not, as an organization, be placed in the position of wanting a "hand-out." But the Rains bill issue was never allowed to come to a direct vote and builders left the way open for their organization to support the bill.

In a press conference last night after his election as new NAHB president, Martin L. Bartling, Jr., Knoxville, Tenn., said homebuilders would testify before the Rains committee January 26.

GOALS OUTLINED

He said they would seek:

1. Legislation to allow the national service life insurance fund, the GI life insurance reserve, to use "a reasonable proportion" of its funds for purchase of Federal National Mortgage Association debentures so that FNMA could buy GI mortgages and thus aid the GI housing market.

2. Legislation to allow "points" charged by lender for making mortgage loans to be included in the mortgage amount that must be paid off by purchasers.

3. As an alternative, they will seek passage of an amended Rains bill to provide "an adequate fund for use in areas where home mortgages are not otherwise available at prices which the building industry can absorb while providing an adequate supply of moderate-priced homes."

National officers chosen also included W. Evans Buchanan, a former president of the Home Builders Association of Metropolitan Washington, who will be the new national treasurer. He has been serving during the last year as national secretary.
BALTIMORE, January 7.—A service charge on certain FHA loans violates Maryland's usury laws, says the attorney general.

The opinion was issued at the request of John D. Hospelhorn, deputy banking commissioner.

Assistant Attorney General Joseph S. Kaufman said, the application of the one-half of 1 percent service charge to certain mortgages carrying 5¾ percent interest brings the overall charge to more than the legal interest rate of 6 percent.

"We believe that the service charge to the extent that it exceeds the legal rate of interest on FHA guaranteed loans is usurious," wrote Mr. Kaufman.

"In connection therewith we can find no legislative sanction for this practice; therefore, there is no exemption from the constitutional or statutory usury provisions."

Mr. Hospelhorn said the extra one-half percent charge is allowed only on FHA-insured mortgages of $8,000 or less. He said the Washington area probably would be little affected by the ruling because most of the mortgages in that area are for more than $8,000.

He could not estimate how many mortgages in the State would be affected by the ruling. He said the charge is a "permissive" one and is not charged by all lending institutions.

The commissioner also said that only mortgages written since September 23, 1959, would be affected. Before that, the FHA loan interest rate was 5¼ percent and the extra one-half percent did not raise the total to the maximum 6 percent permitted by Maryland law.

Mr. Hospelhorn said unless Mr. Kaufman's opinion is overruled by the courts, the ruling will prevent lending institutions from charging more than a one-quarter percent service charge.

The commissioner said he asked for the opinion after the issue was raised by a Baltimore lawyer who represented several lending institutions.

NATIONAL ASSOCIATION OF HOME BUILDERS,
NATIONAL HOUSING CENTER,

HON. ALBERT RAINS,
Chairman, Subcommittee on Housing, Committee on Banking and Currency,
House of Representatives, Washington, D.C.

DEAR MR. RAINS: During the course of my testimony on January 26 on behalf of the National Association of Home Builders, I was asked to supply information in response to questions as outlined below. Attached is a supplemental statement containing the requested information.

1. Members of the subcommittee were interested in the current situation with respect to violation of usury laws by the FHA interest rate plus additional charges. A summary of the information now available to us is contained in the attached statement. As indicated in the attachment, the situation is sufficiently serious to give rise to the statement in our testimony that "interest rates approach—and in some cases exceed—the legal limits of usury."

2. We were also asked for a comparison of the membership of our association with the total housing start figures in recent years. A tabulation containing this information is enclosed. We find no basis for correlation or indeed any relationship between the two sets of figures, however. In our opinion, the NAHB membership has continued to increase through the years because of the increased services we have been able to give to the membership during a period of time when housing starts have widely fluctuated.

3. A question was also asked with respect to the percentage of the increased sales price of new homes which could be ascribed to an increase in interest rates. A memorandum containing information on this point is also part of this supplemental statement.

4. We were asked for information on the sales prices of houses. A memorandum covering this information is also enclosed.

5. Also enclosed as part of this statement are suggested amendments to H.R. 9371 which would carry out the recommendations contained in my principal
statement with respect to conditions to be imposed upon the use of FNMA special assistance. The first amendment relates to the price to be paid for mortgages, and the second would authorize FNMA to limit the use of funds by area and by builder or mortgagee.

It would be appreciated if this letter and the accompanying information may be inserted in the record at the close of my testimony. I appreciate this opportunity to be of assistance to members of the subcommittee.

Sincerely,

MARTIN L. BARTLING, Jr., President.

SUPPLEMENTAL STATEMENT BY MARTIN L. BARTLING, JR., ON BEHALF OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

1. Usury laws and the FHA

Members of the subcommittee were interested at the hearing January 26 in the current situation with respect to violation of usury laws by the FHA interest rate plus additional charges. There is now a real question with respect to usury in 12 States and jurisdictions having a limit of 6 percent on mortgage interest as part of their usury law. These States and jurisdictions are Delaware, Kentucky, Maryland, New Jersey, New York, North Carolina, Pennsylvania, Tennessee, Vermont, Virginia, Virgin Islands, and West Virginia.

In addition, it is possible that the question of a violation might arise in States having a usury ceiling of 7 percent should a mortgage discount be considered interest. The following five States have a 7 percent limit: Illinois, Iowa, Michigan, North Dakota, and South Carolina. All other States have a limit of 8 percent or higher.

Test rulings have already been given in a limited manner involving FHA's situation. For example, the attorney general for the State of Maryland has ruled that the FHA interest rate of 5¾ percent plus the permissible extra one-half percent service charge on low-cost housing loans is a violation of Maryland's usury law. In Tennessee a lower court decision in a "friendly" suit has held that the extra one-half percent FHA monthly insurance premium is not interest and therefore does not violate Tennessee's usury statute when added to FHA's 5¾ percent interest rate. It is expected that a ruling from the Tennessee Supreme Court will be obtained in order to clarify fully this question for Tennessee and other States that will look to the Tennessee decision as a precedent.

In Tennessee and other States insurance companies and savings banks have withdrawn from making new FHA loans for fear of violating the usury statutes. As a result, there are today no new funds for FHA insured loans in these States until the legal situation is fully clarified. There has been no test case yet, of course, which would call for a legal decision upon the question of a mortgage discount as a charge or cost of mortgage money and whether such a discount when added to the interest rate would violate the usury statutes.

Whatever the outcome of the legal proceedings, however, it is clear that investors will not today make FHA single family home loans except at an effective yield (reached through a combination of FHA's interest rate and the mortgage discount which is charged in addition) in excess of the legal limits of usury in a good many States. This, of course, is precisely the situation which gave rise to the statement in our testimony that "interest rates approach—and in some cases exceed—the legal limits of usury."

2. NAHB membership and total housing starts, 1946–59

<table>
<thead>
<tr>
<th>Year</th>
<th>Total members</th>
<th>Total housing starts</th>
<th>Year</th>
<th>Total members</th>
<th>Total housing starts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>11,089</td>
<td>670,500</td>
<td>1933</td>
<td>28,759</td>
<td>1,103,800</td>
</tr>
<tr>
<td>1947</td>
<td>12,651</td>
<td>849,000</td>
<td>1954</td>
<td>32,631</td>
<td>1,220,400</td>
</tr>
<tr>
<td>1948</td>
<td>14,383</td>
<td>931,600</td>
<td>1955</td>
<td>36,598</td>
<td>1,328,900</td>
</tr>
<tr>
<td>1949</td>
<td>15,490</td>
<td>1,025,100</td>
<td>1956</td>
<td>40,398</td>
<td>1,118,100</td>
</tr>
<tr>
<td>1950</td>
<td>15,490</td>
<td>1,025,100</td>
<td>1957</td>
<td>40,398</td>
<td>1,118,100</td>
</tr>
<tr>
<td>1951</td>
<td>16,398</td>
<td>1,091,300</td>
<td>1958</td>
<td>40,148</td>
<td>1,209,400</td>
</tr>
<tr>
<td>1952</td>
<td>25,906</td>
<td>1,127,000</td>
<td>1959</td>
<td>42,424</td>
<td>1,376,900</td>
</tr>
</tbody>
</table>

Late posting in our membership records department shows that the total going into 1960 will be well over 43,000.
3. Sales prices and interest rates

Congresswoman Martha W. Griffiths asked what portion of the increased sales price of new homes could be ascribed to the increased interest rates.

Strictly speaking, changes in interest rates have no effect whatsoever on the house sales price since the sale price is presumably arrived at by an independent appraisal process which does not include the interest rate on the mortgage as a factor. However, the interest rate on the mortgage is a very vital factor in the eventual cost to the borrower.

For example, take the case of a $12,000 mortgage for 30 years. In the case of a mortgage which was written at 4½ percent, the monthly mortgage payment is $60.84. If the effect of interest rate has risen by 1 percent in the period and the mortgage is written at 5½ percent, the effect of mortgage payment is $68.16, or an increase per month of $7.32. Over the 30-year period this amounts to $2,635, a very substantial sum indeed, but not one which enters into the immediate sales price of the house.

The consequences of an increase in interest rates, however, and of tight money generally, go beyond the situation described above. We learned upon examining the consequences in the drop of housing in early 1956 until early 1958, that we had a very severe drop in housing starts and that most of the decline was really a loss in the lower priced FHA and GI houses. As a matter of fact, practically all the decline between the housing starts in mid-1956 and the volume in early 1958, was a drop of a quarter of a million in the production of lower priced GI homes.

The median sales price rose from 1956 to 1957 not because of any major change in building costs, but because of a shift in the types of houses that were being produced with fewer moderate and low-priced houses in the total production volume on which the statistical median was based. It is the inability to obtain financing for the moderate priced house suited to the needs of average families which is one of the truly unhappy results of a tight money policy, no matter how well-intentioned it may be.

Incidentally, the figures reflect a fairly sharp increase in median price of new house in 1950 to date. It should also be borne in mind that we are talking about entirely different types of products. The 1950 house was more apt to be a two bedroom, one bath house, whereas the 1959 house is much more apt to have three or more bedrooms and to have more than one bath. The 1959 house is a larger, better built house with more insulation and provides greater amenities. The upgrading in family living standards has been responsible for a constant rise in the amenities of the new house, and consequently, the comparison of sales prices over a period of years is apt to make a misleading impression unless these other changes are also borne in mind.

4. Sales prices of new homes

Congressman William B. Widnall requested that information be inserted in the record on sales prices of houses from 1950 on.

Government data on the sales prices of new houses are available only on a very limited basis, as shown in the table below.

We have made an estimate for 1950 which is based upon data supplied by the Bureau of Labor Statistics in 10 metropolitan areas, so the 1950 figure is also an NAHB estimate. The other figures which NAHB described as a source were developed on the basis of regular surveys we made of our membership. In the last few years there have been no other major surveys of sales prices.

We have also included in the table a series on median FHA value of new homes. It should be remembered that the FHA data cover only a limited portion of the housing market and generally omit the very low and the very high priced homes.
Median sales price of new homes

<table>
<thead>
<tr>
<th>Year</th>
<th>Bureau of Labor Statistics surveys</th>
<th>NAHB builders' economic council surveys</th>
<th>Estimates of FHA property value</th>
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</thead>
<tbody>
<tr>
<td>1960</td>
<td>$10,000</td>
<td>$13,500</td>
<td>$8,286</td>
</tr>
<tr>
<td>1964</td>
<td>12,300</td>
<td>15,100</td>
<td>10,678</td>
</tr>
<tr>
<td>1965</td>
<td>13,700</td>
<td>14,400</td>
<td>11,742</td>
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<tr>
<td>1966</td>
<td>14,500</td>
<td>13,900</td>
<td>12,203</td>
</tr>
<tr>
<td>1967</td>
<td>(i)</td>
<td>14,100</td>
<td>14,261</td>
</tr>
<tr>
<td>1968</td>
<td>(i)</td>
<td>14,100</td>
<td>14,207</td>
</tr>
<tr>
<td>1969</td>
<td>(i)</td>
<td>(i)</td>
<td></td>
</tr>
</tbody>
</table>

1 No BLS surveys, or any other Government surveys as to prices of new homes have been made since 1966.

5. Suggested amendments to H.R. 9371

Page 5, line 19, section 8, strike all following the word “than” and substitute “such price as the Association finds consistent with the production and marketing in the area, at a reasonable profit, of homes financed by mortgages in the maximum principal amount set forth in subsection (g) of this Section.”

Page 7, line 1, add immediately before the semicolon: “the Association shall by regulation (i) restrict use of funds provided under this subsection to areas in which it finds mortgage funds would not otherwise be available at a price and on terms consistent with the production of an adequate supply of moderately priced homes, and (ii) prevent disproportionate use of such funds by any builder or mortgagee: And provided further, That.”

Mr. Rains. The next witness is Mr. Frank Flynn. You may come around, Mr. Flynn.

Our witness list shows that Mr. Knox was going to be here, but he is sick with the flu, is that right, Mr. Flynn?

Mr. Flynn. That is correct, Mr. Rains. We are sorry that he was unable to be here. He called yesterday, he is in the hospital.

Mr. Rains. Well, we hope he gets along fine. We are glad to have you here.

You may proceed with your statement.

STATEMENT OF FRANK P. FLYNN, JR., COCHAIRMAN, LEGISLATIVE COMMITTEE, HOME MANUFACTURERS ASSOCIATION

Mr. Flynn. Mr. Chairman and members of the committee, my name is Frank P. Flynn, Jr. I am president of National Home Acceptance Corp. of Lafayette, Ind., and I am testifying in behalf of the Home Manufacturers Association as cochairman of our legislative committee. As the chairman mentioned, Pete Knox was scheduled to testify for our association but is hospitalized, and I am testifying in his place. With me this morning is Mr. Pat Harness, our executive vice president.

The Home Manufacturers Association is composed of companies which produce the great bulk of prefabricated, or factory-built homes in the United States. Last year our companies manufactured an estimated 185,000 units, an alltime record. We are in a unique position to keep a close ear to the housing market because our companies sell to over 6,000 different builders, who in turn erect the house and sell it to the consumer. Home manufacturing concerns now ship regularly to every State in the Union, including Alaska and Hawaii. This is truly one of America’s great growth industries, with new plants being started at an ever-increasing rate in this country. We appreciate the
opportunity to again comment on legislative proposals before this subcommittee.

I think some explanation is in order for this subcommittee to understand more fully exactly how the home manufacturer fits into the housing picture. Most of our companies supply houses—and in about half the cases—mortgage money through our mortgage acceptance corporations, to our homebuilder customers. We find the average home manufacturer will have about 25 to 40 builders that he serves on a continuing basis. Large home manufacturers will service a much larger number of builders and many of our companies sell and service several hundred builders, each. Because we are in such close contact with so many builders in so many different States, our companies must be familiar with market conditions and housing problems.

This subcommittee will hear many opinions and suggestions from capable witnesses regarding the tight money situation. All of them should be considered by the subcommittee. Let me say at the beginning of my statement, however, that we find the problem to be simple: there isn’t enough mortgage money for home buyers at prices they can afford. My own firm operates in most States in the United States. VA home loans, at nothing down and 30 years to pay, command an 11-point discount in many areas; FHA loans of a similar nature require 7 points. At these prices it should be obvious to everyone that builders can’t continue to build in the FHA-VA market. The problem of adequately housing the Nation’s low-income families is becoming increasingly acute. Traditionally, the low-income family has little cash reserves. The imposition of a cash downpayment in any amount, plus the required payment of closing costs, presents to such families a very big problem. Most low-income families do not accumulate any sizable cash reserve, living from week to week on their weekly paycheck. However, their housing needs represent a great, unfilled demand.

It has never made any sense to members of our association or to our thousands of builder-dealers for the builder to be required to absorb the loan brokerage charge required by the lender. We believe it quite unfair to expect the builder to lose any or all of his profit because FHA and VA will not recognize the discount as a cost of doing business. These charges, within reason, certainly should be reflected in FHA and VA appraisal in the same manner as land, labor, and materials that go into the total cost of the property. I might point out that the Internal Revenue Service certainly recognizes these as part of the cost of building or acquiring property. We recommend that such costs be included in the FHA appraisal and loan.

Last Friday our association staff asked several of our member companies to describe the mortgage situation in the marketing areas. Here are some of the answers, and we have the telegrams which may be inserted in the record.

From a company based in Oklahoma:

Mortgage situation our entire sales area quite critical. Discounts too high and indications point higher. Construction money so tight only lumber company captives and volume builders can move. If situation continues much longer many small builders and some prefab operators are going to be forced out of business.
From a company based in Missouri:

FHA advance commitments available at 1 to 2 point advance fee backstopped at 88. Great need for FNMA special assistance funds at par. Would prefer a $15,000 ceiling instead of $13,500 to cover bulk of offerings. Special problems include discount situation, placement of loans on older homes, opinion here that FNMA has not been operating as secondary market but as primary market.

From a company based in Wisconsin:

VA and FHA in small communities need boost through FNMA. Also increase in FHA 218 sales type demand requires special assistance. VA loans for future delivery currently most acute problem because of VA rate which must now equal FHA at all times.

By that I think they mean the yield; the investor wants a comparable yield on the two types of mortgages.

From a company based in Indiana:

In our area operations Ohio, Indiana, Illinois, Michigan, West Virginia, Kentucky—funds for VA loans extremely limited if available average 10 to 11 percent discount which most of our dealers cannot afford to pay therefore most dealers operate on FHA only. This cuts sales because FHA payments are higher and disqualify many purchasers. Only FHA quotation recently requires 7 percent discount.

From a company based in Texas:

Prevailing discount on 203(i) loans is 9 percent. FNMA refuses to buy 203(i) loans in small towns. Low cost housing needs help.

My own company finds there is fairly adequate mortgage funds for FHA at four to seven point discounts in our operating areas. There is very little VA money at less than 11 points which is impractical. Lenders impose very strict mortgagor qualifications in order to restrict volume. Lenders are reluctant to give commitments for a 12-month period. Indications are that money will become tighter. Market for the $13,500 house is rather slow. The customer who can qualify for mortgage payments wants a better house at a better location than can be sold at this price.

Like the weather, everyone talks about tight money but no one does anything about it. The board of directors of the Home Manufacturers Association has studied the proposals embodied in H.R. 9371, the Emergency Home Ownership Act introduced by the subcommittee chairman. I will list, item by item, those proposals which my board of directors has endorsed. I want to emphasize as strongly as possible, however, that our association considers such legislation as only an emergency measure and would much rather support long-range answers to long-range problems, such as creation of a Central Mortgage Bank, which we recommend and which we support.

We should make clear in connection with this Central Mortgage Bank that it might be much more practical to amend the functions of the Federal National Mortgage Association because this existing organization could, with minor amendments, serve the function as provided for in the Central Mortgage Bank, and I think it is very important, as critical as the need for FNMA is that we don't permit it to be sabotaged while all of our attention is directed to this Central Mortgage Bank.

Since we don't have a Central Mortgage Bank in operation and since home buyers and home builders currently are faced with the tightest money market in recent years, we support the proposal for
EMERGENCY HOME OWNERSHIP ACT

a $1 billion special FNMA support program to purchase mortgages on lower priced new homes. We support this measure with great reluctance. We dislike stopgap measures, but the practical fact remains that low and medium cost housing production will drop an estimated 25 percent this year, we believe, if mortgage money for home buyers at reasonable costs is not available. If Congress should vote more funds for a FNMA No. 10 program, we strongly recommend suitable safeguards so that distribution or availability of funds is on an equitable basis.

We further support these additional items in the Emergency Home Ownership Act:

- FHA to insure loans made by individuals as well as corporate and commercial lenders.
- Reduction of the FNMA stock purchase requirement from 2 percent to 1 percent.
- Reduction of maximum fees and charges which FNMA may impose under its special support programs.
- Creation of a $50 million special assistance fund for purchase by FNMA of FHA 203(i) mortgages.
- FNMA to purchase all mortgages offered as long as the title to the property is good and the mortgage is otherwise eligible and not in default.

We have heard much about the possibility of raising interest rates on home mortgages. FHA interest rates already are at the legal limit in some States, as was commented upon by Mr. Bartling, before.

We hope a solution other than higher interest rates can be found by this subcommittee as a way to channel funds into low and middle income housing.

I would like to point out to the chairman and members of this subcommittee that my association does not feel that the FNMA special support program would be a subsidy. We do not view such a program as a grant. We view such a support program as one which within a reasonable period would be fully repaid with interest to the Government. The program could and should be so administered so that it costs the Government nothing.

For the past 3 years our association has recommended to this subcommittee that housing legislation should be enacted to include provision for FHA to insure loans for subdivision development and for street and utility installations. Our observation is that one of the urgent needs for the future of housing is financing facilities for better planned community or subdivision programs.

Unless such a program can in some way provide insured financing help for the small builder to develop land or purchase it on credit, homebuilding could very quickly become in the 1960's a monopoly of the relatively few well capitalized large land developers; and the healthy competition that the small builders have given these large operators will cease to exist.

The method of solution of this urgent problem is not nearly as important as the recognition of it. There are many ways that insured credit can be channeled into land development. Good credit tools already exist for financing the construction of a concrete foundation and there appears to be no good reason why they cannot be
used to finance a concrete street. Both are an integral part of the finished home.

Last year in testimony before this subcommittee, Mr. Knox outlined in detail a plan for FHA insurance for land improvement. Our association stands ready at all times to work with the committee staff and FHA on solutions to this problem. I would like to say that home manufacturers are becoming more and more familiar with this problem. Several home manufacturers have established funds for land acquisitions and improvements. Our own firm has recognized the importance and value of this and have provided through debenture offerings and capital $25 million for such purpose. The fact remains, however, that the average builder and small businessman-developer is faced with a very serious threat to his survival due to skyrocketing costs of land and land improvement. Our association, therefore, strongly recommends provisions be made for FHA to insure mortgage loans on land which is to be improved for residential use in accordance with a land development plan approved in advance by FHA's land planning division.

In closing, Mr. Chairman, I would like to say to you personally and to the members of this subcommittee that the Home Manufacturers Association is appreciative of the role this subcommittee has played in housing in recent years. We feel you are the champion of good housing laws and are in the front line of defense in seeing that home buyers remain in a competitive position with other borrowers in the fight for available credit. Thank you for this opportunity to present our views. I will at this time try and answer any questions which you or other members of the subcommittee may have for me.

Mr. Rains. Thank you very much, Mr. Flynn. I have only a couple of questions, but I might say two of the suggestions which you mentioned are going to receive the very careful consideration of this subcommittee before the year is out. One is the Central Mortgage Bank, which might be incorporated in some form in another bill, and the other is authority for FHA to insure loans for land and site development. We have studied this some and expect to study it more. We are aware of the problem and hope that we can be of help in solving it.

On page 4 I was pleased to note the emphasis you put, and so many people fail to put, that FNMA's program 10 is not a subsidy. You state very frankly what all of us know to be the truth. These loans are to be repaid to the Federal Government with interest, and therefore, the program would be operated at no expense to the Government. I want to express my appreciation for that statement, and I wish the public generally could understand it a little better.

When did you say you made those—they were not in your statement—quick surveys you made? Was it last Friday?

Mr. Flynn. Yes, the requests were made last Friday, and the answers came in Saturday and yesterday, and they will be entered in the record, if you wish, Mr. Chairman.

Mr. Rains. We would be glad to have them.
(The matter referred to follows:)

TULSA, OKLA., January 21, 1960.

P. S. KNOX,
Care of Pat Harness Home Manufacturers Association,
Barr Building, Washington, D.C.:

Mortgage situation our entire sales area quite critical. Discounts too high and indication point higher. Construction money so tight only lumber company captives and volume builders can move. If situation continues much longer many small builders and some prefab operators are going to be forced out of business.

SOUTHERN MILL & MANUFACTURING CO.,
RALPH P. LYNCH.

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PAT HARENESS,
Home Manufacturers Association,
Barr Building, Washington, D.C.:

Retel prevailing discount on 203(1) loans 9 percent FNMA refuses to buy 203(1) loans in small towns. Low-cost housing needs help, help, help.

SOUTHWEST HOMES, INC.,
M. L. WESTBROOK, Executive Vice President.

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PORT WASHINGTON, WIS., January 22, 1960.

PAT HARENESS,
Home Manufacturers Association,
Barr Building, Washington, D.C.:

Reurtel January 21 Harnischfeger homes in 10 Midwestern States mortgage market for future delivery harder to obtain but larger builder-dealers have adequate commitments. Conventional money being used for better housing projects and large city projects. Harnischfeger banking connections and reputation contribute substantially to this situation. VA and FHA in small communities need boost through FNMA. Also increase in FHA 213 sales-type demand requires special assistance. VA loans for future delivery currently most acute problem because of VA rate which must now equal FHA at all times.

HARNISCHFEGER HOMES, INC.,
F. W. KEIL, Vice President.

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FORT WAYNE, IND., January 22, 1960.

CONRAD PAT HARENESS,
Home Manufacturer's Association,
Barr Building, Washington, D.C.:

In our area operations Ohio, Indiana, Illinois, Michigan, West Virginia, Kentucky, funds for VA loans extremely limited. If available average 10 to 11 percent discount which most of our dealers cannot afford to pay. Therefore most dealers operate on FHA only this cuts sales because FHA payments are higher and disqualifies many purchasers. Only FHA quotation recently requires 7-percent discount.

WM. B. F. HALL,
General Homes, Inc.

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BRIDGETON, MO., January 22, 1960.

CONRAD HARENESS,
Home Manufacturers Association,
Washington, D.C.:

Report on mortgage situation St. Louis area follows: Discounts FHA immediately 3 to 6 points, futures 5 to 8 points, VA—10 to 12 points, conventional—1 to 3 points at interest rates of 6 to 6½ depending on equity. FHA advance commitments available at 1 to 2 point advance fee backstopped at 88. Great need for FNMA special assistance funds at par. Would prefer a $15,000
ceiling instead of $13,500 to cover bulk of offerings. Special problems include discount situation, placement of loans on older houses, opinion here that FNMA has not been operating as secondary market but primary market.

ROBERT SMITH WILSON HOMES, INC.

Mr. RAINS. I have no more questions at this time.
I am going to start with the better-looking part of our committee.
Do you have any questions, Mrs. Griffiths?
Mrs. Griffiths. No, I have no questions.
Mr. RAINS. Mrs. Sullivan?
Mrs. SULLIVAN. None except I say I think you have made a very good statement.
Mr. RAINS. Mr. Ashley?
Mr. ASHLEY. I have no questions.
Mr. RAINS. Mr. Barrett?
Mr. BARRETT. No.
Mr. RAINS. Mr. Addonizio?
Mr. ADDONIZIO. Yes, I have some questions.
Mr. Flynn, you said that your organization supports this bill with great reluctance. Don’t you feel that in view of the present money market situation that this is probably the best answer for solving your industry’s problem?
Mr. FLYNN. That is correct, Mr. Addonzio. The reluctance, or the thought that we intend to convey is that we feel that it is unfortunate that the solution to these problems which arise periodically by necessity has to be an emergency measure. At the risk of being facetious, the home building industry is somewhat in the position of a tennis ball, we are batted back and forth, and while it is probably flattering to be a segment of the industry that can be used as a contracyclical device, it is a little difficult to create any long-range planning. An industry as important as the housing industry not only from economic standpoint, but from sociological standpoints, should be able to plan ahead, should be able to take advantage of intelligent long-range programs which would in turn lower the cost of housing.

There is no doubt a great deal of waste and attendant higher prices and loss of efficiency because of the fact that one year we are held down to perhaps stop inflation, and the next year we are given a shot of adrenalin in order to help to recover from the fact that the cycle is swung too far the other way.

I think it is an expensive situation, frankly.

Mr. Addonizio. Of course, I agree with you very thoroughly, but the fact remains it will be some months before a general housing bill could be enacted by Congress. In view of that, couldn’t you just support this bill with a little bit more enthusiasm?

Mr. FLYNN. Well, I am more or less testifying on behalf of the board. Personally, I am for anything that makes more housing possible. I don’t have some of these restraints, I guess.

Mr. ASHLEY. Are you saying you reflect the enthusiasm of your board?

Mr. FLYNN. No, the reluctant approval of this is the expression of the board, Mr. Ashley, and there again it is not the provisions, it is merely the fact that this is the way it has to be done.

Mr. RAINS. It is merely the fact that instead of this you wish you had something bigger, better, and longer; isn’t that correct?
Mr. Flynn. That is correct, Mr. Rains.

Mr. Rains. Are there any further questions?

Mr. Addonizio. Mr. Flynn, on page 3 of your statement, you indicate that housing production will drop an estimated 25 percent this year if the situation remains the same as far as mortgage money is concerned.

Are you talking about the general housing business, or just your particular industry?

Mr. Flynn. No, that is in general, sir. It will be true. That isn't the housing business, overall. The most severe impact will, of necessity, be in the low and medium cost, because that is where the potential customer must resort to an insured loan program, he doesn't have the money to pay $1,000 or $2,000 or $5,000 down.

Mr. Addonizio. One other question, I was particularly amused by your statement on page 3 where you indicate, like the weather, everyone talks about tight money but no one does anything about it.

I would like to just show for the record at least that the chairman, Mr. Rains, is trying to do something about it, by the introduction of his bill and the fact that we are considering it and I am sure he has the sympathy of several members of this committee.

Thank you Mr. Chairman.

Mr. Rains. Mr. Widnall.

Mr. Widnall. Mr. Chairman, I might say some of the witnesses have just shown sympathy toward the bill, but not endorsement. I hope you have more support on your side.

Mr. Flynn. Mr. Chairman, if I may interrupt, I don't want our position to be misunderstood. We still unqualifiedly endorse the bill. The reluctance in no way removes the fact that we endorse the bill.

Mr. Widnall. Mr. Chairman, I would like to ask a couple of questions. It is estimated that this bill for a billion dollars would cause 74,000 housing starts. Do you think this will solve in any way the problem of the building industry?

Mr. Flynn. Well, Mr. Widnall, 74,000 starts would help just that much more. There would be just that many more starts, and, of course, it would be concentrated in the area where the tight money policy is creating the most effect, so that while it won't solve the problem, it will alleviate it.

Mr. Widnall. That might also be said in the areas where the interest limit has its greatest effect?

Mr. Flynn. That is correct.

Mr. Widnall. On page 2 you speak about including the discount in the amount that will be reflected by FHA and VA appraisals. You say these charges within reason—what do you mean by "within reason"?

Mr. Flynn. I realize that that is rather an intangible point, and we recognize that so long as the science of appraisal is as definite as it is there would have to be some limitation on how much could be included in the valuation, because it would create a situation where a house that was built under a 7 percent loan, for example, might have no discount, and if it were built under FHA, the valuation would have to represent some portion of that discount, but the intention is that if we are to continue these discounts that if a builder, for example, was in a position perhaps to operate at half his profit rather
than all, if some portion of this discount could be included that it would at least permit him to continue a program, in other words, to stay in business, maintain his organization, during periods of these excessive discounts.

It isn't the answer, I will admit.

Mr. Widnall. I don't like discounts any more than you do, and certainly builders are entitled to a fair profit. I would like to know, though, what you consider a reasonable or a fair discount—2, 4, 5 percent?

Mr. Flynn. Well, I would say that the intention of most builders, and by custom they want to make a 10 percent profit. If the discount is 10 points, and none of that is allowed in the VA or FHA valuation or loan, it means that he is working for nothing.

If, for example, 5 percent of that discount could be allowed, the builder then could at least operate on a 5 percent profit, and in many instances would be induced to continue his operation and provide housing.

Mr. Widnall. On the land credit program, don't you believe actually this would inflate land costs and lead to tremendous speculation in land far more than exists today if a man had no risk involved in purchasing land?

Mr. Flynn. Under the plans proposed it wouldn't involve land speculation. It would operate, frankly, in more or less the same manner as the 207, or 213 programs, where advances for the utilities, which are part of the project, are included.

I could selfishly say that personally I would just as soon not have this, because we are in a competitive position or other large builders are where they can take advantage of this language, but from the standpoint of the industry as a whole, it should be possible for small builders, small operators, to be able to acquire and develop land.

The safeguard that I mentioned is the fact that this loan would not be approved until the project, itself, was committed on by FHA. There would be a reasonable assumption that the houses would be built during the period of the loan, and consequently a person couldn't afford to buy it for speculation. He would have to have his entire program laid out, and it would be used by a legitimate builder and land developer, rather than a land speculator.

Mr. Widnall. Just one other question, a short one.

On page 2, you say VA home loans at nothing down and 30 years to pay command an 11 point discount in many areas. FHA loans of a similar nature—what FHA loan has no downpayment?

Mr. Flynn. We mean the minimum terms. It would be a 3-percent minimum, and 30 years in contrast to some lenders who will make a 20-year loan with 10 percent down, and in most cases the discount will be smaller.

Mr. Widnall. I just wanted to clarify your testimony on that point.

Thank you very much.

(Statement off the record.)

Mr. Rains. Thank you very much, Mr. Flynn. You have made a good statement.

Our next witness is Dr. Arnold Soloway, professor of economics at the Graduate School of Boston College, appearing on behalf of the Americans for Democratic Action.

Come around, Mr. Soloway, and proceed with your statement.
Mr. Soloway, Mr. Chairman and members of the committee, my name is Arnold M. Soloway. I am an economist, editor of "Business Scope" and other publications of the Institute for Business Science. I taught for 10 years at Harvard University, and I am currently a visiting professor at the Graduate School of Boston College.

I am also a director of several private corporations, and I am a member of the national board of Americans for Democratic Action. I appreciate your invitation to appear here to present ADA's views on support of H.R. 9371.

As I am sure this committee is aware, ADA has long considered improved and expanded housing facilities among our highest priority national needs. We have long shared with you, Mr. Chairman, the vision of a decent, safe and sanitary home for very American family, and long hoped that a Government and a Congress might devise a housing program that would advance the country significantly toward that goal.

We do not approach the problem of housing from the standpoint of the housing industry, or any other special-interest group. Our concern is with the critical need for a vigorous, broad-scale attack on the housing problem: to provide decent living conditions for our rapidly expanding population, for renewals and replacement of substandard housing, for elimination of slums—the most costly and debilitating blight in our whole society.

Competent estimates of the number of new dwellings needed each year just to replace substandard housing and to house a growing population, range upward from 1.75 million a year now to 2 million or more a few years from now. Yet in no year since the war has the construction of new homes exceeded 1 1/2 million, and in half those years, it has not been much over a million.

It is clear enough why in the past decade we have made so little net progress toward eliminating substandard housing in the United States. And now, as we look ahead to the coming year, the prospect is that not more, but fewer, dwellings will be built in 1960 than in 1959. Instead of rising to a million and a half or more, the outlook is that home building will fall again below a million and a quarter; thus adding that much more to the accumulated housing deficit.

The housing issue is, of course, pregnant with drama, but I shall spare this distinguished committee my meager talents in that direction. In view of the real magnitude of the housing shortage we face, however, I think it is clear that H.R. 9371 represents only a modest step in the right direction.

This bill cannot solve our national housing problem. It cannot correct the fantastic imbalance in the flow of our Nation's resources. It will not shift much of our national effort from the building of race tracks, gadget factories, bowling alleys and the like, into vital housing production. But it will help avoid a potentially serious recession in the housing industry, and it will provide additional support for stabilizing the output of residential units. In these limited terms, it is a
sound, practical and conservative measure—and we support it as such. I think it is also fair and pertinent to say that if the whole legislative climate was not so heavily oppressed by the narrow, short-sighted and misplaced preoccupations of the present administration, this committee might well be discussing a measure of more far-reaching consequences, more nearly adequate to the problems we face.

The fundamental issue with respect to H.R. 9371 is, of course, whether or not the Congress should take steps to ease the terribly tight squeeze on mortgage money. The essence of the bill, therefore, is in section 11, which provides for another $1 billion for FNMA's mortgage purchase program on new construction. While I heartily support all the sections of the bill, my remarks will refer primarily to section 11.

Just last Thursday, January 21, Mr. George Champion, president of the Chase Manhattan Bank, told the American Bankers Association, meeting in Chicago, that money is now tighter than at any time since the 1920's—and will remain tight for the foreseeable future.

This view was seconded by other leading bankers present, and overwhelmingly reflects the opinion of money market principals, economists and others.

This view is held with such widespread unanimity because it is based on two rather obvious factors (1) business activity generally is expanding and (2) the Federal Reserve authorities are as firmly committed to "leaning against the wind" as ever.

In short, the demand for loanable funds is increasing as business activity increases; the supply of funds is being held under extremely tight control by the Federal Reserve because it is still haunted by the specter of inflation.

Obviously, the Federal Reserve's obsession with the threat of inflation is the basis of current monetary policy. This obsession, of course, has also victimized the makers of our national fiscal policy. I shall put aside the temptation to attack the basic misconceptions which underlie this costly inflation phobia, but a few particular aspects are directly germane to the issue under discussion.

To be fair to the Federal Reserve authorities, it must be granted that they have been charged with primary responsibility in the war against inflation. We have made monetary policy the chief weapon of price-level control. Furthermore, we have restricted our use of monetary policy to so-called general control over money and credit. We have, so far, avoided selective controls.

The reason, apparently, is the mistaken belief that general credit controls are impersonal and nondiscriminatory—that they only affect the total supply of funds, leaving to the market the job of allocating credit. This reliance on the market presumably satisfies our thirst for noninterference with free enterprise.

Selective credit controls, on the other hand, imply some degree of decision on priorities—a power of discrimination which the Federal Reserve is not really willing to assume, and which doctrinaire free enterprisers consider unseemly for the central bank.

The alleged nondiscriminatory feature of general credit control—our tight money policy—is merely an illusion. Tight money has different effects on different classes of borrowers. If our economy was highly competitive—to the extent that the theoretical assumption
of pure competition were substantially in force—a general tight money policy would still not affect all classes of borrowers equally.

We might accept this natural discrimination as a reflection of an effective market choice. But our economy, as you well know, is laced with all kinds of rigidities: monopoly and near-monopoly conditions exist in many important sectors, and Government controls and subsidies cause other imperfections. The fact is that market forces work only very imperfectly, and the power of attracting loanable funds today is not distributed in a manner reflecting consumer choice in any meaningful sense.

Certainly the money markets, themselves, are far from being truly open and competitive. In fact, no one really denies that money market imperfections contribute substantially to the stickiness of interest rates, and that credit rationing by the money market is substantially affected by monopolistic elements in the economy.

The idea that free market forces of supply and demand determine the interest rate is very misleading. The fact is that the supply of money is very largely under the control of the Federal Reserve authorities. We simply do not have a free market for funds. It is not correct, therefore, to argue that market forces of supply and demand really determine the interest rate.

The key point, for our present purpose, is that residential construction is the one area of the economy where tight money has its most discriminatory impact. The statistics on this score are overwhelming, and the explanation is simple and well known.

Most of the money paid out in the purchase of a new home comes from borrowing. The amount of cash people can put up is usually quite small—a fraction of the total purchase price. Thus, when a lender, to spread his money around and take advantage of higher yield or shorter term investments, cuts his mortgage offering by, say, 10 percent, he may raise the down payment requirements by more than 50 percent.

The result is that when mortgage money is hard to get and expensive, housing starts must go down. And since mortgage funds fluctuate in cost and availability as money is tightened or eased, the ups and downs of the housing market can be traced directly back to the turns of Federal Reserve monetary policy.

The fact that the supply of mortgage funds is controlling element in housing construction means that the fluctuations in housing demand are relatively minor. That is, within the range of interest costs and income fluctuations we have experienced since 1945, the demand for new housing has remained fairly stable.

What has choked off housing has been the unavailability of mortgage funds as money tightens and the supply of credit is directed away from mortgage financing to other uses.

So, we go on our merry way allowing the money market to support more and better race tracks, bigger and glassier office buildings, innumerable, splendiferous motels—and a decent place to live for an American family in this age of opulence remains beyond our capacities, or interest. The Eisenhower administration has made the housing industry the chief victim of its tight money policies and the stepchild of the money markets. It has left the housing industry to scramble for what it can get, at interest rates that are pricing
more and more American families out of the market for new homes. As I have previously stated, H.R. 9371 will not, unfortunately, change all this. But it will, through FNMA's increased mortgage purchase power and the other provisions reducing net borrowing costs, provide some helpful ease to the housing sector of the economy. It will redress some of the fantastic imbalance in the use of our resources. It will make possible more new housing that we desperately need.

The primary objection to this bill, so far as I have been able to discern, is based on some misbegotten notion that it represents an inflationary threat. On this score, allow me to make two main points.

1. Our economy in 1960 is not, and will not be, operating under the stimulus of generally excessive demands. We are not faced with inflationary pressures such as those which pushed prices up during the war and readjustment periods of the 1940’s and early 1950’s. Even optimistic forecasts of a gross national product of $510 billion for the year—reaching a rate of perhaps $520 billion in the fourth quarter—allow that unemployment will remain at 4 percent or more of the civilian labor force.

Nor are even localized booms likely to cause bottleneck pressures on prices. While all indications point to a continued rise in plant and equipment spending, for example, we are not faced with the same kind of capital goods boom that we had in 1955–56. The economy will not be overstrained.

2. Helping the housing industry would not be inflationary at all. First, the industry faces a definite cutback in housing starts next year as a direct result of tight money policy. It will be substantially underemployed. The fact that housing starts held up well through last year should not be taken as contrary evidence. Most builders already had funds committed to them. There is always a definite lag between the imposition of credit tightening and the visible effect on housing. This year will be different unless mortgage money is made available now.

Secondly, a depressed housing industry is of little or no help in fighting price inflation. The resources—labor and materials—that are unemployed do not, in any significant measure, get transferred into other uses. During 1955–57, unemployment was high in the construction industry, building supplies were generally more than abundant, and prices rose.

On these two points alone, both of which are amply documented in any number of thorough analyses, there should be no objection to H.R. 9371 because of any alleged inflationary threat.

The sum and substance of H.R. 9371, then, is to provide some help for an important and underemployed sector of the economy. The approach is essentially that of selective aid to compensate in part for the discrimination engendered by a general tight money policy. It is a modest measure, a reasonable measure. It will not solve our national housing problem, but it may prevent it from getting ever more desperate. It is certainly not a dangerous measure either from its potential effect on the price level or for any other reason. We hope very much that it will be passed by the Congress and enacted into law.
Finally, Mr. Chairman, with all respect to your bill, we are compelled to say that whatever it may do to stimulate homebuilding, it does not come to grips with the conditions that have prevented our housing programs and our housing industry from meeting the housing needs of the American people.

No one knows better than you that we require a comprehensive program on a scale not yet attempted in this country. These programs would need to be spurred by government—National, State and local—though not by any means entirely financed by government.

The components of the present program do not add up to such an effort; the housing acts, including those of 1949 and 1954, have not accomplished what was hoped for them. Some of your 1959 proposals had great promise, and President Eisenhower's vetoes of them will come to be recognized as among his most uninformed and shortsighted acts.

The consequences of not making an all-out effort are all too clear. The administration proposes to stand pat in 1960 while we lose another 2 years to the slums.

Mr. Chairman, time is not working for us in this battle. Not only does our housing supply grow older, but we have an enormous increase in demand in the offing. In less than a decade the first of the big postwar baby crops will be grown men and women, forming families and having babies of their own. Beginning in the early 1970's we can expect something of the order of 2 million new families a year. This is an additional reason why housing seems to us to be an urgent and nondeferable need, and why we hope you will not confine your efforts this year to the bill now before you.

Thank you very much, Mr. Chairman, and members of the committee.

Mr. RAINS. Thank you, Doctor.

I might say in response to the concluding paragraphs of your very fine statement that this committee has no intention of this being the only housing bill this year, and we recognize that a great many of the problems which you indirectly point out will have to be met in another bill, or in other bills, but we do feel, as I am glad to see that you do, that there is a need and a need now for this particular type of legislation.

For one, and I am sure most of this committee, nothing would please us better than to get a long-range truly comprehensive housing program that will do the job and get the program in action.

I want to thank you for your statement.

Are there any questions?

Mr. ADDONIZIO. Mr. Chairman, I would like to compliment Dr. Soloway on his statement. It certainly was very outstanding, as far as I am concerned.

Dr. SOLOWAY. Thank you very much, sir.

Mr. ADDONIZIO. I agree wholeheartedly with what you have said.

May I ask you this one question, Dr. Soloway: As you know, in 1958, we poured a billion dollars into Fannie Mae, and that is simply what we are trying to do here today. The administration, Mr. Mason, and others have indicated that in 1959 we had 1,800,000-some housing starts, and as a result of that 1960 looks very rosy.
Is it a fair conclusion to say that perhaps the 1959 picture was made that way because of the action that this committee and this Congress took in 1958?

Dr. Soloway. I don't think there is any doubt, Mr. Addonizio, that that is a fact—that it was the action you took in 1958 that spurred homebuilding, particularly in the early part of 1959, and gave us as good a record as we achieved. I think the description of looking at the housing picture as rosy is one I also object to personally, because I think even at 1.4 million, it is anything but rosy. It may be fine for the housing industry which has been so ably represented before you here today, but in terms of the national need, it is still very insufficient, and I might say that the composition of housing is also terribly important. I think there has been probably a lot more construction in housing in the middle-high and high-price ranges than there has been in the low- and middle-income housing through private financing that we need even more desperately than anything else.

Mr. Addonizio. Thank you, Mr. Chairman.

Mr. Rains. Mr. Widnall?

Mr. Widnall. No questions.

Mr. Rains. Mr. Barrett?

Mr. Barrett. No questions.

Mr. Rains. Mrs. Sullivan?

Mrs. Sullivan. I think Dr. Soloway has made a very accurate and clear picture of what is facing us in this problem, and I am glad to have heard your testimony.

Dr. Soloway. Thank you very much, Mrs. Sullivan.

Mr. Rains. Any questions, Mr. Miller?

Mr. Miller. No, sir.

Mr. Rains. Thank you very much for appearing before us, Doctor. We will stand in recess until 2 o'clock, at which time we will have His Excellency the Governor of California, Mr. Pat Brown.

(Whereupon, at 12:05 p.m., the subcommittee recessed until 2 p.m., the same day.)

AFTERNOON SESSION

(The subcommittee met, pursuant to adjournment, at 2 p.m.)

Present: Mr. Rains (presiding), Mr. Addonizio, Mrs. Sullivan, Mr. Ashley, Mrs. Griffiths, Mr. Rutherford, Mr. Widnall, Mr. Bass, and Mr. Derwinski.

Mr. Rains. Our first scheduled witness is Governor Brown of California. He will be here, but has been slightly delayed.

Since we have a full agenda, the committee will proceed with the next witness, and will suspend later to hear the Governor.

Our first witness will be Mr. Herschel Greer, president of Guaranty Mortgage Co.; with him is Mr. Sam Neal. Come around, Mr. Greer, you may proceed with your statement.

STATEMENT OF HERSCHEL GREER, MORTGAGE BANKERS ASSOCIATION

Mr. Greer. Mr. Chairman and members of the committee, my name is Herschel Greer, I am president of the Guaranty Mortgage Co. of Nashville, Tenn., and I have been engaged in the mortgage banking business in that city for the past 30 years.
I appear before you this morning on behalf of the Mortgage Bankers Association of America, I am the chairman of the legislative committee of that association this year.

The Mortgage Bankers Association of America is a national trade association, membership in which is held by life insurance companies, commercial banks, savings banks, and other types of institutional investors in mortgages.

However, the backbone of the association is represented by the membership of mortgage companies which originate loans in the localities which they serve and which sell those loans to nonlocal investors.

The mortgage banker, therefore, is in the position of acting as the man who brings buyer and seller together and who thereafter represents the investor in its dealings with the borrower throughout the life of the loan.

The mortgage banker is thus in the position of requiring for the continuity of his operations a steady and reliable market for real estate mortgages, whether those mortgages are so-called conventional loans or loans which are insured by the Federal Housing Administration or guaranteed by the Veterans' Administration.

Any serious withdrawal from the market of institutional investors or fluctuations in the desire of investors to purchase loans is of the greatest concern to the mortgage banker. His servicing obligations run for the life of any loan he has already made. He must therefore sustain overhead and personnel expenses which do not vary significantly from year to year but tend to remain constant. A major drop-off in new business or substantial loss of revenue from this source jeopardizes his ability to carry out his obligation under the servicing contracts.

I should like to make it very clear that neither the mortgage banker himself nor the Mortgage Bankers Association of America likes "high" interest rates. The mortgage banker does more and better business when rates are low and if he had any choice in the matter he would always prefer this kind of an economy. But the mortgage banker does not have any control over the situation and when for reasons beyond his control, the interest rate structure increases, the mortgage banker, if he is to serve both his own interest and the interests of borrowers who come to him as a source for funds, must endeavor to meet the demand of those who invest in mortgages for a market yield.

Thus, a market rate of interest, whatever that may be, is what the mortgage banker legitimately strives for in the placing of loans on residential real estate.

The gyrations in homebuilding in recent years have been frequent and violent. Such repeated changes do not encourage the development of a strong industry; they do not encourage continuous investment; they do not encourage capital growth or research or technical innovation. Such variations make forward planning tremendously difficult, and they interfere with efforts to reduce costs. In short, this situation has no more virtue for us than it offers to this committee.

Almost everyone now recognizes that the real severity in the fluctuations in housing activity is concentrated in the areas where FHA or VA financing is prevalent. But it seems hard to arrive at any agreement as to why the fluctuations should be concentrated in these types of loans.
There is a tendency to use the term "tight money" as the scapegoat of the difficulties, and it is argued that this "tight money" situation is brought about by unseasonable activities of the Federal Reserve or the Treasury or by other outside discriminatory influences.

Mortgage bankers believe that the real reasons for the problems in financing residential construction with FHA-VA mortgages principally involve two matters, first, the controls which are placed on interest rates on these mortgages, and second, the attempts to counteract the unfortunate results of the imposition of these controls by unusual calls on Treasury financing.

The past operations of FHA and VA demonstrate that when the general movement in interest rates produces a heavy discount situation in these mortgages, the flow of funds for these investments diminishes, and that when contrary movements eliminate or remove discounts, the flow of funds immediately increases. It can also be demonstrated conclusively that in the conventional home loan area, where mortgage interest rates move freely, with other interest rates, variations in homebuilding activity are reasonable.

As Miles L. Coleen, consulting economist for MBA and author of many publications in the housing and housing finance field, has pointed out:

The attempt to support submarket interest rates on FHA and VA loans by the use of Treasury funds, instead of promoting stability, has added to the disruption. Each of the three postwar housing booms has been characterized by a heavy volume of mortgage purchases by the Federal National Mortgage Association after private funds were moving strongly into FHA and VA financing. This was so notoriously the fact in the pre-Korean war boom that Congress put FNMA out of business for several years. It was true again in 1954 and 1955 when the re-suscitated FNMA gave support to the market when such support only intensified the boom resulting from the large flow of private funds eagerly seeking FHA and VA mortgages. It was the case once more in 1958 and 1959, when a special FNMA fund, available at a better than market price, was flooded into the swelling stream of mortgage money from private sources.

Conversely, the periods of least FNMA activity have been those when, following the initial excesses, rising money costs began to work the automatic shutoff valve created by the rigid structure of FHA and VA interest rates. A reason for this is the difficulty of timing official actions to serve effectively as a balancing force. A good example is that offered by the 1958 experience. The action taken by Congress to pour a billion dollars of Treasury money into the market became effective in April after private credit had been easing for several months and after a revival of private FHA and VA financing was already taking place. The funds were exhausted at the height of the boom, thus contributing to the abrupt change in the availability of private funds as the interest rate structure moved well above the administered limits, especially that for VA loans.

This sort of tinkering with the market also has some unfortunate side effects. For example, in order to supply the mortgage market with the billion dollars that Congress instructed it to furnish to FNMA, the Treasury was forced to raise an equivalent amount in the financial market. Since Congress had also effectively prevented the Treasury from issuing long-term obligations that would be attractive to investors not primarily interested in mortgages, such as pension funds, the Treasury was forced to tailor short-term offerings that would appeal to corporate and individual borrowers. One of the inevitable results was the issue of last October, which drew from mutual savings banks and savings and loan associations savings of individuals which otherwise would have remained available for private mortgage investment. It would be difficult to devise a more ingenious method for defeating an objective.

The Mortgage Bankers Association of America has, for many years, in its published statements and in its testimony before various congres-
sional committees, consistently repeated its own beliefs that legisla-
tion which in the past has, in our opinion, produced unfortunate
results, should not be repeated. In this 1953 statement of policy, the
association made the following statement:

In no instance, in our opinion, should the Federal Government continue its
program of supporting what is in effect a submarket rate on FHA and VA
loans by authorizing additional funds for the direct purchase of such loans by
the Federal National Mortgage Association. Unless a marketable rate is per-
mitted, the demand for additional FNMA funds is bound to produce a problem
in the near future with the result that the Treasury will be called upon for
additional deficit financing to supply these funds.

In its 1956 statement of policy, the following appears:

In the home loan field, the same law of supply and demand operates. When
Congress fixes the interest rate which can be charged on an FHA or a VA
loan it prevents that rate from becoming an attractive rate when the supply of
money contracts. This automatically drives investors from the market at a time
when they are most needed in it. It erects a barrier which blocks off from the
prospective homeowner a stream of money which might otherwise be competing
for his business. Obviously, Congress neither wants nor intends to control
the entire money market, but so long as there are enormous areas in the mar-
ket which are free to fluctuate in response to the supply and demand of money,
then investors will leave the home financing field whenever controlled rates make
this field less attractive competitively.

Congress will do well to face this issue squarely. Whatever its good inten-
tions may be, it does not serve well the interest of the prospective homeowner,
veteran or nonveteran, by controlling the rates on FHA and VA loans. The
money market must have some means of moving up and down in the home
finance field, or there will be times when investors will move out. Congress
should encourage the maximum competition among investors to lend by lifting
the controls over interest rates on FHA and VA loans.

In its 1958 statement of policy, the association related these earlier
stated principles to proposals to extend the operations of the Federal
National Mortgage Association. This statement reads in part as fol-
loows:

There remains the question of the extent to which a special source of reserve
secondary credit may be desirable. In 1953, the President's Advisory Committee
on Government Housing Policies and Programs concluded that there was a place
for an instrumentality that could deal in insured or guaranteed mortgages,
such an instrumentality could help to even out the seasonal and cyclical variations
in the availability of mortgage funds, with particular reference to areas remote
from the main centers of capital supply.

The Mortgage Bankers Association concurs in this finding. It agrees that,
if operated with restraint and with charges high enough to discourage its mis-
use, a secondary market facility can be an appropriate means for relieving
private lenders from extreme financial losses and from preventing building
activity from suffering a sudden withdrawal of credit.

There is danger, however, that builders and mortgage lenders may be en-
couraged by the availability of a relatively painless method of escape from
their own indiscretions to proceed with substantial operations in advance of
obtaining firm commitments from investors. Such a misuse of the facility will
result in an infusion of short-term credit into the mortgage system that, under
some circumstances, may have serious inflationary effects. The association
therefore accepts the principles that: (a) a secondary market agency should
always exact some penalty in order to prevent its misuse and overuse, (b) it
should not be used to support an artificially low level of mortgage interest rates
or inherently unmarketable mortgage programs, and (c) it should involve no
continuing claim on the Treasury but should provide for its support and ulti-
mate ownership by those who benefit from it. In line with these principles, the
association asserts its conviction that the first prerequisite to a sound secondary
market instrumentality is the achievement of a sound mortgage insurance sys-
tem operated freely in a free financial market • • •
Therefore, in line with its beliefs and its earlier policy, this association would oppose the enactment of those sections of H.R. 9371 which do violence to the principles enunciated and which would continue the difficulties we have already experienced, by what we consider to be an unwise effort to stimulate activity in the home construction effort by a further infusion of funds into FNMA or by an expansion of its activities below cost. The sections to which we would offer objections are section 4, and sections 6 through 12.

Section 3 of the bill would require FHA to reduce its insurance premium charge to one-fourth of 1 percent. Representatives of the Mortgage Bankers Association of America have on many occasions in the past discussed with FHA officials whether the operations of the program to date justify a reduction in the current insurance premium, now fixed at one-half of 1 percent.

To date FHA officials in their discussions and by the evidence which they have produced, have demonstrated to our satisfaction that there is no reasonable method of determining whether the insurance premium can safely be reduced. Therefore, since borrowers do receive a return of that part of the premium they have paid which turns out to be an excess charge (the insurance program is a true mutual system), it would be the opinion of this association that Congress would not be wise to require FHA, over its better judgment, to reduce its insurance premium.

There are other sections of the bill the purpose of which we do not disagree with; which the association can affirmatively support and would favor the enactment of with certain appropriate comments. These are as follows:

Section 2 of the bill would permit FHA to approve individuals as mortgagees. The association recognizes the difficulties that FHA would face in approving an individual as a mortgagee. Approved mortgagees have many regulations with which they have to comply; they have obligations in the handling of borrowers' funds. While the association does not believe that the inability of individuals to own FHA loans has prevented in any significant way the effective operation of the FHA program, nevertheless, any action which would broaden the market for FHA loans, however little, should be helpful—provided, that appropriate safeguards, both for the FHA, which has an insurance obligation, and for the borrower, are provided.

Perhaps this might be handled by a requirement that before an individual could own an FHA loan he would have to contract for the loan to be serviced by a corporate approved mortgagee throughout its life, which cooperative mortgagee would be responsible to FHA for the handling of the loan. Whether this is the answer to the problem or not, a recognition that problems do exist, should be in the mind of the committee before section 2 is enacted.

Section 5 of the bill would require the Federal National Mortgage Association, for a 1-year period, to purchase any mortgage insured by FHA or guaranteed by VA, unless the loan was in default or in imminent danger of default or unless the loan was beyond the age specified by FNMA or the title to the property was defective.

The Mortgage Bankers Association of America has consistently, in its discussions with FMA officials, objected to the second guessing of FHA and VA by that organization, and it has on many occasions
pointed out to FNMA what it regards as capricious decisions by FNMA field offices as to whether the association will or will not purchase a particular loan.

It has always seemed to the MBA members that if one Government organization is willing to insure or guarantee a loan, the contract of insurance or guarantee should be evidence of the soundness of the loan, and that if another Government agency considers, after investigation, that loans are not soundly made, the proper corrective action is to insist that the insuring or guaranteeing organization correct its system, rather than to refuse to buy loans.

A loan which FNMA refuses to buy is often so tainted that no other investor will purchase it, or it must be marketed at such a discount as to give a totally false picture of what the loan is really worth. Therefore, the Mortgage Bankers Association would support the enactment of section 5, provided that it was clearly understood that in making purchases, FNMA should have the authority to reflect in the prices it paid for such mortgages, its own considerations of the marketability of the loan.

Section 13 of the bill would require an originating mortgagee to report to the FHA or VA the amount of any fee, charge, or discount paid in connection with an FHA or VA loan. While such reporting would add to the volume of other reports which an originating mortgagee must already make and increase the cost of doing business, this association believes that all of the facts in connection with the making of a mortgage loan should be available for public inspection, we would have no opposition to the enactment of this section of the bill.

However, we should like to point out that the originating mortgagee should have the opportunity in making such reports of demonstrating for whose benefit the discount or fee or charge was received, that is, the report should indicate what part of such fee, charge, or discount was retained by the originating mortgagee or was required to be paid to others in order that the loan could be marketed.

Thank you, Mr. Chairman.

Mr. Rains. Thank you, Mr. Greer. If you are not in too big a hurry, we will ask you to stand aside. We would like to ask you a few questions, but we see the distinguished Governor of California has come in. If you will wait for us, I have one question that I would like to ask.

There are several members from our parent committee, the Banking and Currency Committee, who have come in, distinguished members. I want to recognize Mr. Brown, who is always my leader, Mr. Patman, Mr. Byron Johnson, Mr. Clem Miller, Paul Fino, and these other gentlemen are members of the Housing Subcommittee.

I am going to ask now Mr. Clem Miller from the great State of California to present his great and distinguished Governor.

Mr. Miller. The Honorable Edmund G. "Pat" Brown from California. We should regard it as a great honor to have Governor Brown before the committee today. He comes here because California today is building more houses than any State in the Union, and those areas not occupied by houses have trees growing on them, and we depend on those trees for the construction of our houses. Therefore, what happens to housing in California determines to a great extent the
profit of our economy in the State of California and through much of
the West. Of course, we in the West, realize the interdependence of
all sections of our country. Since Governor Brown realizes the piv-
otal nature of the housing problem he is appearing here today to
testify on this very vital bill which you have introduced.

Mr. RAINS. As a fellow Democrat from the great State of Alabama,
I want to welcome you and tell you that I have admired very greatly,
as I am sure many other people have throughout the Nation, the fine
job you are doing as Governor of the great State of California.

I want to tell you on this side sit the Democrats to my right, and
to my left sit the Republicans. They join in this warm welcome to
you. We are delighted to have you, and you may proceed with your
statement at this time, Governor Brown.

STATEMENT OF HON. EDMUND G. BROWN, GOVERNOR OF THE
STATE OF CALIFORNIA

Governor Brown. Thank you, Mr. Chairman, and thank you Clem,
for your very nice introduction.

I do appreciate this opportunity to appear before your subcom-
mittee, because the problems you are considering with respect to hous-
ing are part and parcel of the problems of a Governor in a State like
California where we have such tremendous growth, and I hope before
I get through I can lay down a few of the principles involved in
those problems.

As Governor of California, with the largest overall population in-
crease in the Nation, I want to urge just as strongly as I can the
need for reexamination of present Federal policies having an in-
jurious effect on our home construction requirements.

In California, as I am sure you know, the problems that face the
rest of the country are greatly magnified. The one overriding fact
of life in California today is growth—exploding growth.

Let me give you just one dramatic explanation of what we are
facing out there. In a period from 1870 until the present time, we
have developed a great university, the University of California, and
we probably have now around 50,000 students in the University of
California at Berkeley and the University of California at Los
Angeles. Within a period of 10 years between now and 1970, and
we have to start immediately, we have to double the capacity of that
university. We have to make preparations for children in the schools
today, right in the grammar schools and the elementary schools to
take care of 50,000 more during the next 10 years.

In addition to that, we have to build 10 new State colleges, and
we are about ready to; so that we will have some coordination in all
upper education, we are going to have to subsidize the junior colleges
that have been previously financed by the local school districts, but
we are going to have to take that over to encourage them to build
junior colleges to relieve the pressure on the universities, and when
you see it in the university, we have the same problem in mental
hygiene, elementary schools—we have to build one new elementary
school a day for every day in the year including Sundays during
the next year, 365 days, and along with that we are trying to build
a water system out there.
The legislature, after a tough fight, and by bi-partisan work, by the assistance of a Republican State senator in southern California, working together we were able to bring together this great water program of $1,750,000. We have gotten into sectional difficulties, but not partisan difficulties.

You can see that in a State like California, we do have tremendous problems.

The population has risen from 13,035,000 in 1955 to an estimated 15,830,000 in 1960, an increase of just about 2,800,000. To make this dramatic, we anticipate having seven new Congressmen from California after the reapportionment next year. Where they will come from, I don't know. That compares with an estimated increase in the same period of just under 15 million for the country as a whole. In other words, we gain 3 million of the 15 million.

We are growing more than the national average. The percent of the total population has risen from 7.9 in 1955 to an estimated 8.8 in 1960.

We are not frightened or overawed by this development. As a matter of fact, we welcome it. Anybody that wants to come to our State we want to make life as comfortable as we can for them, whether it is in housing, roads, schools, or anything else, but it does take some planning on the part of government.

But it does pose problems. Adequate decent housing for our people at prices and interest rates that fit their ability to buy is one of them. My daughter married and moved up to Sacramento, up to the State capital. We moved up there and bought a home. Interest rates went up. Someone told me the increased cost was tremendous merely by reason of this increased cost in interest.

In my opinion, our people have the right to expect positive action by their Government to assure the economic health of the Nation. They most certainly have a right to expect that Government, by its action, will not impede progress.

Yet that is precisely what policies of the Federal Government have been doing in recent years. Tight money and high interest rates have made it more and more difficult for the small borrower, the potential home buyer, to compete with large bidders in the money market.

The big borrower has run into difficulties, too. The big water bond issue is an example. It has been said the fact is that interest rates are so high it will treble the cost in a period of 50 years. Whether that is mathematically true or not, I am not prepared to say, but you can see the deterrent effect. Here we only have two sources of money, either to increase the taxes or to borrow the money, and if we borrow the money we have to pay these high interest rates, and those that are against growth use that as an argument against borrowing money.

On the other hand, if we try to raise taxes we run into the same arguments in that direction. The only alternative we have is to move ahead with taxes or bond issues, and hope and pray that the situation takes care of itself.

The tight money, high interest policies of the Federal Government have had serious economic effects not only on home buyers but on the homebuilding industry, and this is an industry which has a major impact on our entire economy.
Under conditions prevailing now, it is predicted by authorities in the industry that housing starts will drop 200,000 from 1959, and I think it might be well to point out that this doesn't mean merely 200,000 fewer jobs for our people; it means as many as 500,000 loss of jobs in the State of California.

I submit to you that these serious fluctuations are imposing tremendously burdensome high costs on the home buyer, and on the homebuilding industry.

Furthermore, they have had widespread repercussions in other segments of our economy, causing damage and disruption among producers and suppliers of cement, lumber, bricks, steel, plumbing, everything that goes into the building of a house.

Let me give you another example of the effects of these high interest rates in our own State.

Applications filed for new home construction with the San Francisco Federal Housing Administration office in December of 1959 were 25 percent below the number filed in December of 1958, and this despite an increase in the population of 400,000.

The true effects of that decline will not be felt until probably March or April, but at the same time there will be 5,500 fewer homes being prepared for occupancy by our people in that northern California area than there were at the same time in 1958, and the same situation is comparable in southern California, and in the great central valley.

With the tremendous rise in population that I have mentioned two or three times, neither California nor the Nation can afford the shortsighted policies which lead to such a condition.

I want to note, too, that while conventional home financing is growing, with a consequent rise in the cost of money that is hurting home sales, the trend is away from FHA loans, and the future of Veterans' Administration loans seems to be cloudy, at best.

In the 25 years of existence of the FHA, I am informed that it has financed 6,200,000 housing units. It has enabled 5,400,000 American families to become homeowners, 2,900,000 of them owners of new homes, and it has done all this while repaying to the Treasury all money borrowed, with interest.

Will we be able to cite comparable figures 25 years from now, or even favorable progress figures next year or the year after that, if the present tight money, high interest policies continue?

In the past year the interest rate on a typical conventional home loan in California has risen by 1 percent, and is generally at 7.2 percent. That doesn't seem very much when expressed that way, but to the average California family it means more than a year's pay added to the cost of a $15,000 30-year loan, and when I think that in California we have raised the taxes, put a 3-cent tax on cigarettes, increased the tax on the horseraces, we increased the income tax in the range above $10,000—not very much—but every single increase is a tax on every individual in this State, but it is not going to the public in the form of better schools, more medical facilities, more mental hygiene help or things like that; it is going into the banking business that very frankly tell me that they have done very well over a period of years and don't need it.
Now, this is an anomaly that I can’t understand, but I see it sitting there in Sacramento.

For the Nation as a whole, the outstanding consumer debt rose 14 percent in the past year, three times the increase in personal income.

At the same time there has been a great increase in the use of second mortgages which is rapidly changing the entire climate for home buyers in California. Secondary mortgages are an increasing problem, and constitute an element of insecurity and instability in the housing field. As Mr. Robert MacDuff, Director of FHA in San Francisco says in his staff report of January 22, 1960, “Any material drop in the real estate market would probably result in panic conditions in this secondary mortgage market,” and that of course could have an effect upon the primary mortgage market, too.

I also think it is worth noting that the decline in housing starts from 1955 to 1957 was a significant factor in the 1958 recession. The 1958 rise in housing starts was just as significant a factor in the recovery from that recession.

The Emergency Housing Act of that year permitted FNMA to invest $1 billion in home loans under the FHA and Veterans’ Administration programs, and was a substantial item in the recovery.

Congressman Miller knows it in the Redwood area where he comes from, when they started building homes in San Francisco and Los Angeles.

You have before you today similar legislation. With your chairman, I believe we cannot wait for another recession before taking positive steps to stem the present downward trend in homebuilding.

Congressman Rains has previously pointed out that each of our postwar recessions has been more severe than its predecessor. We cannot run the risk that the next will be more serious than the last by postponing action to correct any flaws that may exist in our economy. The downturn of housing is one of those flaws and we must act now.

I think, too, we ought to go beyond the emergency financing of home loans to ease the present situation. We ought to take a long range look at the policies which have brought us to this point.

The medicine of emergency financing will relieve the present pain, but more serious measures are required if we are to meet the underlying problem and the needs.

I want to again express my appreciation for permitting me to read this prepared statement to you, and I know that your deliberations, no matter where they lead, will be undertaken with the best interests of the Nation and of our people in mind.

Thank you very much.

Mr. Rains. We want to thank you, Governor. I have only one or two comments to make.

I think your statement is a most excellent one. No place in the Nation is the need more definitely pointed up than in California. The committee has had the privilege on several occasions of visiting your State to see the housing conditions generally. One place we haven’t been privileged to visit yet is San Francisco, but we intend to this fall, so when we come out we will look you up.

Governor Brown. Let me know you are coming, and I assure you I will make it very pleasant for you.
Mr. Rains. I want to pass around to the members of the committee any questions they have of the Governor before I ask my next question. The first gentleman could well be a cousin of yours, a statesman of the highest rank, my friend, Congressman Paul Brown of Georgia. Do you have any questions?

Mr. Brown. I have no questions, but I might say that if he keeps up a good argument like this, he could wind up in the White House.

Governor Brown. Thank you very much.

Mr. Rains. Mr. Addonizio.

Mr. Addonizio. I don't have any particular questions, but I would like to point out to the Governor if he does get into the White House he may find more cousins than he realizes.

Governor Brown. This is an unexpected pleasure, gentlemen.

Mr. Rains. Mrs. Sullivan of Missouri, do you have any questions?

Mrs. Sullivan. No questions, Mr. Chairman, except that I am delighted, also, to see the Governor and to hear him, after reading about him so much.

Governor Brown. Thank you. I hope you come out to California with the chairman.

Mr. Rains. Mr. Ashley.

Mr. Ashley. Governor, you pointed out that the present interest rate on conventional loans is 7.2 percent on the average in your State. I was in San Francisco not long ago and talked to some of the commercial bankers there, and they tell me that even at this interest rate they are not a bit interested in lending, that they are not a bit interested in mortgage credit.

Is this the general situation throughout California?

Governor Brown. Well, I know that the banks would like to help in mortgage financing, but they just have more attractive loans, that is all there is to it, and it is a real problem. They just can't do it, they haven't the time nor the money to do it.

Mr. Ashley. They said they might be interested if the applicant was a client of theirs, and if he had 10 to 15 percent down, and wanted a 15-year amortization period, they might possibly be able to give him some service, but, as you point out, beyond that they were quite frank in saying they could make a lot more money other than in mortgage loans.

I was surprised at this. This is certainly something that we don't have yet, at least in Ohio but I was just interested to know whether this was just around the San Francisco area or whether this tends to go pretty much across the State.

Governor Brown. I think it is general throughout the State. Savings and loans are doing a great deal of lending, there is a great deal of second-mortgage financing, as I said. I can't give you any specific figures on it, but the banks tell me that they just don't want this home-building loan in California. Why, I don't know. I am not enough of a banker to answer that.

Mr. Ashley. Well, they weren't, either. Thank you very much.

Mr. Rains. Mrs. Griffiths, of Michigan.

Mrs. Griffiths. No questions, but we are very happy you came, and it is very interesting testimony to point out, Governor Brown, your great need. I hope we can help you.
Governor Brown. Thank you. In connection with those problems of financing that we have in California, I am seeking answers. They are not easy at all, please believe me. A State can't do these things alone. National policy with respect to loans, with respect to interest rates and fiscal policy, have a direct effect upon every individual within my State.

Mr. Rains. Mr. Rutherford, of Texas.
Mr. Rutherford. Thank you, Mr. Chairman.
I might say with due respect I cannot share in this, often-mentioned here White House possibility, because I am from Texas and I have a candidate myself.

Governor Brown. I think it is about time for me to make a statement on that.

Mr. Ashley. Everybody else has.

Governor Brown. I am not a candidate for the Presidency. I am just trying to lead a good group of Democrats to that Democratic convention to take care of another Californian, Mr. Nixon.

Mr. Widnall. We are happy to have your endorsement.

Mr. Patman. Mr. Patman, of Texas.

Mr. Rains. Mr. Johnson of Colorado.
Mr. Johnson. I was interested in the Governor's statement about the need to build a school a day. We have just been discussing, on the House floor, the Joint Economic Committee's support for Federal aid to education. It seems to me if we were to give such aid and thus take some of the pressure off the bond market, we might get this interest rate down. It strikes me that all of us, on both sides of the aisle, are interested in a sound economic program and ought to be recommending that schools be built out of tax moneys, including Federal grants-in-aid, rather than have the Federal Government tell you to go and put your local school districts in the bond market and raise the cost of these schools both to ourselves and to our children.

Would you agree with that, or would you care to add to your comment about the cost to the State and local governments of the public work that you do have to finance out of debt?

Governor Brown. Well, I support the Federal aid to education in every way, I forget the name of the bill—the Murray-Metcalf bill—because they came to me the other day, to give you an example of what we are up against, the school people, and they want us to put a bond issue on the election in November, call a special session, for $250,000 to lend to local school districts, let the State pledge its entire credit for that purpose, and we will have to do it because you can see with building one school a day how much it costs.

I can't put it on the ballot at this time because I have another one for $1,750,000, and I am afraid I will kill both of them if I put them both on the ballot at the same time.

We will probably put one over, or I hope we will, and then we will move in on the second one at a special election in California the following year.
A governor is very reluctant to borrow money on these high interest rates over a long period of time, not knowing whether there will be a change in this fiscal situation maybe sometime in the immediate future, and so you hesitate. You don’t move ahead with these things.

Now, I realize that a government can’t do everything it wants to do. We have an inflationary spiral we are trying to take care of, too, but it does seem to me there must be some other way of doing it than the high interest rate, putting the penalty on those that can least afford to pay it, those that have to borrow money.

Mr. Johnson. There has been a $6 billion increase in consumer credit. The highest interest will be paid by those who are borrowing for the shortest terms and for the most frivolous purposes.

The administration has refused to face this issue squarely, and so the banker who tells our friend that he will not make a housing loan is saying that, partly because he can get more than 7 percent on the consumer credit. The Banking and Currency Committee should raise the question as to whether we are right in permitting unrestrained use of a scarce item, capital, for frivolous purposes when education, for instance, is in need of such capital.

Would you care to comment on whether or not the Government ought to have a priority program as to which is the more important use of capital? This would be a good chance to do so.

Governor Brown. I am afraid you might get me into something I can’t completely answer. It is a tough problem. I have an economic development agency out there that is helping me with it. I wouldn’t be in a position to answer those economic questions today. I try to understand it. I can remember Mr. Patman coming out to San Francisco and giving some talks on money out there some years ago when we had a conference out there. It was very good, and I understood it at that time, but I can’t keep up with it. I have to do a little crash work on it before I testify on these things.

Mr. Patman. Might I add one footnote, Mr. Chairman?

Mr. Rains. Yes.

Mr. Patman. I happen to be on the committee, and this report recommends Federal aid to education without Federal control.

Governor Brown. That I agree with completely. I don’t see any reason why that is necessary at all.

Mr. Rains. Mr. Widnall, of New Jersey.

Mr. Widnall. Mr. Chairman and Governor, we on the Republican side are also happy to have you here as a witness and welcome your remarks.

Since you have just been elevated to the White House rather quickly, I would like to get some comment from you as to what you would do with respect to monetary restraints and other action to still inflationary pressures.

I note Saturday night you were critical of the administration’s monetary policy, and I think it is only fair to ask you, first of all, would you have the Federal Reserve reduce discount rates?

Governor Brown. I really feel there should be further control over those discount rates. How far I would go with governmental control without controlling other things I am not prepared to say, but I do believe that we could increase the gross national product, we could
get more money. I think we could cut out some of the exemptions we have, some of the loopholes in taxation, and I think we could take up the slack in that way, and whether there should be any controls on credit, I wouldn’t want to give my definitive answer on those things.

I do feel that the way the administration has handled it, from all I have read, is probably the least acceptable, because the burden falls upon the people that can least afford to pay it.

Mr. Widnall. Do you have a similar interest rate ceiling on your own government financing?

Governor Brown. No, we do not. Of course our whole governmental financing is dependent upon the Federal financing, whatever the rates are here in the East we have to pay in the sale of our bonds. I don’t know what kind of ceiling we could put on in California that would mean anything.

Mr. Widnall. Well, you last financed $100 million for 4.01 percent, I believe.

Governor Brown. That is the last bond issue we sold, yes.

Mr. Widnall. Which is considerably less than it costs us to finance on the Federal level. Why isn’t it better from the taxpayer’s standpoint to have it handled on the State level rather than the Federal Government level?

Governor Brown. I don’t know why the Federal Government is paying more than 4.01.

Mr. Widnall. Because of supply and demand, plus the fact that it does not have free play in long-term debt financing. There is plenty of evidence to show if the 4 1/4 percent ceiling were lifted, we would be able to finance cheaper today on a long-term basis.

Mr. Rutherford. Was that a tax-exempt bond, that issue?

Governor Brown. Tax exempt, that is right.

Mr. Rutherford. That would explain the difference.

Governor Brown. Guaranteed by all the credit of the State of California. We have to pay 4-point-plus for the borrowing of this money. It seems to me the Federal Government should be able to control the interest rate a whole lot better than that rather than let it move into the free money market.

Mr. Widnall. I was shocked to learn, Governor, that under your constitution the State usury limit is 10 percent. Now, do you think that is necessary to have a 10-percent usury limit?

Governor Brown. Yes, I do. I think we have to have usury statutes to protect the borrower, whether it should be 10—

Mr. Widnall. Don’t you think that is unconscionably high, 10 percent?

Governor Brown. Well, I can’t tell you the exact figures on the usury rate, but it is somewhere in that neighborhood, and we have raised it recently in certain fields of lending, but it has been that way in California for the last 25 years, anyway.

Mr. Widnall. I felt when I heard about that, you being critical of interest rates paid on a national level and in the mortgage field, that certainly that does seem like a high legitimate rate in your State.

Governor Brown. That is not the rate that people ordinarily pay. It becomes a crime to charge more than that, and there are people that are in extremity that need money, or the security is so poor that they do get it.
Mr. Rains. I would like to point out to the Governor, and some of our members of the Banking and Currency Committee, that the present FHA-insured loan, the credit of the Federal Government back of it, is bouncing against and breaking usury laws in two States already—Maryland and Tennessee—and according to homebuilders there are I forget how many more in which Government mortgages, guaranteed by the Government, are about to violate the usury statutes.

I would also like to point out—and I think I know this from my observation—that in California, not being a primary money market as New York or Chicago, is that interest rates are generally higher in California, and that you get pinched even worse in California, as we do in the South and Southwest, than you do in the metropolitan money centers of the country, isn’t that correct?

Governor Brown. Yes, it is. I spoke with Governor Rockefeller 2 or 3 weeks ago, and he says he pays considerably less on their bond issues than we do in California. The reason for that I can’t tell you. We have tried to sell our bonds, we have a fiscal policy in California balancing the budget, so there is no reason why we shouldn’t be able to have good credit, but we had to postpone for the first time in the history of the State $100 million worth of veterans’ bonds. We have a veterans program there, and we had to postpone this for 60 days, and a construction bond issue of $50 million, because we were paying so much more than the national average, so we postponed it.

The second time it came up, we were closer to the national average, but of course the highest we have ever paid in the history of the State of California, I think except back in 1927 or 1928.

Mr. Widnall. To come back to my previous line of questioning, Governor, the breaking of the usury ceiling in Tennessee and Maryland, when they added to a 5¾-percent interest rate, a half of 1 percent charge for FHA insurance, and that is in the courts now as to its legality. Actually they were talking at that point about a 6-percent usury ceiling, not a 10-percent usury ceiling.

Mr. Rains. Mr. Derwinski of Chicago, Governor.

Mr. Derwinski. I will have the opportunity of attending a dinner in Chicago with your fellow Californian, the gentleman who is now our Vice President, and I think it is fair to say he has plans to occupy the White House next January, so I know at the time you will be happy to be in Sacramento.

Governor Brown. His chance is better than mine, though not far better than that of the Democratic Party.

Mr. Derwinski. Also, if you don’t mind a rather personal question, the rumor has been circulating about the congressional offices here that should you be elected President, you are thinking of naming Mr. Patman as your secretary-treasurer. We would miss him.

Governor Brown. I don’t want to make any commitments, but I can’t think of anyone better.

Mr. Derwinski. We would miss him on this committee, and I am sure the people of the country would understand if you permitted him to remain in Congress.

I have a question, though, Governor. I followed your statement closely, and if you don’t mind an observation, I don’t quite understand what direct relation it has to this legislation we are discussing,
to be specific just how this so-called emergency legislation would help you in California. Could you be a bit more specific?

Governor Brown. I think if this legislation is passed that it will make it easier to borrow money for homebuilding in California, and in that way it will help the entire situation.

Mr. Derwinski. Well, now, let's just assume for the purposes of conversation that this so-called $1 billion emergency will pour $1 billion into the home-financing industry in 1960. One billion dollars would be 3 percent of the $32 billion that was invested in mortgages of, $20,000 and less than in 1959. Therefore, this so-called emergency which we are working with would be alleviated in effect by just 3 percent, and if so, it would still be with us.

Governor Brown. Well, I think even though it is only $1 billion, and with the tremendous rise in the gross national product of our country, it wouldn't be very much, but it has an expanding value, too, and anything that would help, any people that can buy new homes that can borrow money that would ease it at all, I think to that extent would be good, anyway. What is the alternative, do nothing, let it go on the way it is, keep the housing loans going down, and people not building that want to buy homes, and postponing that as against a few more, or if you say only 3 percent, I haven't those figures, but even if you are correct, 3 percent of 10 million families is a substantial number.

Mr. Derwinski. Well, Governor, let me differ. First of all, the administration specifically is not holding down home construction. As a matter of fact, 1959 was the second greatest year in the history of the country in home construction. It certainly doesn't follow it would create an emergency, and I believe you will find if you check nonpartisan economists you will find that it is Government interference that causes the undue fluctuations in home financing, and you will also find that it is Government interference that generally is, if I may use your term, the “depressing effect” on homebuilding.

The less Government interference we have, you will find that our private industry through the imagination of our businessmen, homebuilders, and financiers—manage to get the job done.

Now, for example, we discussed earlier the problem of your banks and their seeming reluctance to participate in home financing. Of course, there is a natural reason for this. The type of investments that a bank is called upon to make limits the amount of funds it could turn into home financing. We understand that is the nature of banking, but you will also find this. We find that the higher interest plateau in California has a detrimental effect on the supply of funds that we have available in Chicago, because your savings and loan associations in California are advertising rates in Illinois that the Chicago association can't compete with; and they are drawing money from Illinois and from other cities out to California; so this is the other side of the coin.

It is too bad you weren't here yesterday. You would have been interested in the comments by some of our members here. The high interest rates are blamed for all the problems in the country, and you would think that interest, as such, is basically evil. You have to appreciate the fact that there are also people receiving a return on investments; and as the interest rates go up, the people that are
the prudent people who have invested their savings in those types of investments receive, in turn, a higher return; so, that it is not a one-way street, there are compensating factors.

Governor Brown. Mr. Congressman, what would you do if you were Governor, though, of California, needing these things, and you can’t get any more taxes, and you find that the interest rate is slowing down the repair of the public plant?

We have to move ahead on these things just like private capital is moving ahead, and we find out that the loans are moving into the private field.

Now, I don’t believe in governmental interference probably any more than you do unless a real emergency exists, but it does seem to me that in this situation one of the purposes of Government is to balance that wheel a little bit; and the high interest rates have attracted money into the larger plants, the people that can pay a substantial premium for the money, and the public plant that can only raise their money by taxes are either delayed, postponed, or something else.

Now, you talk about nonpartisan economists. I find that there aren’t very many nonpartisan economists, and I know I will share with you, like I do with psychiatrists—I can’t understand them, sometimes: one psychiatrist will testify they are sane, another one that they are insane, if you have had anything to do with psychiatrists in the law. The same is true with economists. I have listened to Dr. Galbraith and Keyserling. I see the President’s economists and I see the President’s economists that have left, so I say to you that when the penalty—when you are slowing down the right of people to buy homes and you are slowing down the public plant, the Government ought to take another look at what they are doing. That is the only thesis that I am trying to develop here today.

Mr. DERWINSKI. Let me ask one more question.

Mr. RAiNS. Let’s move along, we have two more witnesses, Mr. Derwinski.

Mr. DERWINSKI. One more question, Mr. Chairman.

I still would like to be shown—maybe the chairman will do it some day—just where this emergency seems to exist. How can you claim that in the year in which you had the second highest number of housing starts you have this sudden emergency? Don’t you think there is a discrepancy in the interpretation of statistics?

Governor Brown. Well, when you have 400,000 more people in the State and you have more children coming along, and you have less people making applications for loans, that seems to me to be a real emergency. I think that people should be able—it is certainly a good thing for the country. It has been my observation, when they buy these homes and move into the bedroom areas of California, they become Republicans, too. They are Democrats until they get the loans and then they become Republicans after they get down there. You should be for it.

Mr. DERWINSKI. Just one last point, if I might make a personal suggestion. You have been serving now a little over a year, and I imagine you have attended some of the Governors’ conferences. I would suggest that you take this in the spirit in which it is given—that on your way back to California you stop in and visit Governor Hanley
of Indiana, or my own Governor Stratton, and they will explain to you the hard work they have put into a program whereby they could have the Federal Government start returning some functions, even taxes, back to the States where you Governors can do a better job of administration.

Governor Brown. They spoke at the Governors' conferences and Rockefeller disagreed with them, and we Democrats sat back and listened to the Republicans dispute these problems, very frankly. I would be glad to talk to anybody that could help.

Mr. Rains. Mr. Fino, of New York.

Mr. Fino. Mr. Chairman, I don't have any questions. I just want to make one observation. I think I heard part of your statement, and coming from the State of New York, I was wondering whether Rockefeller would agree with you that the State of California was first in homebuilding?

Governor Brown. I think he would if he knew the facts in the situation.

Mr. Fino. I think he knows the facts.

Mr. Rains. The record is that it is. The Housing Agency sets up the record that it is the first.

Governor Brown. I think it is true, because we have more of a moving population in California.

Mr. Addonizio. I thought Texas was first in everything.

Mr. Rains. Are there any further questions?

I see my friend Mr. Vanik. Do you have any questions or comments?

Mr. Vanik. I have no questions. Thank you very much.

Mr. Rains. Governor, we are delighted that you would take time out of your busy schedule to come here and give us your viewpoints. We have our differences, as you well know, but that is the way we try to do a good job for the people, and we hope we can.

Thank you very much for coming.

Governor Brown. Thank you for your courtesy.

Mr. Rains. We will take a break for a couple of minutes.
(Short recess taken.)

Mr. Rains. The committee will please be in order.

FURTHER STATEMENT OF HERSHEY GREEER, MORTGAGE BANKERS ASSOCIATION

Mr. Rains. I only had one or two questions, Mr. Greer, that I wanted to ask.

I would have been much happier if you could have supported every provision of the bill, but I know you can't, and I very well understand, but I was pleased to see that you view some of the provisions, at least, in a favorable light, because yesterday the administration witnesses—I want to say I wasn't facetious when I said they were against everything except the enacting clause.

In the light of the mortgage market in Tennessee, do you believe housing starts in that area will fall or go up?

Mr. Greer. Personally, I think they will fall off.

Mr. Rains. You have no authority I assume to speak on that for your organization. I will ask for your personal opinion again.
From the information you have in the mortgage banking business, I have talked with many of your friends, is there any feeling among individual mortgage bankers—and I don’t ask for your association opinion on this—other than the fact that housing starts are likely to go down this year?

Mr. Greer. The ones that I have talked to, several that I have talked to feel that the housing starts will drop this year over 1959.

Mr. Rains. That is all I wanted to know, Mr. Greer.

Mr. Addonizio.

Mr. Addonizio. Mr. Greer, your organization believes that the ceiling on the FHA and VA interest rates should be removed.

Mr. Greer. Right, that is the policy of the association.

Mr. Addonizio. In other words, you believe in so-called flexible interest rates?

Mr. Greer. That is correct.

Mr. Addonizio. Actually isn’t what you mean higher interest rates?

Mr. Greer. We do not mean higher interest rates. I believe in our statement we are not for higher interest rates, but we believe they should be flexible and go with the market.

Mr. Addonizio. And therefore that would be the highest the market demanded?

Mr. Greer. At times.

Mr. Addonizio. Well, aren’t you concerned about the fact that you might be pricing the average home buyer right out of the market if interest rates keep going higher?

Mr. Greer. I think there is a possibility of that, yes, but on the other hand—

Mr. Addonizio. Interest rates since 1952 have already gone up about 35 percent.

Mr. Greer. But we must be competitive.

Mr. Rains. But you would rather be competitive at a lower interest rate than competitive at the top, would you not?

Mr. Greer. I so stated in my statement here, that the mortgage bankers like the low interest rate; yes, sir.

Mr. Rains. This morning we had another distinguished Tennessean before the committee, Mr. Bartling, president of the homebuilders.

Mr. Greer. Yes, I know him.

Mr. Rains. And he related to us the story we already knew, that the situation of the mortgage bankers, and I assume you are one of them in Tennessee, with reference to the usury law is that you don’t know exactly where you are until you get a court decision; is that correct?

Mr. Greer. That is correct, the chancellor has ruled that the mortgage insurance payment is not usury, is not considered interest, but that is not the decision of the Supreme Court.

Mr. Rains. Mr. Widnall, have you any questions?

Mr. Widnall. Just one question, Mr. Greer.

If housing starts are down during this coming year from what they were last year, what do you feel about the gross national product? Do you think that that will be increased or decreased during the year?

Mr. Greer. Mr. Neel, will you answer that for the association?
Mr. Neel. I would imagine, Mr. Widnall, in the first place I would say that the evidence that we have points to a very modest decrease, although it points to a decrease, and it is based on a lot of factors, one of which is decisions that individuals make as to what they are going to buy with the resources that are available to them, and I not being a trained economist, I don't know that my answer is entirely valid, but I would assume that the gross national product could very well increase even though housing starts fell off to a modest degree, because it would seem to me that what we are talking about is the ability of the people to finance all sorts of things, and housing is only one of those items.

Mr. Widnall. You haven't within your own group made any study of that?

Mr. Neel. No; we have not, sir.

Mr. Rains. Mr. Ashley.

Mr. Ashley. Mr. Greer, I wonder what the position of your association was in connection with the legislation similar to this which was enacted in 1958?

Mr. Greer. I was not on the legislative committee at that time. I think Mr. Neel could answer that, being general counsel of the MBA. I was not on the legislative committee at that time, so I could not answer that.

Mr. Neel. I think, Mr. Ashley, the association made very similar testimony to what we did this morning, we have, ever since I can recall, believed it was unwise to try to protect a rate of insurance by infusions of what we call—well, let's use a word nobody can quarrel with, additional financing in order to support a submarginal rate, which is what we believe this Fannie Mae financing is, and I believe the testimony was very similar to what we have given today.

Mr. Ashley. In other words, you don't think it is a good device to bring about a lower interest rate level?

Mr. Neel. We have never felt that it brought about a lower interest rate level, Mr. Ashley, in any significant degree. What it is to enable a few persons operating in the market to have an outlet for loans with minimum down payments and longer maturities, but an insignificant part of the total market, and once that short infusion was over we don't think it had any significant effects to date.

Mr. Ashley. In retrospect, is it the position of your association that the legislation in 1958 was a good or bad thing?

Mr. Neel. Well, with respect to the operations of Fannie Mae, we would say that it was not a good thing, if this is what you are referring to, although may I also point out that so far as the operations of Fannie Mae in general are concerned, that is the existence of the agency in the true secondary market, we have supported that. It is simply the funds available to the agency to buy loans at unmarketable rates which we have objected to, not the operations of the agency as a supporting operation.

Mr. Ashley. This is interesting to me. There isn't a mortgage banker in the Toledo area that I think would share the position that you have just enunciated, which seems rather strange. If there were more time I might go into the question with you as to how your policy is arrived at, because I think that might be interesting to the committee.
Is it the position of the association, or is it the thinking of your association that new starts in the next year will decline?

Mr. Neel. As an association official, Mr. Ashley, we haven't officially made any prognostications. I would say that the majority of people in the business would agree with Mr. Greer's personal conclusions that a modest reduction in starts in single family houses is probably in the cards, but we haven't made any predictions; we don't do that.

Mr. Ashley. Would it be the position of these same individuals that this is a good or bad thing?

Mr. Neel. Well, it would be hard for me to say. I don't think that the members of MBA as such have any desire to see housing starts curtailed. They have a desire, on the contrary, I think, to see that this is a healthy industry, and as Mr. Greer has pointed out this means at least a quasi-adequate supply of funds for a generally rising product.

Mr. Ashley. You feel it is necessary to curtail inflation, and I dare say most of the members of your association would tend to agree with the policies of the administration, and I was just wondering if there wouldn't possibly be a point at which there would be a rub if they really and truly feel that it is not in the national interest to have a decline in new housing starts then they would have to review their thinking, perhaps, with respect to policies that should be followed.

Mr. Neel. Yes, I think that is a fairly reasonable statement. Our feelings have always been that housing and housing finance ought to have the same access to the pools or resources of credit as other forms of credit, and what we have said consistently, I think consistently, is that any artificial barriers that the Congress throws in the way of giving access to people who want to buy houses, access to the same funds that others have, operates to restrict their ability to buy houses.

Mr. Ashley. Do you think that housing, as an industry, is getting, in a period of tight money, the same opportunity as, say, consumer credit, or the credit that is available to industry?

Mr. Neel. In other than the Government guaranteed and insured programs, I think it does, Mr. Ashley, and I think that the statistics on nonfarm recordings of conventional loans would bear this out. It is a consistently rising pattern with modest variation. The disruption and the discrepancy in these figures——

Mr. Ashley. But aren't a lot of those backed up by second mortgages? I would have to ask that in response to your answer, and I would further have to ask for whom is this credit buying homes today? Is it for the medium income family, or is it for the higher income family? Whose needs are we meeting?

Mr. Neel. I think we are meeting very many of the needs of the lower income family, Mr. Ashley.

Mr. Ashley. Without a second mortgage?

Mr. Neel. I think there are a lot of second mortgages, and we take a very dim view of the second mortgage business, but the fact that you can get second mortgages without restriction which I say we do not view with favor, the fact that these are available is the means by which people are able to take advantage, and to compete with this other money. I don't say it is a good thing.
Mr. Ashley. You don't make a convincing case that the building industry is getting a fair shot at total available credit in a tight money period. They are not, because of the conditions that you add to that with respect to second mortgages, and so forth.

I think that it would appear on the basis of your colloquy that certainly industry would have a better shot at credit, and that other sectors of our economy, as well.

Mr. Neel. Well, I think I would agree with you that a corporation operating under the conditions that it operates under finds it far easier to have access to the available sources, there is no question about that.

Now, we would have to try to define what the word "fair" is. All that I know is, for example—I do have one set of figures you might be interested in, from January through November, 1959, 3,489,000 mortgages of $20,000 or under were recorded with a total valuation of $29,748 million. This figure exceeds the previous record annual total, and indicates a year-end total of close to $32 billion, so that about all I can say is that in 1959, more mortgages of $20,000 and under were recorded than any other similar period in the history of the country.

Now, this implies that some share of funds, whether it is "fair" or not, we might argue about, but some reasonable quantity of money is going into mortgages somehow.

Mr. Ashley. $20,000 and under?

Mr. Neel. That is what these figures are, yes. Those are the only figures we have available. That is the way they come in from the Bureau of Labor Statistics.

Mr. Ashley. We heard this morning that the median price house has gone from 1953 to 1959 from $12,100 to $13,800. Perhaps you were here and heard that this morning.

So with respect to the $20,000 figure, we shouldn't perhaps necessarily assume that that is the median priced house.

Mr. Neel. No, these figures aren't broken down.

Mr. Ashley. I am glad to have the figures in the record. Thank you, sir.

Mr. Rains. Mr. Derwinski.

Mr. Derwinski. I would like to compliment you gentlemen on a very fine presentation. I think your statement, Mr. Greer, is very logical and effective in explaining to the committee your position as well as your consistency.

Mr. Ashley, for your information, every year since 1944 the percentage of mortgage debt to all private debt has been increasing. In other words, from the practical standpoint this means that the home financing industry, the home building industry has had more and more share of the national funds available each year, so they aren't suffering in respect to competing—

Mr. Ashley. Your conclusions are wonderful. That may be true, but you can't say therefore they are not suffering, and therefore the picture is not as you paint it. I don't agree with you. I think that your figures may be accurate, but your conclusion is your own.

Mr. Derwinski. We will I am sure debate that later in the committee.
On page 4 of your statement, at that point I think you were quoting a recent statement I imagine in some publication, and you make the point, as I viewed it, that the Emergency Housing Act of 1958 actually had an effect after the recession had terminated and the revival commenced.

Mr. Greer. That is right.
Mr. Derwinski. Now, let's assume that there might be an emergency in 1960. Would not perhaps the same procedure follow? In other words, this so-called emergency housing bill of 1960 seems to presume an emergency. Now, wouldn't it follow that the emergency may have passed before the effect of the legislation would have been felt?

Mr. Greer. It may. We don't feel that the emergency exists at the present time.
Mr. Derwinski. Thank you.
Mrs. Griffiths. Mr. Chairman, may I ask a question?
Mr. Rains. Mrs. Griffiths.
Mrs. Griffiths. Mr. Greer, to what do you attribute the fact that housing starts will fall this year? Do you think it is because everyone who wants a house has one, or because everyone who can pay for one has one, or to what do you attribute it? Are there fewer people?
Mr. Greer. I think the tight money situation has something to do with it.
Mrs. Griffiths. Thank you.
Mr. Rains. Thank you, gentlemen, for appearing.
Our last witness is Mr. Alfred D. Stalford, president of the Institutional Mortgage Co. of Miami, Fla.
Mr. Stalford. Before testifying, I don't claim to be a cousin of Governor Brown, yet I will point out our main office is in Beverly Hills, Calif.
Mr. Rains. We are glad to have you.

STATEMENT OF ALFRED D. STALFORD, LEGISLATIVE CHAIRMAN, COOPERATIVE HOUSING BUILDERS OF AMERICA

Mr. Stalford. Mr. Chairman and members of the committee, we are very pleased to have this opportunity to present to the committee our suggestions concerning the legislation which is now before you.

The following statement has been prepared and is being submitted to the committee by Alfred D. Stalford as legislative chairman and on behalf of the Cooperative Housing Builders of America, a non-profit corporation, whose membership consists of the major cooperative housing builders in America. The membership of this specialized group has constructed in excess of $250 million of homes during the past year.

In addition to my position as legislative chairman of our association, I am also president of Institutional Mortgage Co. of Beverly Hills, Calif., with offices in San Francisco, Phoenix, and Miami, and our own mortgage sales office located in New York City. Institutional Mortgage Co. is the largest originator of FHA section 213 mortgages in the country. We have been one of the leaders and proponents of the section 213 program. Our company is servicing in ex-
cess of $240 million Government-insured and guaranteed mortgages, and we are currently originating new mortgages at the rate of $50 million per year, of which a major proportion of our originations are loans insured under the section 213 program.

It is with this background of both the members of our association and my extensive experience in the field of mortgage financing that I appear before your committee to present this testimony. It is to be further noted that our association membership consists of builders currently operating in almost all regions of this country and further that my mortgage lending operations have been geographically distributed in the States of California, Arizona and Florida and, accordingly, our views are presented at a nationwide level rather than any particular localized section of the country.

Our membership has constantly strived to provide better quality housing at lower prices in an attempt to help meet the tremendous demand for middle-income housing at prices and on terms that a vast majority of our population may enjoy homeownership where other Government-aided programs or conventionally financed housing projects have not been able to adequately meet their needs. The major problem confronting our homebuilders today is the increasing cost of obtaining mortgage money for their developments. This country has been experiencing an increasing tightness of money since the summer of 1959, and the availability of mortgage money has been drastically curtailed as interest rates have risen on all forms of Government and corporate debentures to a point where Government guaranteed mortgages at a restricted interest rate have become less and less attractive to the banks, insurance companies, and savings and loans of this country. The increase to 5¾ percent interest rate for FHA insured home loans as approved in the Housing Act of 1959 as passed last September has unfortunately proven to be “too little, too late.” Although at the time the Housing Act of 1959 was first introduced, and testimony given before your subcommittee just 1 year ago, the 5¾ percent interest rate on FHA home loans would have proven adequate and loans bearing that interest rate could have sold at prices close to par, mortgage money was considerably tighter by September of last year and those mortgages were selling at a discounted price of between 95 and 96 at the time of adoption of the Housing Act of 1959.

I am sorry to report to your committee that those same loans that were selling at prices of 95 to 96 last September are now selling in the secondary market at prices of 92 to 93 on a nationwide basis in areas other than the northeastern section of our country. I am speaking of mortgages on properties located in other than the northeastern section.

As most economists predict even higher interest rates in the months ahead, there is no question that mortgage prices will go still lower in order to make the yield attractive and competitive with other forms of investment. The policy of the Treasury in offering short-term debentures of less than 5-years duration at a 5-percent interest rate had a devastating effect on the savings deposits of the savings banks and savings and loans of our country when small investors recognize the opportunity to switch their savings from savings accounts yielding 3½- to 4-percent interest to comparatively short-
term Government bonds paying a 5-percent return on investment. We, therefore, find that the Treasury is not only making mortgage loans unattractive for investment by our savings institutions by offering Government issues yielding better than a 5-percent return but further making these issues attractive to the small investor has caused deposit runoffs in almost every savings institution in this country thus further depleting the amount of savings available for investment in mortgages.

We have not really felt the impact that tight money will play in cutting back new housing starts as most builders have obtained advance commitments from their lending institutions and mortgage companies during the past year which have enabled them to continue new starts at a fairly high level.

However, these advance commitments are fast becoming depleted and we believe that the real cutback in housing will be felt with far greater impact during the first quarter of 1960 than was experienced in the last quarter of 1959. It is our opinion that the housing start figures of the last few months in no way properly reflect the sharp cutbacks which are predicted by our membership during 1960 unless additional special assistance funds are made available for FNMA to help level out the peaks and valleys of the building industry. Our association would like to go on record at this time as being bitterly opposed to the administration’s policy of stimulating housing in times of high unemployment and general business slowdowns and casting aside the problems of the building industry in times when other elements of our economy are enjoying normal production and expansion.

It has been recognized that the housing industry was a major factor in pulling this country out of the recession experienced in 1956 and 1957 through the benefits of the Emergency Housing Act of 1958 which was adopted on April 1 of that year. That Housing Act referred to provided a twofold purpose by providing FNMA special assistance funds at favorable mortgage prices to those builders willing to build houses with mortgages of $13,500 or less and that it provided the much needed mortgage money at a realistic price and provided much needed housing for middle-income families.

It was most unfortunate that the Emergency Housing Act of 1958 failed to include provision for FNMA to purchase FHA section 213 loans of $13,500 or less, which we brought to the attention of your committee in our testimony 1-year ago and which oversight we are happy to note has been corrected in H.R. 9371 now under consideration.

We would like to compliment Mr. Rains for his foresight and recognition of this major problem of tight money now confronting the building industry in his proposing what we believe to be a much needed interim housing bill known as H.R. 9371 as one of the first pieces of legislation introduced into the House of Representatives this early in the 2d session of the 86th Congress. His recognition of the problems facing the building industry during the time Congress was adjourned, and his early introduction of what we agreed to be an emergency measure is, indeed, to be commended.

Section 2 of the bill may very well prove to be an important step forward in making FHA mortgages eligible for ownership by in-
dividends, pension funds, and associations which do not meet the present FHA requirement of being a corporation.

Section 3 providing for the reduction of the FHA mortgage insurance premium from $\frac{1}{2}$ percent to $\frac{1}{4}$ percent was one of the legislative proposals submitted in our testimony before this subcommittee 1 year ago and one in which we were highly in accord considering the extremely favorable actuarial experience enjoyed by FHA in the past and the generally accepted belief that the mortgage insurance premium could be reduced to $\frac{1}{4}$ percent without endangering the safety factor and reserves developed by FHA.

We are hopeful that the adoption of this reduced premium for the 1-year period following the enactment of this legislation will be the forerunner of an authority to the FHA Commissioner to have the permanent authority to reduce this premium to $\frac{1}{4}$ percent as conditions permit. This reduction of $\frac{1}{4}$ percent in premium will reduce the initial monthly payment on a $13,500 mortgage loan by $2.80. Although this may sound to be an insignificant savings, I wish to assure this committee that every few dollars of additional carrying charge per month has made more and more families ineligible to qualify income-wise to purchase new housing.

Section 4 spelling out that one of the purposes of FNMA, in its secondary mortgage operations, is to aid in the stabilization of the mortgage market will reaffirm to the industry the important role that this agency has played and we are hopeful will continue to play in being one of the few glimmering rays of hope for the mortgage industry through this tight money period.

Although the secondary market operations of FNMA cannot be expected to do the whole job, this agency has been literally a lifesaver in providing an even flow of mortgage funds when money has not been made available in adequate supply from the lending institutions of this country. I can assure your committee that if it were not for the secondary market operations of FNMA, the home building industry would be in a chaotic condition today. Although we do not like to be so heavily dependent upon the flow of mortgage money from one source, namely FNMA, we must resort to the facilities of that agency in increasing proportions when the Administration's policy of increasingly tight money and higher interest rates has diminished the available supply of mortgage money from our Nation's lending institutions.

Section 5 providing during the 1-year period following the enactment of this law that FNMA purchase any mortgage which is offered to it so long as title to the property is good and the mortgage is otherwise eligible and not in default will prove to be an important aid in permitting mortgage originators and homebuilders to more reliably depend on the eligibility of a mortgage for purchase by FNMA under its secondary market operations. To emphasize this point, under FNMA's secondary mortgage operations it issues no advance commitments (other than standby commitments at lower prices) to purchase any loan and it becomes necessary for a mortgage originator such as my company to originate each mortgage after completion of construction, obtain FHA's insurance endorsement and then and for the first time be in a position to offer each such loan to FNMA for pur-
purchase, not knowing in advance if the loan is acceptable to FNMA from either a credit or location standpoint.

Considering that either the FHA or the VA have approved both the credit of the purchaser and the location of the property in addition to similar approvals from the mortgage originator, we do not believe that this will in any way adversely affect the quality of the loans to be acquired by FNMA.

Section 6 prohibits FNMA, for a 1-year period, from selling or otherwise disposing of any mortgage which it may hold. We favor this proposal as any sales of mortgages from its portfolio will compete with the sale of newly originated mortgages during a period of an exceptionally tight mortgage market. Since lending institutions generally limit the ratio of mortgages to total assets in their portfolio, any mortgages that are acquired from FNMA by either a purchase or exchange would in direct proportion reduce the amount of loans that those institutions would otherwise purchase in the secondary market.

Section 7 would reduce the FNMA stock purchase requirement under their secondary market operations from 2 to 1 percent of the amount of loans sold to that agency. We favor this proposal as this will directly reduce the cost of financing to the builder which savings in turn could be passed on to the ultimate consumer.

Section 8 requiring FNMA to pay not less than par for any mortgage under its special assistance functions would be highly desirable in helping to reduce the cost of housing to the ultimate consumer. The discount that a builder must pay on his mortgages is part of his construction cost and the reduction in discount provided by this section results in substantial reductions in sales price of houses and, accordingly, reduction in the amount of mortgage to be undertaken by home purchasers.

Section 9 reducing FNMA fees under special assistance programs from 1½ to 1 percent would likewise reduce financing expense to the builder and again would affect savings to be passed on to the consumer.

Section 10 amends the National Housing Act to clarify that mortgages on cooperative housing insured by FHA under section 213 would be eligible for purchase by FNMA under its program 10 special assistance operations provided the average mortgage per unit complies with the $13,500 per unit limitation.

As we stated above, our association brought to the attention of your committee in our testimony 1 year ago the fact that FNMA did not include in its special assistance program 10 section 213 loans even though the average per unit did not exceed the $13,500 limitation because Congress did not specifically include section 213 loans. As section 213 has been an important factor in providing middle-income housing, we believe that this inclusion of section 213 at this time to be a very important part of this legislation before you.

We wish to further point out that the additional $25 million allocation approved by Congress in the Housing Act of 1959 for additional special assistance aid in purchasing cooperative housing mortgages under program 6 has yet to be made available by FNMA because of the failure of the Administration to release these funds. The builder sponsored fund under special assistance program 6 providing for the purchase of cooperative housing mortgages has been
depleted for the past several months and the $12½ million allocation of the total $25 million fund provided by the Housing Act of 1959, is now sorely needed but has not been made available.

Section 11 provides an additional $1 billion total for FNMA program 10 special assistance operations. We believe this fund to be desperately needed and if such amount is approved by Congress and released to FNMA by the administration, it will serve as a very important aid to the homebuilding industry in providing an adequate continuous flow of mortgage funds to meet the needs of families in the middle-income bracket. Statistics have shown that the average priced house was substantially reduced in late 1958 and early 1959 as a direct result of the $1 billion fund provided for program 10 for FNMA under the Emergency Housing Act of 1958, and we have every reason to believe that this same experience will be repeated again in 1960 if this legislation now being considered is adopted.

We also favor the provision increasing the $13,500 limit by not more than $1,000 in high-cost areas to adequately include under this program housing to be built in urban areas where high-cost levels prevail.

Thank you.

Mr. Rains. Thank you, Mr. Stalford. I am glad to see that you support the provisions of our bill, and knowing that you have got to catch a plane, or having been told that, at about 5 o'clock, we will keep our questioning brief.

Mr. Stalford. I have ample time, sir.

Mr. Rains. I note from your statement that you are the president or director of a large banking institution with offices in Beverly Hills, Calif., San Francisco, Phoenix and Miami.

You were here a moment ago when Mr. Greer and Mr. Neel testified that mortgage bankers are in opposition to providing any FNMA special assistance.

Would you say, Mr. Stalford, it would be fair to say that a considerable number of mortgage bankers generally throughout the country disagree with the official position stated by the Mortgage Bankers Association?

Mr. Stalford. Publicly they agree with the MBA position, basically because they would rather find another means of providing mortgage money for their customers rather than FNMA.

Mr. Rains. You would rather do that, would you not?

Mr. Stalford. Yes, but I am always realistic to know that we are not just going to push a button and all of a sudden have a billion dollars of extra funds fall in the laps of the savings and loans and life insurance companies.

Mr. Rains. I would like the record to show that I favor your position. I wish it were not necessary, but when you face the facts and the realities in existence, you have to do the best you can, and under the circumstances you feel this bill is the best that we can do?

Mr. Stalford. Yes, under the circumstances. In our testimony just 1 year ago, we favored additional funds for program 6 of FNMA for cooperative housing, in the absence of a freer money market, and one which permitted mortgage rates to hold to a much lower level than they are now. When the investable funds of our lending
institutions of our country find Government bonds and corporate bonds more attractive than mortgages, then we have to resort to Government assistance to help us over the tight situation.

Mr. Rains. Mr. Addonizio?

Mr. Addonizio. I have one question, Mr. Chairman.

Mr. Stalford, on page 4 of your statement you point out that the advance financing taken out last year is rapidly being depleted, and therefore you believe the real cutback in housing will begin to show up in statistics available for the first quarter of 1960.

Of course the Administration witnesses told us yesterday that the money market conditions were going to ease up, and that housing would not fall off very much.

I am sure that you feel that their position is overly optimistic, and certainly not justified by the facts as you see them.

Would you care to comment about that?

Mr. Stalford. Yes, I would. First of all, the Administration is using a housing start figure for the month of December that I personally don't feel properly reflects the situation.

As I point out, builders usually obtain mortgage commitments from their lenders many many months in advance.

I think the more significant figure, had the Administration testified the other way, would have been that they would have produced the figure of the falloff in new applications for FHA loans and for VA appraisals.

I am not going to accept, sir, necessarily the correctness of the figures that we have been using; that we have had 1,300,000-plus starts a year. I use my own company as an example, and our own association, and we have a pretty good cross section of the country in our dealings, and we find a severe cutback in housing sales the last 2 months of last year, and I think that this is a direct result of increasing mortgage discounts forcing the builders to raise their prices to a point where the monthly carrying charge is getting beyond the paying ability of our home purchasers, and this is the greatest thing we have to face in the building industry today is having to pass these mortgage discounts on to the home purchaser in the form of an increased sales price, in turn an increased mortgage amount, and in turn an increased monthly carrying charge at higher interest rates.

Mr. Addonizio. Thank you.

Mr. Rains. Mr. Widnall.

Mr. Widnall. What amount of your own mortgages have been placed by Fannie Mae?

Mr. Stalford. In the year 1959, or let's take our service in portfolio of over $240 million. Approximately $50 to $60 million of it is for Fannie Mae. We have used Fannie Mae's facilities to a much greater extent in the year 1959 than previously.

I would like also to bring one thing to the attention of your committee, and that is the effects of the Emergency Housing Act of 1958 really poured into the first half of 1959, because the $1 billion fund made available by Congress was not let out by Fannie Mae at one time, but was let out in pieces, and many of their commitments for parts of that $1 billion were not issued until late in 1958, which reflects themselves in housing starts in 1959, so the Emergency Housing Act of 1958
is without question entitled to a good share of the credit for housing starts in the year 1959, and without the emergency act before us, or some similar substitute, you are going to find that the starts in 1960 have got to be a failure.

Mr. Widnall. On page 10 you said you wished to point out the additional 25 million allocation approved by Congress yet to be made available by Fannie Mae—this is the first I had heard of that. I wasn’t aware of that. Has any reason been given you?

Mr. Stalford. It is contrary to the policy of the Bureau of the Budget to make those funds available to Fannie Mae to release on to the public, in the same manner as they doled out the billion dollars under the emergency act of 1958—well, I shouldn’t say in the same manner, because here they have completely withheld the full $25 million.

Now, that is only a drop in the bucket, and I can’t be convinced this is going to upset the economy of our country to carry out the wish of Congress, but nonetheless the Budget Bureau has decided that we had better not release these funds because they are liable to carry out your intent.

Mr. Addonizio. Does FHA or rather Fannie Mae agree with the Bureau of the Budget?

Mr. Stalford. FHA has nothing to do with it, it is Fannie Mae. Let us say that it is Fannie Mae’s policy to accept the policy of the next higher agency, namely the Bureau of the Budget.

Mr. Addonizio. Thank you.

Mr. Rains. I had to leave the other day before we got through with Mr. Mason, and that was one of the things I wanted to ask Mr. Baughman about. I want to see the language involved in that. After all, Congress is supposed to write the laws, not the Bureau of the Budget, and I for one am getting burned up with the idea that the Bureau of the Budget can say what will and what will not be done after the Congress acts on it. I think we all ought to—whether we like the measure or not, insist when Congress passes the law, it be put into effect.

Mr. Widnall. I have one more question.

You say the policy of the Treasury in offering short-term debentures of less than 5 years’ duration—has the Treasury any choice?

Mr. Stalford. No, I agree with you, Mr. Widnall, that the policy is created by circumstances, and I am not blaming the Treasury. I am blaming a situation that has in turn caused a tight money market for mortgage financing. There is no question in my mind that this ceiling of 4¼ percent on long-term Government bonds is having an adverse effect on the supply of mortgage money.

Mr. Rains. And that causes me to ask a question. Why didn’t it have an adverse effect on it back when we didn’t have the high interest rates we have at present?

Mr. Stalford. I think between the Federal Reserve and the Treasury, the supply of money is made limited, or is not adequate to meet the expansion needs of this country, and now there are such heavy demands upon the money market for things like Governor Brown spoke about, expansion.

Mr. Rains. I agree that the demand is on, Mr. Stalford, but I am not willing to agree that the initial fault is with the Congress. I
want that clearly understood, because we have taken no action one way or the other that fixed the cards so that we are told that the only way out is to take off the ceiling on interest rates.

Mr. Stalford. It may appear that Congress is the one responsible, but I think there are too many other policies going down the line within the administration that are adversely affecting the whole situation.

Now, an easy source or an easy way to blame someone is to say Congress isn't releasing that 4¼-percent rate, and accordingly we have got to compete with mortgage money with short-term high-interest-rate bonds.

Mr. Rains. Of course, that is a side issue for housing, but it is going to be a very important one in this session of Congress, I am well aware of that.

Mr. Stalford. It has its effect on our supply of money; that is the unfortunate part of it.

Mr. Rains. I want to thank you, and I hope we didn't keep you too late to catch your plane. I appreciate your coming, and you made a good and excellent witness.

Tomorrow the committee will meet at 10 o'clock in room 429 of the Old House Office Building, which is the Education and Labor Committee Room. Our committee room is having new lights put in it and we can't meet there. The day after tomorrow we will be back in this same room, but tomorrow we will be in room 429 of the Old House Office Building.

The committee will now stand in recess.

(Whereupon, at 3:55 p.m., the subcommittee adjourned until 10 a.m., Wednesday, January 27, 1960, in room 429, Old House Office Building.)
EMERGENCY HOMEOWNERSHIP ACT

WEDNESDAY, JANUARY 27, 1960

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING OF THE
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met, at 10 a.m., pursuant to adjournment, in Room 429, Old House Office Building, Hon. Hugh J. Addonizio presiding.

Present: Mr. Addonizio (presiding), Mr. Barrett, Mrs. Sullivan, Mr. Ashley, Mrs. Griffiths, and Mr. Widnall.

Mr. Addonizio (presiding). The committee will be in order.

Before we begin, might I just announce the fact that our very distinguished chairman, Mr. Rains, unfortunately is home ill with the grippe and can't be here this morning. He asked me to convey his regrets because he very much wanted to be present to hear the very fine testimony that we expect to hear from all of our witnesses who are here this morning.

Our first witness will be Mr. Leon H. Keyserling, who is representing the National Housing Conference.

Mr. Keyserling, will you come forward, please?

I regret there aren't more members present, but I am sure before your statement is finished some of them will be here.

STATEMENT OF LEON H. KEYSERLING, NATIONAL HOUSING CONFERENCE

Mr. Keyserling. Mr. Chairman and members of the committee, I very much appreciate this opportunity to appear here on behalf of the National Housing Conference, an organization which has been a devoted friend of the American people interested in better housing for two decades or longer. I am appearing also as an independent economist, interested in the relationship between housing and the economic and human problems we have to deal with.

I looked through the testimony of the Administrator of the Housing and Home Financing Agency, delivered 2 days ago, in order to try to discover the rationale of his opposition to a bill which seems to me to be as needed and as sound and as important as the bill before you in all its parts.

In this connection, may I say that I am not here for any partisan purpose whatsoever. One of the things I recall most pleasantly is that I was one of the participants in the joint efforts of the late Senator Wagner and Senator Ellender and the late Senator Taft to develop a comprehensive housing program for the American people
without regard to partisanship. And going back all the way to 1933, which is a long time ago——

Mr. Addonizio. Might I interject to say that the other day there was colloquy between the members of the committee indicating there was no such thing as a nonpartisan economist. Do you agree with that?

Mr. Keyserling. Well, it depends on how you define politics. I am not nonpolitical, in that politics plays a part in the lives of free people, and in that sense we all should be political. But today I am going to be nonpartisan.

I referred in opening to the testimony of the Housing Administrator. I tried to find in that testimony the reasons why anyone should be opposed to this bill, and it became very clear to me that that testimony did not deal primarily with the housing problems of the country; it did not deal primarily with the housing needs of the people; it did not deal primarily with how much housing we need, or of what kind, or at what costs. I dealt with another very important subject, and therefore I am going to devote my attention, primarily, to that subject. It dealt with the argument that this bill is economically and financially unsound for a variety of reasons.

To summarize these reasons, as I gather from the testimony of the Housing Administrator, the argument is, first, that we may look forward cheerfully to getting an adequate level of housing from the viewpoint of the operations of the economy as a whole, and from the viewpoint of our requirements for economic activity. In fact, the Administrator of the Housing and Home Financing Agency said that the recent level of housing production of about 1.3 million housing starts was very near the highest on record, that about that much was going to be achieved in the future, and that this was exceedingly good. He made it very clear, although there is some contradiction in his testimony, that by and large he feared that a larger volume of housing construction would be inflationary.

He also made it clear that he thought that there was not much concern to be expressed about the high interest rates on housing, the high carrying cost to the homeowner. There is some conflict on this score, too, because in one part of his testimony he says we must retain some of the premium charges, which this bill seeks to reduce or remove, in order to bring out an adequate volume of housing finance; and, on the other hand, he seems to say that he wants to guard the country against the inflation which results from high housing costs.

I therefore would like to call to the attention of the committee that the opposition to this bill is not a housing opposition; it is an economic
opposition. The testimony of the Housing Administrator is really in capsule form, and I say this with no disparagement, the view of the Federal Reserve Board and Treasury Department and the view of the Budget Bureau. The bookkeepers have taken over our national economic and financial policies; and the bookkeepers are opposed to doing those things which in my judgment are essential to a sound economy, to a sound management of our financial affairs, and to recognition that in the final analysis the wealth of the country is based upon production and employment and meeting the needs of the people. The opposition to this bill is a bookkeeper's opposition.

Now, since I am familiar with bookkeepers, I am going to show that these particular bookkeepers are wrong, at least I am going to try to show it to your satisfaction.

Basically, I am going to challenge them on all points. I am going to challenge them first on their view that we have had or are likely to have an adequate level of housing construction from the viewpoint of the needs of the people. Second, I am going to challenge them on their view that the level of housing construction recently or prospectively is high enough from the viewpoint of the appropriate part which residential construction should play in the maintenance of the maximum employment and production objectives of the Employment Act of 1946.

Third, I am going to challenge them on the ground that their policies are not designed to prevent an inflationary spiral in housing costs, but instead are admirably designed to promote just that kind of inflation. And on this basis, I am going to indicate that the provisions of this bill are designed to accomplish the opposite effect, to move us toward a more adequate level of housing, more adequate level of production and employment, and less inflation.

Of course, this bill is not proposed to be a complete housing program. There are many elements in a complete housing program with which this bill doesn't deal. However, the provisions of this bill, I feel, are sound, and I will not address myself to the details of the bill but rather to the general setting in which the bill finds itself.

Now, the first point I want to make is that it takes a year or longer to build housing, and people live in housing for a great many years. Therefore, to consider the housing problem in terms of just a few months or a few weeks is one of the most irrational aspects of the whole mistake which some people have gotten into of considering all of our economic problems in terms of a few weeks or a few months, and taking positions based upon sudden changes in the economic situation of a short-range character, so that what they propose would
be too late by the time they could get it effectuated, even if it were right initially.

My basic position is, and this is corroborated—again as evidence of nonpartisanship—by Mr. Alan Dulles of the Central Intelligence Agency. In fact, it is corroborated by almost anybody who has informed intelligence about our economic problems. My position is that we in the United States have been caught, ever since the end of the Korean war removed the automatic galvanizing effect of wartime stimulation, in what I call a long-term departure from full employment and full production.

We have had some upturns, we have had some downturns, but we have averaged a very poor economic performance, which in the view of the new technology has given us a gradually rising level of chronic unemployment.

One way of expressing this is to say that the American economic growth rate has been very much too low in terms of our own potentials, very much too low in terms of the Soviet challenge, very much too low in terms of yielding the public revenues which are needed at existing tax rates to meet our great public needs. So we have already become a second-class power in one thing at least of vital importance, and are on our way to becoming a second-class power in many other things simply because we are not evoking through private and public economic policies the level of employment and production which our technology and our growing labor force and our improved skills and our gifts for management and our private enterprise system and our free government entitle us to.

Very briefly, I want to show you our first chart, which deals with this problem of how far we are falling behind in the development of the economic potentials of the country, and lest you think I am going far astray, I am going to relate this directly to the problem of housing construction.
GROWTH RATES, U.S. ECONOMY, 1920-1959

Average Annual Rates of Change in Gross National Product
(in Uniform Dollars)

**Long term "Historic"**
- 3.1% (1920-58)

**Depression "Era"**
- 0.9% (1929-33)
- -8.7% (1933-39)
- 7.2% (1939-45)

**War Eras**
- 5.5% (1939-47)
- 9.1% (1945-47)
- 5.3% (1950-53)

**Long term "Historic" Excl. Depression and War Eras**
- 3.0% (1920-58 Excl. 1929-47 and 1950-53)

**Periods other than Depression and War**
- 3.0% (1920-29)
- 3.5% (1947-50)
- 4.1% (1953-58)

**Period of Peace and War**
- 1.3% (Post World War II)
- 4.7% (1947-53)

**Detail of Post Korean War Period**
- 1.3% (1953-55)
- 2.5% (1955-56)
- 6.5% (1958-59 est.)
- 2.3% (1953-59 est.)
This first chart, to my mind, is a very useful thing to be considered on the basis of the Administrator of the Housing and Home Finance Agency’s opposition to this bill. You will recall that the first point of his opposition was that we needed something of this sort in early 1958 because we were suffering from excessive unemployment, but don’t need it in early 1960 because the economic situation is entirely different.

He calls attention to the statement in the President’s Economic Report that we are in a great surge forward. He calls attention that employment in December was higher than ever before, according to his statistics.

The trouble with his position is that this whole argument of “higher than ever before” is not taking account of the growing needs of the country. It is perfectly possible in early 1960 to have a higher level of employment than ever before, and still to have an intolerably high level of unemployment, based upon the fact that your civilian labor force is bigger than it was before the last recession.

As a matter of fact, the national economic policies which give us a recession every other year, and then a recovery every other year, will always at the top of the latest recovery be able to claim that we are higher than we were at the top of the previous recovery, if you are only looking at the employment figure.

But when you look at the unemployment figure, when you look at the plant disutilization figure, when you look at whether we are keeping up with the technology and productivity and growing labor face of the American economy, we are not higher than ever before. We are merely, today, in a particular stage of a long-term record of very low economic growth, gradually accruing more chronic unemployment. Even conservative businessmen are now worrying about the problem of whether the next recession will come in late 1960, or whether by virtue of the steel strike the next recession will be delayed until 1961.

This is not just my appraisal. This is the general appraisal which you will find even in the conservative business journals. In other words, there is recognition that we have not moved up at all on the problem of getting enough distribution, enough flow to our people of hard goods and soft goods, and military goods, too, to obtain full use of our growing productive powers.

As this first chart shows in the bottom part, I have taken year by year the rate of economic growth of the American economy from the end of the Korean war, and I picked that period for a very natural reason that war automatically galvanizes the economy.

Since the war, we have been in a cold war period which is very likely what we will have for a long time to come, and, therefore, it is the situation most similar to what we now face.

In 1953 to 1954, as is shown on this bottom sector here, our economy went down about 2 percent. In 1954–55, it went up 8 percent. It was
recovering from the recession, and a lot of people started shouting that our main problem was inflation, that we had to have tight money, that we had to have a repressive budget, that we had to cut down on the volume of housing. I remember debating this with the Federal Reserve Board people in 1955, and they were vehement in the view that this recovery in 1954-55 was of enduring significance. I said, at the time, that the then current policies would soon force us backward into a lower rate of economic growth, into an increase in unemployment, and into a higher level of unused resources than we had before, and this happened.

From 1955 to 1956, our growth rate shrank to 2.5 percent.

From 1956 to 1957, it shrank to 1 percent, and let me say that, when the growth rate was only 1 percent, some people were still screaming that we were higher than ever before, because we had gone up 1 percent when we needed to go up 4 or 5 percent to prevent unemployment from rising.

Then, bang, in 1957-58 we were in a bigger recession than the last one, and our economy took a 3-percent dip. Then, in 1958 to 1959, we were in another recovery; the roller coaster is moving upward again, and some people again can’t see over the hump to the next dip.

If we take the whole period from 1953 through 1957, a 7-year period, we have had only an average annual 2.3-percent rate of economic growth in real terms; and against that 2.3-percent rate of economic growth—I won’t bother you with the details, but in summary—we averaged better than 3 percent over the last 50 years, so we have been falling very far short of our 50-year average. More important, the 50-year average has nothing to do with the new technology, the new technology in the factory, the new technology on the farm, the new requirement that we grow faster to hold our own and to meet the worldwide challenge.

If we look at the 7-year period immediately prior to 1953, which is probably most relevant to our new technology, we grew about 4.7 percent a year, so we have done less than half as well as that since 1953.

This is corroborated by Mr. Rockefeller, if you like him; by Mr. Dulles, if you like him; and by Mr. Nixon, if you like him. They are all accentuating this point that we are not using our technology and are not growing adequately.

Now if we do no better in the future, if we average only a 2.3-percent annual rate of growth over the next 4 or 5 years, with this tight money policy, this repressive housing policy, this restrictive credit policy, and I might say this shortsighted budgetary policy, we would repeat the experience of the past few years. This means that we could be on our way down again in 1961, possibly, or by 1962. And you can find this concern expressed in the yellow pages, the red pages, and the blue pages of every business magazine.
This is not an extreme view. This is the viewpoint of sober business commentators, because they see that we have not turned ourselves to the problem of how we are going to use our new technology. In this context, housing is one of the most important ways to combine the economic goal of finding domestic markets for our productive power with the social and human and personal goals of providing a commodity of which we in the United States are shorter of than of almost any other commodity which enters into our standard of living.

We still have some malnutrition in the United States, but we don't have a shortage of food, and we don't have very many people with malnutrition relative to the size of the population. We have also a general sufficiency of clothing. But at least a fourth of our people are ill housed now; it may have been a third a generation ago. So we still have this tremendous family need, and we still have the fact that, on the economic side, housing is one of the best ways of using our manpower, our financial resources, and other productive resources, to avoid creeping paralysis of our economy.

This next chart shows just what has happened from the very low growth rate we have had since the end of the Korean war. The top section shows we ought to have grown 4 or 5 percent a year, to absorb the growing labor force and the growing technology.

The middle section shows the difference between the needed growth rate and the actual growth rate, and the area in between is the production lag, which has been about $200 billion measured in uniform 1958 dollars. In other words, that is the production shortfall over the 7-year period.

The bottom section shows how unemployment has risen. I have taken two things, Census Bureau unemployment and the full-time value of part-time unemployment which the Census Bureau doesn't count, but which more and more people are recognizing you have got to count, because if you lay off 5,000 people in a factory for half a week each instead of laying off 2,500 for a full week, it is the same loss of production, and the same loss of wages and the same amount of unemployment. So, taking both into account, we had in 1959 about 5 million unemployed, 3.8 million full-time unemployment, and 1.2 million the full-time equivalent of part-time employment, as against 2.8 million unemployed in 1953, and 4.1 million in 1957.
ECONOMIC GROWTH NEEDED FOR ECONOMIC HEALTH

About 1% a Year
Growth in Number Wanting Work

PLUS

3-4% a Year
Growth in Efficiency

EQUALS

4-5% a Year
Needed Growth in Total National Production

PRODUCTION HAS LAGGED

Billions of 1958 Dollars

UNEMPLOYMENT REMAINS HIGH

True Level of Unemployment
Millions of Workers
6.2

2.8

1.2

4.1

1.5

2.9

4.7

1.2

3.8

5.0

1953
1957
1958
1959 (est.)

*1959 estimated on basis of actual figures for first ten months.
At the depth of the recession, of course, unemployment was still higher. But we are gradually accumulating, over the years, about half a million additional unemployment year by year, averaging off the troughs and the peaks. And in a few years, our true level of unemployment, instead of being 4.8 as in December 1959, is going to be very much higher, if we maintain only this 2.3 percent rate of growth. It is inevitable.

Now, on this next chart I have made a very detailed breakdown of the economy, which involves an explanation of why we have gotten into this trouble. In very simple terms, there are three elements in our economy. You have got private investment, which demands manpower, plant, materials. You have got private consumption, and you have got public consumption which some people call public spending.

These three things, your private consumption, your private investment, and your public consumption, exert a take upon the economy which has in totality to be equivalent to your productive resources if you are going to keep these resources fully employed. In other words, you can't have production without distribution.

Now, what I have done here is to break down this 15 million man-years of excessive unemployment over the past 7 years, and the $200 billion production shortfall, into its main components.
$199 billion production deficit, 1953-1959, due to inadequate levels of private and public outlays

Total national production (G.N.P.)

- $199.3 billion too low

Personal consumption expenditures

- $127.1 billion too low

Private business investment (including Net Foreign)

- $51.8 billion too low

Government outlays for goods and services

- $20.4 billion too low
The most significant part of the shortfall, for the purpose of this housing discussion, is that I find that private business investment, which I am not against, which I am for, was almost $52 billion too low over that 7-year period. Total national production, almost 200 billion too low. Private spending by consumers and the Government take, almost 148 billion too low. The 148 billion and the 52 billion add up to the 200 billion. It doesn't matter that some economists might arrive at different figures. You can change the 200 to 175, and change the 52 billion to 45 and the 148 billion to 130 billion, for example. The basic principle is the same. We have had a deficiency in the amount of activity needed to keep ourselves fully employed, and $52 billion of it, according to my estimate, anyway, has been a deficiency in private investment.

Now, what part of this shortfall in private investment has been housing investment? This is the nub of the matter so far as housing is concerned. This is why it is, I believe, so wrong for the man charged with the housing responsibilities of the Federal Government to talk about a 1.3 million rate of housing (which incidentally is not going to be maintained in 1960) being adequately high, and to express concern that a higher level of housing would be inflationary. Such an approach applies to the housing problem the whole wrongful philosophy that high and growing unemployment and low economic growth and the denial of the economic needs of our people—and I may add of our national defense needs—are the only alternative to a destructive inflation.

In other words, this wrongful approach smacks of the notion that we have to have a recession every other year, and rising unemployment, to prevent inflation, and this is the nub of the argument against the stimulation to housing which this bill would provide.

Anyhow, of this $52 billion shortfall in private business investment, I compute that about $30 billion of it is a shortfall in housing construction over this 7-year period.

Now, how do I get that? Why is the housing figure so high? The housing figure is high because private business investment is made up of investment in plant and equipment, investment in inventories, investment in new kinds of construction other than housing, and investment in housing.

Now, there are limits to how much more we could have had of investment in plant and equipment. We should have invested some more if we had a stable rate of growth, but in view of the expansion of our plant facilities relative to our consumption take, query as to just how many billions more could have been absorbed in plant and equipment, particularly in view of what is called the increasing productivity of capital, whereby every million dollars you invest in tools and equipment provides more increase in production by automation than that invested in plant and equipment 10 or 15 years ago.
There is a limit to how much you can build up inventory accumulations, because inventories have to be sold, and there is a certain limit to other kinds of construction. Housing is the thing that has fallen furthest behind in terms of need, and in the final analysis our economy exists to meet needs.

I, therefore, estimate that about $30 billion on this investment deficit is probably attributable to housing, and you see how it squares out. That $30 billion, over 7 years, is something in the neighborhood of a little more than $4 billion a year, if my figures are correct. If you had invested a little more than $4 billion a year additional in housing—private housing I am talking about now, not Government spending, and this bill doesn't deal with Government spending in spite of what Mr. Mason says by implication—if you had $4 billion more investment in housing a year, you would have had a level of housing construction on the average about 20 or 30 percent higher than you actually had. This would have come closer to any responsible judgment of a long-range housing program consistent with new family formation, population growth, adequate supply to prevent shortages, and improvement of housing conditions.

One of the great things done earlier by Senator Taft and others was the insistence that the Housing Agency devote itself to long-range studies of basic housing needs, so that they could derive for the benefit of the Congress, which has to make the judgments, what kind of housing program in what quantities would meet the housing needs of the people and meet the economic needs of the country.

I see none of this in the Administrator's recent testimony. I see only the economic argument that housing construction has been high enough by the economic test of avoiding inflation. I think this is entirely wrong. We have had a deficit of about $30 billion in housing construction since 1953. This translates itself into a deficit, if you take $10,000 a unit, which is very low, of something like 3 million dwelling units; or, if you take it on a yearly basis, somewhat more than 400,000 units a year. This figure squares very well with what would have had to be added to actual construction since 1953 by the test of an adequate housing supply.

Now, let's look at the situation in late 1959. In late 1959—because in late 1959 we are not back anywhere near to full employment and full production—we still have, as I said, 4.8 million unemployed on a true basis in December 1959, which is much too high, and 3.6 million on a Census Bureau basis, which is also much too high. We still had, in the fourth quarter of 1959, a short fall in national production coming to more than 10 percent of our full productive capability.

In other words, we have an overall slack in the American economy, even now, of more than 10 percent, so we are nowhere near back to full employment and full production, and, moreover, we are at the
crest of a boom which is unlikely to last more than a year or so without better policies.

Now we have the long-range problem, looking ahead. I want to talk first about the problem of inflation here, because the main argument is that this bill is inflationary.

Now, there are many things on which economists are not in agreement, but there is one thing on which they are coming more and more into agreement, and that is that the whole idea that the way to stop inflation is to cut back on a level of economic activity consistent with full economic growth and with meeting the needs of the people has been exploded.

In World War II, we had too much pressure on our resources. We had a 9-percent annual rate of growth. We had our farms pressed to the utmost to produce all they could. We had our plants pressed to the utmost. We had people out of the labor force, and were putting in new people, inefficient workers, secondary workers. The economy was tremendously pressed, and therefore we had inflation because the economy was racing too fast. Naturally, economists and financiers, not being too reflective, reached the conclusion that the way not to have inflation is to go slower. This is true up to a certain point, but suppose the efficiency rate of operation of the economy is about 5 percent a year, and instead of going 5 you are only going 2.5 percent, or 1.3 percent as we were doing between 1953 and 1958, and you still say the way to stop inflation is to go slower?

The kind of inflation we have had in this recent period is not inflation from the inefficiency of going too fast, but inflation from the efficiency of going too slow.

You take a plant, a big plant in a big industry, that is producing at 50 percent of capacity, and they retain 70 percent of the workers, for perfectly good and human reasons. You divide the 70 into the 50, and you get a low productivity figure. This has nothing to do with technology, that is merely high cost resulting from going too slow.

What the next chart shows is this: There has been an inverse correlation, in recent years, between the rate of economic growth and the amount of price inflation. In other words, when the economy was growing 3.5 percent a year, you had a great deal less price inflation than when the economy was growing only 1 percent a year, and when the economy started receding you had more price inflation than when the economy was growing 3.5 percent a year.
"THE NEW INFLATION" EMERGED AS THE ECONOMY MOVED FROM GROWTH TO STAGNATION TO RECESSION, 1952-1958

**PRODUCTION AND EMPLOYMENT**

- Total National Production in 1957 Dollars, Average Annual Rate of Change.
- Industrial Production, Average Annual Rate of Change.
- Unemployment as Percent of Civilian Labor Force, Annual Average.*

<table>
<thead>
<tr>
<th>Period</th>
<th>Percentage</th>
<th>Rate of Change</th>
</tr>
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<tbody>
<tr>
<td>1952-1955</td>
<td>3.5%</td>
<td>4.2%</td>
</tr>
<tr>
<td>1955-1957</td>
<td>3.8%</td>
<td>1.7%</td>
</tr>
<tr>
<td>1957-1958</td>
<td>3.9%</td>
<td>1.4%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6.4%</td>
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<tr>
<td></td>
<td></td>
<td>-3.0%</td>
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<td></td>
<td></td>
<td>-6.3%</td>
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**GOV'T EXPENDITURES AND PRIVATE MONEY SUPPLY**

- Federal Budget Expenditures, Fiscal Years in 1957 Dollars, Average Annual Rate of Change.
- Non-Federally Held Money Supply, Average Annual Rate of Change.
- Federal Surplus (+) or Deficit (-), Fiscal Years in 1957 Dollars, Annual Average.*

<table>
<thead>
<tr>
<th>Period</th>
<th>Percentage</th>
<th>Rate of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952-1955</td>
<td>3.6%</td>
<td>-0.7%</td>
</tr>
<tr>
<td>1955-1957</td>
<td>2.5%</td>
<td>-1.4%</td>
</tr>
<tr>
<td>1957-1958</td>
<td>5.6%</td>
<td>-1.3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-2.8 Billion</td>
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**PRICES**

- Consumer Prices
- Wholesale Prices
- Industrial Prices

<table>
<thead>
<tr>
<th>Period</th>
<th>Percentage</th>
<th>Rate of Change</th>
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<tr>
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<td>0.3%</td>
<td>-0.2%</td>
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<tr>
<td>1955-1957</td>
<td>2.5%</td>
<td>1.1%</td>
</tr>
<tr>
<td>1957-1958</td>
<td>2.7%</td>
<td>1.4%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.3%</td>
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</tbody>
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*The annual averages (as differentiated from the average annual rates of change) are for the periods 1953–55 and 1956–57 inclusive, and 1958.*
There has also been an inverse correlation between the expansion of the money supply and the amount of price inflation, and between the condition of the Federal budget and the amount of price inflation. This is because, under an administered price system, which is not like the old supply and demand system except for the farmer—the farmer's prices have been deflated—there is an effort to compensate for an inadequate level of production and employment by a higher rate of price increases to accomplish a profit objective through scarcity rather than through abundance. This new principle has been very applicable to housing. Housing has been one of the biggest inflationary items in the cost of living. And this hasn’t been because there was too much housing being produced. It has been because there was a housing shortage which enabled rents to go up at an extremely fast rate, and similarly the imputed rent attributable to home ownership. And the second factor has been the interest rate spiral, which has been perfectly unconscionable in the case of housing. So the two factors which make for inflation in housing, higher charges for every dollar that you use, and shortage of the housing supply, have both resulted from the fallacious idea that too much housing was being built and you had to cut it back.

This has been the source of the housing inflation. So housing has been the most symbolic and significant and concrete demonstration in detail of the trouble we have gotten into in the economy as a whole, through falsely thinking that scarcity of money, scarcity of credit, scarcity of supply, is the remedy for inflation. This is not the fine spun theory of an economist; this is written into the record of what has happened.

Now, when you come to the arguments of those opposed to this bill, I don’t only feel that they are wrong; I can’t even tell just where they stand. I have been listening to the Federal Reserve Board and the Treasury and the Housing Agency make two conflicting arguments since 1955.

First, they say the tight money policy will fight inflation by cutting back the volume of housing. Second, they say that the tight-money policy will bring out more funds for housing, by offering higher interest rates to investors and by encouraging more saving.

Now, how do you reconcile those two arguments? You can’t, and you can’t do it today any more than you could in 1955.

If you read through the testimony of the Administrator in detail, this dichotomy in logic runs all the way through it. On the one hand, he is worried that more housing will be inflationary and push up costs, and on the next page he says that he really is for more housing; that if you don’t pass this bill, the American people will save so much, and the Government’s reduction of the national debt will increase credit funds so much, that we will get all the funds we need to have more housing.
Which of these two things does he really mean?

Now, on the basis of the record and on the basis of experience, I can't tell which the opponents mean, but I can tell which objective they are driving toward. They are driving toward the objective of a throttling off in 1960 of an adequate level of housing construction at costs within the people's means, on their silly theory that this is the way to fight inflation.

This is their basic position, despite the trimming and despite the inconsistencies, and I say this position is fundamentally wrong. It is wrong from the economic point of view, it is wrong from the employment point of view, it is wrong from the housing point of view, and it is wrong from the fiscal point of view.

Now, as to the argument that there will be enough funds for housing in any event. Again, I don't know whether they are for higher charges or for lower charges. The Housing Administrator argues that if the ceiling on long-term borrowings by the Government is removed, that interest rates will go down. This seems to be an argument that we should have lower interest charges. Yet on the very next page, he opposes some of the proposals made in this bill to reduce some of the charges on the ground that you need the higher charges to coax investment. So I don't know exactly where he stands on that.

Then I am very surprised to find a national administration, which talks about stability, opposed to the bill's 1-year provision with respect to par, and the basic ground on which they oppose it is that housing investment has to be speculative and has to fluctuate enough to coax out capital.

Now, this is really basically the same as the argument that has been made, over the last few years, that it is the function of the Government to make the bonds of the Government a speculative commodity. And I have heard the Federal Reserve Board and the Treasury, as a part of the tight money policy, come before congressional committees and argue that they want a Federal bond to be more speculative than a stock. They don't say it in exactly those words, but they say that they want to keep the public guessing as to whether the bond that somebody buys for a hundred dollars is worth $102 or $87 a few months from now. In other words, let's have a financial crisis every time you try to finance your most fundamental obligations as a Nation, and this in the name of stability.

I just fail to see economic merit or fiscal merit or budgetary merit or housing merit in the opposition to this bill.

Now, let me just talk a minute about how big the stakes are in this issue. We have in this country a raging new technology. People don't realize it. I remember, a few years ago, I was going around the country, and people were saying the cure to the problem of increasing productivity on the farm is to get people jobs in industry, and I said,
"How are they going to get jobs in industry in view of what is happening in industry?"

Now they are saying, "Well, there isn't room for them on the farm; there isn't room for them in industry; they will get jobs in offices; they will get jobs in the white-collar occupations. This is the great change that is taking place in the structure of the labor force."

Well, I heard one of these talks, and I came back to my office where there had been six elevator girls in the building, but now there weren't any; they had automated it. They had only a starter, and the starter said, "In a few months I will be automated out, also."

The same thing is happening in officework that happened on the farm and in the factory, and it is happening faster and faster. Instead of talking about 1,300,000 housing units a year—which we are not going to have in 1960—as being wonderful because it is higher than some previous time, we should ask ourselves what kind of housing program will not only meet the needs of the people but will give us the opportunity for expansion in this vital field which will help to absorb our full productive powers.

Now, I have made some estimates on this. If we go ahead in the future at a 5-percent growth rate, we will have about $350 billion more national production between now and 1964, in the aggregate, than if we average the 2.3 percent we have averaged over the past 7 years. With $350 billion more of national production, under our progressive tax system, the Federal, State, and local governments will have $100 billion more of tax revenues with which to meet our national security needs, our education needs—I am not talking about Federal aid to education, although I am for it; I am talking about all levels, because the wealth comes from the people, and tax revenues represent wealth coming from the people—we will have $100 billion more in public revenues at the higher growth rate with existing tax rates.

These two charts illustrate this discussion.
HIGH GROWTH RATE, 1960-1964, WOULD YIELD $350 BILLION MORE TOTAL PRODUCTION THAN LOW RATE

Total National Product (G.N.P.)
(Average Annual Rate of 5%, After Full Employment Restored)

Difference
($350 Billion)

G.N.P. at Low Growth Rate
(Average Annual Rate of 2.3%, The Actual 1953-59 Rate)

HIGH GROWTH RATE WOULD PROVIDE EMPLOYMENT FOR MANY MORE PEOPLE

Millions of Persons

Civilian Employment
at High G.N.P. Growth Rate

Difference
(9 Million Man-Years of Employment)

Civilian Employment
at Low G.N.P. Growth Rate

NOTE: Year 1959 is used as projection base year for this chart
<table>
<thead>
<tr>
<th>Category</th>
<th>1960-1964 as a Whole</th>
<th>1958 Dollars</th>
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</thead>
<tbody>
<tr>
<td>Average Family Income (Multiple Person Families)</td>
<td>$5,200 Higher</td>
<td>$225 Billion Higher</td>
</tr>
<tr>
<td>Personal Consumption Expenditures</td>
<td>$165 Billion Higher</td>
<td>$165 Billion Higher</td>
</tr>
<tr>
<td>Total Wages and Salaries</td>
<td>$40 Billion: Higher</td>
<td>$40 Billion: Higher</td>
</tr>
<tr>
<td>Government Transfer Payments to Individuals</td>
<td></td>
<td>$165 Billion Higher</td>
</tr>
</tbody>
</table>

- **Farm Operators' Net Income**
  - $40 Billion Higher

- **Unincorporated Business and Professional Income**
  - $20 Billion Higher

- **Gross Private Domestic Investment (Including Net Foreign)**
  - $55 Billion Higher

- **Public Revenues, Federal, State and Local**
  - $100 Billion Higher
Now, what part does housing play? I figure that in order to meet these targets of national growth, in other words, to avoid the 19 million man-years of unnecessary unemployment that we will have over the next 5 years if we grow at a 2.3 percent rate rather than a 5 percent rate, we have got to elevate the level of housing construction in this country of a nonfarm character to at least 1.7 in 1961, and to 2 million after that, and add on 130,000 to 180,000 units of farm housing per year. We need an effective housing program in this country for practically all income groups, at costs within their means, on a stable expansion basis as the country grows, coming somewhere within the range of 2 million units a year.

In order to get this, we have to meet the fundamental problem that we have inflated the cost of housing beyond the means of the people, and one of the biggest elements in this is the higher cost of money.

You are all too familiar, for me to have to cite it, with the increasing cost that is involved when the effective rate on housing loans, starting at 4 percent or 4¼, has gone up to 6 or 6.5 percent. We don't even know what it is any more, because when I was before the Senate Finance Committee 2 years ago, I asked them to do what I couldn't get us a private economist, to ask the Treasury and the Federal Reserve Board just to figure out how much of a burden the increased interest costs were imposing upon the homeowner, the farmer, the small businessman, the American public generally, and State and local governments. We have never been able to get it, and we are just flying blind on a constantly increasing spiral of interest costs. And now we are told that, if the ceiling is taken off, if instead of Congress as this bill proposes adopting definite legislation in one small area to force some of the costs down a little bit by national policy, if we take the ceiling off, the costs will come down.

I was before the Finance Committee in 1957 when they proposed to take the ceiling off on savings bonds. I said that, from the viewpoints of equity, it ought to come off. Why should the savings bondholder be penalized? But from the viewpoint of economics, you don't stabilize by taking off ceilings. You don't get lower interest rates by taking off ceilings, and you don't get lower interest rates by a congressional vindication of a policy designed by the Federal Reserve Board to force up interest rates.

Sure, the interest rates under the ceiling are higher than they were before, but not because of the ceiling. They were higher than they ever were before in 1955, and in 1957, and again in 1959. The only time they began to go down was when we had a recession.

I urge you to reject these spurious, pretentious economic and financial arguments against this bill, which seem to me designed to confuse and bedazzle rather than to simplify. This bill is designed to do something about housing within the means of ordinary people a little bit—and this bill is just a little bit, it is just a starter. The opposition's trying to insert the fear that this bill may be doing something which is economically or financially unsound. I don't think it is economically or financially unsound. I think it is alert to the economic and financial conditions of the country.

We must reject the idea that we can stop because we are higher than before, because we have more employment than we had 4 years
ago or 8 years ago, more housing than we had 4 or 8 years ago. We have more people than we had 4 or 8 years ago, more machinery, more science; we have more of every kind of productive power.

The question is whether we are going to use it, and if we don't use it, the American economy is going to be characterized in the future as in the past by a rising level of unemployment of plant and manpower. We will have little ups and downs, with the recessions and the upturns, but the long-term trend will be an increase in unemployment, and this bill is therefore a step in the right direction, and I thank you very much for your attentiveness in listening to me.

Mr. Addonizio. Well, Mr. Keyserling, let me first of all compliment you for a very fine, complete and interesting statement. As a matter of fact, I think it was so complete that any of the questions I had in mind you have already covered, but just let me point out for the record that, first of all, you represent a nonpartisan citizens group; is that correct?

Mr. Keyserling. In one sense I never represent anything but my own independent thinking, and if you folks want to check on that, I say this in a semiafetious way, go back to 1952 and see the position I took on the tight money policy when I was the top economic man in the Democratic administration and I came before the Joint Economic Committee and debated whether or not this so-called tight money accord was desirable.

In 1952, I was against the beginning of this tight money policy, with all the force at my command, and I stated for the record exactly what was going to happen. This has nothing to do with partisanship. There were at that time too many Democrats for this tight money policy, and not enough Republicans against it.

Mr. Addonizio. I simply state that to indicate that you don't come here with any particular ax to grind.

Mr. Keyserling. It makes absolutely no difference to me, personally, whether the money policy gets tighter or looser. In fact, I might benefit a little if it gets tighter, because everybody who is far enough above the national average in income—and I am probably above the average though I am not rich—everybody who lives partly by lending the savings of other people, benefits by this transfer of national income from those who need to those who get. Today, we have come to a pass in the American economy when great financial institutions have the gall to insert ads in the papers around the country that the way to stop inflation is to repress the wages of wage earners, further deflate the incomes of the farmer, and pay these institutions twice as much interest for lending us our own money. I say we have come to a sorry pass of economic understanding when they can get away with that kind of thing.

It would have been unheard of 20 years ago for the great insurance companies to put ads in the papers saying the way to stop inflation is to inflate our own unconscionable profits by having the people whose money we are using pay us more for the money we lend to them.

Mr. Addonizio. When Mr. Mason was before our committee representing the administration, he indicated to me that he thought we were not presently in a tight money situation. He said that perhaps we had been in one, and that we are slowly, gradually coming out of it.
Do you think that to be true?

Mr. Keyserling. No. The President of the United States sent a special message to the Congress a week or two ago, in which he said that the interest ceiling ought to be removed because interest rates were higher than they had ever been before. How can you say we are out of the situation when the President just a week or two ago has said that the interest rates are higher than ever before?

Now, if you want to say every time they are higher than ever before that we have reached the top, and we must be going down because they are higher than ever before, that is one way of saying it. But I think it would be more reasonable and logical to say that, if every few months you are hitting a new peak in interest rates, you are not over the hump, and they are going to go still higher. And I predict with great confidence, if we don't have another recession or until we have another recession, they will go still higher. And under this policy we will get another recession, and then they will retreat for a while.

Then, as the price of recovery, they will start going again higher, assuring the recovery will not be enduring, will not bring unemployment down to tolerable levels, and then we will be on our way to still another recession a little later on.

This policy is not good economics.

The increase in our money supply has not been keeping pace with the technological and productivity capabilities of the country, and the tight money policy, far from reducing the rate of inflation, has over the span of the years increased the amount of inflation, because it has been based on a shortage idea, and an administered price system. You don't get a reduction in prices through shortages of employment and production.

The steel industry—and I have nothing particularly against the steel industry—has gotten its break-even point down to 40 percent. I wish the American farmer could make a profit at 40 percent of sales of his products. I wish the average professional man could do well when idle 60 percent of the time. The steel industry has got prices so high that their break-even point is 40 percent, and when they were operating at 60-odd percent over the year their profits were almost the highest on record, but still they talk about their high costs and allege that their labor costs forced up their prices.

We are moving into an economy based on scarcity rather than an economy based upon abundance, and this can be good only for the plunderer, not the people in general.

Mr. Addonizio. And, of course, the answer is not the loosening up of interest rates. They talk about flexible interest rates.

Mr. Keyserling. Well, flexible farm prices flex only downward, and flexible interest rates flex only upward. I don't see any fluctuation. They are all much higher than they were, and the President says they are at an all-time peak, and now the argument is take off the ceiling and they will get lower. This I don't comprehend.

Mr. Addonizio. Now, it has been charged that in some areas this is strictly a bill designed to help homebuilders. Do you agree with that?
Mr. Keyserling. No, of course I don't agree. You can't, under the American form of economy, in a fundamental sense, help consumers without helping producers and vice versa, if it is real help in the long run. That is the essence of an economy where our interests are mutual in the long run, though we sometimes don't realize it.

As a matter of fact, this bill would also be better for the bankers and insurance companies in the long run, because while in the short run they are making inordinate gains through this high-interest-rate policy, in the long run, where there is a $200 million loss of national production and 15 million man-years of unnecessary idleness, they make less in the long run than they would if in the short run they hadn't overstuffed themselves so much. When there is a recession, business profits are very volatile and go down very fast, and even banks don't do so well if the recession lasts long enough.

I am a believer in the theory of mutuality of interests in the American economy. This bill is good for homeowners and homebuilders, and it is good in the long run for homebuilding financiers, and that is why I am for it.

Mr. Addonizio. I believe you mentioned, Mr. Keyserling, that the dropoff in home building construction during 1957 contributed in great measure to the recession of 1958. I wonder if you would highlight that a little more?

Mr. Keyserling. I don't think the drop in homebuilding was as severe an initial contributory cause as the drop in investment which came from an inadequate expansion of consumption, including homebuilding, inadequate to absorb the product of American factories and farms.

In other words, you had a much more serious drop in fundamental business investment in plant and equipment than anything else. But you have to ask why that drop occurred. There are those who talk about high interest rates promoting savings, and that savings will go into investment in plant and equipment, and thus provides employment.

Now, I had this out with the Federal Reserve Board and the Treasury in early 1957, before the Senate Finance Committee. They were arguing for high interest rates, they said we needed more investment in plant and equipment, and they said high interest rates would induce American people to save, and savings would go into investment.

I said, "Why do you want to stimulate investment?" In early 1957, we were moving directly into an economic recession. There weren't any shortages any more, we were overproducing everything, and when they were challenged, the only thing they could find in short supply was one specific kind of lead pipe, as you may recall. Otherwise, we were in oversupply on everything, and they were talking about a tight money policy to stimulate savings so you could have more investment! What nonsense that turned out to be.

I said, "What you need to stimulate is the demand exerted upon our productive facilities, the demand exerted by private consumption, of which housing is a very important element." Housing creates a demand for steel, for furnishings, a demand for other metals, it creates a demand for almost everything in the broadest sense. I
said, "This is what your problem is, plus I think we also need a higher level of public demand for the things we need as a nation that can't be provided privately." This economy in 1957 was suffering from too low a level of demand, and we had a low demand inflation, not a high demand inflation, an unemployment inflation, not an overemployment inflation, and the recession came because we didn't have a high enough level of demand.

The recession didn't come primarily because of the falloff in housing, but because we weren't building a high enough expansion in housing and other consumer takes to support our increasing productive power. So I would say that, while if you just looked at the figures casually, you wouldn't say that housing was the most important, if you looked at it in a realistic way, I would say that housing is about the most important single example of our failure to expand our technological growth and the growth in labor force. Correspondingly, if I were asked what are the areas in which the American economy might expand enough to take up the slack, I would place housing at the top, or very high. We don't want to take up the slack with boondoggling, or expand with things the people don't need; we want to equate the expansion of things people need with the things that will create employment. We don't want to create employment for useless things.

We wish we didn't have to create employment by armaments, because they are useless in a sense, but we do have to. Housing, more than food, clothing, automobiles, or any one thing, is the way we can build an expansion of employment and production to meet this technological thrust, and at the same time produce a useful commodity which is in greater short supply in the United States than any of the other basic elements in the cost of living, with the possible exception of medical care.

Mr. Addonizio. Mr. Keyserling, one more question, and then I will pass on. This so-called tight money policy of this administration, does it affect all parts of our economy equally, or does it discriminate against the small borrowers and small businessmen and home buyers?

Mr. Keyserling. If you take a long enough period of time, it affects everybody, but as one economist said, in the long run we will all be dead. In the long run it affects everybody, because it hurts the whole economy.

In the short run, it helps the strong at the expense of the weak. In the short run, it transfers money away from the small homeowner, the small businessman, the small purchaser of durables, the farmer, everybody who is primarily dependent upon credit and the terms of credit. It transfers income away from them to those that either are less dependent upon credit or more dependent upon lending than upon productive activity, so it does hurt the weak, the vulnerable, the mass, to the benefit of the few.

I think that the greatest economic improvement in the past 25 years, again regardless of party—we hear about the tremendous economic improvement through social security, the tremendous economic improvement through collective bargaining, and various other things that everybody is for, Republicans and Democrats, and I think they are all important. But I think the greatest single improvement that the American economy made since the ghastly twenties is the reduc-
tion in the cost of money, which reduced the toll exacted by the person who merely accumulates other people’s savings and lends them to the enterpriser, the producer, the workers, the farmer, and the businessman as a businessman rather than as a financier.

I remember, when I was a young man, I went home from college. There was a bank in my town, and it had in bronze on the front of it: “Interest Rate on Savings, 6 Percent.” Just think of it, interest rate on savings, 6 percent. The only trouble was this was in 1926, 3 years before the depression, and the bank was closed. The reason the bank was closed was because the economy couldn’t stand an interest rate of 6 percent for the purpose of lending money.

We lowered the interest rate on farms, homes, productive enterprise, and everything. This wasn’t inflationary. This was one of the greatest things that was done to bring about the very improvements in the mass standard of living, and in the opportunities for business, which the President cites in his Economic Report of a few weeks ago as the great advances in the American economy over the past 20 or 30 years.

I think the reversal in this, the reversal toward a higher interest rate policy, is a reversal of the most important single economic improvement that was made in the American economy, and I heard some defenders of this tight money policy saying before one of the committees last year, “My goodness, interest rates aren’t high, they aren’t as high as they were in the 1920’s.”

I said, “Who wants to accept the 1920’s as the measuring rod of what kind of balance or unbalance we should have in the American economy?”

Interest rates aren’t as high as in the 1920’s. Well, as a matter of fact, they are now beginning to be as high as in the 1920’s.

Mr. Addonizio. Mr. Barrett.

Mr. Barrett. Mr. Chairman, I have one or two questions.

Did you indicate that we need about 2 million starts a year in housing?

Mr. Keyserling. Well, as I say, about that figure. Some say 2 million, some say 1.7 million, some say 2.1 million. There is no automatic railroad timetable accuracy in these kinds of things.

I do say, within a band, that we need somewhere between a little below 2 million and a little above 2 million.

Mr. Barrett. Taking your basic figure at 2 million a year, how many years do you think we would need to provide adequate housing, excluding deterioration?

Mr. Keyserling. I don’t think, with the proper growth of the American economy, both as to family formation and income growth, that we would ever have to get below that figure.

I think we would reach a point, as we liquidated more of the substandard housing, where the rate of increase would have to slow down, but I don’t think we would ever come to the time where we would have to go below that figure.

In other words, I wouldn’t follow the argument that a lot of people make that you have got to go slower to spread it out. I remember, back in 1955, when we were recovering from that recession, and when an awful lot of automobiles were sold. A lot of people were saying that we should have had a still tighter credit policy and spread out
the sale of those automobiles over more years, and we would have been better off.

This was ridiculous, and here is why. If you had spread it out over more years, since it happened that this industry was one of the big factors in the recovery from the recession, if you spread it out you might not have recovered.

Secondly, by spreading it out over more years, you merely spread unemployment out over more years. You can't meet this problem, except by absorbing year by year your increased technology as the economy grows.

Now, the same way in housing. People say let's build 1.3 million units this year, and there will be more next year. This is under the scarcity assumption that you have a limited market that has no relationship to our technology and what the economy ought to be doing.

The 2 million figure is much closer to what we ought to do on a long-range basis, thinking of a gradual improvement in housing conditions with the gradual improvement of our technology and our incomes, and our national aspirations which go along with it. I think it is a sound, long-term figure.

Mr. Barrett. Your 2 million takes in the replacement of old and blighted areas?

Mr. Keyserling. Why, of course it does. Here is what it really gets down to. Whether you talk about 2 million, or 2½ billion, or 1½ million, gets to the question of how rapidly you want to substitute decent housing for foul housing. This is in a sense subjective. Even the people in the United States who live in the worst slums are housed better than the people of India. And many are housed better than people were housed in the United States 50 or 100 years ago. But this has nothing to do with the case. You have to measure what is an adequate housing standard against the productive condition of the country, just as you have to measure poverty in that way.

Some of my friends write books about an affluent society. I disagree. We have millions of people in the United States who are poverty struck by American standards. They are better off than people were in the great depression, or better off than people in Africa, or parts of Western Europe, but by the market needs of the American economy and what we can produce, they are still in poverty.

Eighteen million multiple-person families in the United States have incomes of less than $4,000 a year; they are in poverty by my definition; they are not affluent. The same thing applies to housing. What constitutes a good standard of housing depends upon the state of your technology and your productivity.

Two million housing units a year would, among other things, provide for new family formation. It would also reduce substandard housing at a pace that would not be fast measured against the speed at which we need to reduce it if we are going to find markets for our productive power. We can't expand domestic consumption of food much more rapidly than our population grows, and we can't expand consumption of automobiles much more rapidly than our population grows, or television, radios, or washing machines.

Mr. Barrett. Excuse me. I do not wish to prolong this discussion. I want to defer to some of the other members.

Thank you very much for answering my question.
Mr. Addonizio. Mr. Widnall.

Mr. Widnall. Mr. Keyserling, I always find you very interesting to listen to, and you are very convincing. In fact, you have almost got me convinced, now, but I find in my own mind a difficulty in distinguishing between your own interpretation of what a persons says and what they actually say.

Now, as an example, you say the Treasury, or the financial managers, say "Let's keep the public guessing," and your quote "Let's have a financial crisis every year."

Whoever said that?

Mr. Keyserling. Well, now let's separate the two statements.

First, manifestly the Treasury has never said, "Let's have a financial crisis every year," and I don't think that I said that. I said that we have had a financial crisis almost every time—

Mr. Widnall. You said they said that.

Mr. Keyserling. If I said that, I retract it. I don't want to argue with you; I respect your patience and tolerance in listening to me, just as you say you enjoy hearing me, and I won't argue about it.

If I said the Treasury said they expect a financial crisis every year, I retract it. What I intended to say, and what I believe I did say, was that a financial crisis almost every time we have had to issue Government obligations has resulted from this policy; and I think that is so.

Now, coming to the first point—as to whether they have said we must keep the public guessing: This they have said. I refer to the Chairman of the Federal Reserve Board. And I refer not only to Mr. Martin, but also to the former Under Secretary of the Treasury, who has now gone over to London to get us excited about exchange rates, Mr. Burgess. And I refer to former Treasury Secretary Humphrey. They all said that they favored a monetary and fiscal policy which kept the market guessing. This was one of their arguments against the particular kind of stabilization of the Government bond market which I think is desirable. And it was one of their arguments, though not by any means their only argument, against Federal Reserve support of Treasury operations, because they said that support would enable bankers and the traders to know what the Federal Reserve Board is going to do, and that they shouldn't know.

I don't think I am incorrect in saying that this has been their philosophy. You see, the trouble is that they have applied to Government the concept of business to a degree where it shouldn't be applied. The Secretary of the Treasury also said, in the course of one colloquy, while I was saying that the Government has something to do with the interest rate on Government bonds, he said that the Government hasn't anything more to do with the rate of interest on bonds than a corner grocer has to do with the price of bananas.

Mr. Widnall. Mr. Keyserling, I have my answer on that. I thought it was important to clarify what you interpreted them as saying, and what actually was said.

Now, at another point and along the same line: You said the insurance companies took big ads in the papers, "saying the way to stop inflation is to inflate our unconscionable profits." This is what I understood you to say.

Now, did they say that in those ads?

Mr. Keyserling. Again I think we are quibbling over a hair.
Mr. WIDNALL. I am not quibbling; you are putting things into the record that people are going to read.

Mr. KEYSERLING. Yes, and I will put it into the record again, for I think the people should know what I am saying.

Mr. WIDNALL. Your opinion is respected by a lot of people.

Mr. KEYSERLING. Well, I think it should be. The insurance companies, of course, do not put an ad in the paper saying that the way to stop inflation is to pay “us twice as much for lending you your money,” in so many words. This, of course, is my language, not theirs—my expression of shock at what they are in substance saying and doing.

Mr. WIDNALL. That is your interpretation.

Mr. KEYSERLING. Oh, no, not my interpretation. This is my commentary upon what they are actually doing. They are urging that the way to stop inflation is to lift the interest rates on lending—that is, the tight money policy. In other words, they put into the papers that the way to stop inflation is to support the Federal Reserve policy—that is, to increase the income per dollar lent of those who are lending money—and they are the biggest lenders of money. And that is all I am saying in substance.

Now, of course, when I say it is a curious thing that they should have the gall to tell the American people that the way to restrain inflation is to repress wages and farm income—which is also their position—and to inflate the amount of money paid to those who lend us our money. This isn’t their language; this is my commentary upon their behavior.

Mr. WIDNALL. If you have an ad that would indicate that, I wish you would put it in the record.

Mr. KEYSERLING. You mean an ad they put in the papers that higher interest rates are desirable?

Mr. WIDNALL. That is what you said originally.

Mr. KEYSERLING. I think my position is clear.

Mr. WIDNALL. I think it is important to clarify it for the record.

Mr. KEYSERLING. I can certainly put ads in the record where the insurance companies have advocated higher interest rates, or policies designed to achieve higher interest rates.

Mr. WIDNALL. You have some very fine charts here, and you start talking about a $200 billion loss to the economy; and as you proceed with your testimony, you keep coming back to this as though this is an accomplished fact we have now lost $200 billion—talking along that line.

This is your interpretation, again, but you keep talking about it and repeating it to the point where it stands out as though everybody acknowledges now we have lost $200 billion in the economy.

I think that should be pointed out, too.

Mr. KEYSERLING. Well, I think, as I said, some people—and I am talking about the people who have analyzed this—some people might say it isn’t $200 billion, that it is $220 billion, others might say $180 or $160 billion, but there is agreement among more and more competent people that the figure is within these ranges.

If you go over the whole range of people who are studying our economic performance, I don’t care whether you take the Rockefeller studies or whether you take what has been said by the Central Intel-
elligence Agency, or whether you take what is said by the National Planning Association, or whether you take what is said by the Committee on Economic Development, they are all converged on the point that since the Korean war we have had an amazingly low—or whether you take what is said by Business Week—they all converge on the point that we have an extremely low rate of economic growth since the Korean war, and an intolerably high level of unemployment, and they have translated this into quantitative terms.

Some of them come up with a $200 billion loss, that is my figure; others a little more, others a little less. A figure of this kind, I say again, is not the same as saying it is 234 miles on the clock from Washington to the Washington Bridge in New York City. It isn’t as exact as that. It is an effort to portray generally the kind of problem we have to deal with.

But I haven’t seen any figure less than $150 or $160 billion.

Mr. Widnall. I agree with you when you increase interest rates it increases the cost of housing.

Now, doesn’t it also work that when you increase the amount per unit in a Government program, you increase the cost of housing, that when you raise it from $8,000 to $9,000 a unit, that the $9,000 becomes a floor rather than a ceiling; isn’t that true?

Mr. Keyserling. I would say yes and no. I would say to a degree it is true, but there always has to be realism in adjusting the ceiling to what present costs actually are. This is one of the features of inflationary spiraling.

In other words, as of any given point in time, it would be true that a higher ceiling would tend to encourage building up to a higher ceiling, but on the other hand if you set a ceiling a number of years ago that is entirely irrelevant and unworkable in terms of present costs, you have to lift it if you are going to get housing at all.

Mr. Widnall. The housing cost, the cost factor contains many things besides interest rate.

Mr. Keyserling. Sure it does.

Mr. Widnall. Wages, material, profits, additional planning that goes with it by way of development, or something on that order, and they all are factors, but of course the tight money policy is becoming the goat on all of this, and this is something that those of us who are on the administration’s side are trying to talk about and bring to the attention of the public.

At another point in your testimony, you said we could accomplish all of these things under, and I quote, a “progressive tax rate.”

Now, that is left hanging in the air. What do you mean by a progressive tax rate?

Mr. Keyserling. You misunderstood me on that. I didn’t propose a change in tax rates. I merely said that if you had $350 billion more of national income, your taxes at existing tax rates would increase relatively more because, under a progressive tax system, when your economy sinks below full production and when your incomes fall, your taxes fall faster.

In other words, when I said $350 billion more of national production would yield $100 billion more of taxes under a progressive tax system, I was not talking about a different tax system, I was merely trying to explain why $350 billion more of national income would yield $100 billion more of taxes.
Some people might say that looks too high. The fact is, over the past 7 years, if you take my $200 billion figure as to the total production shortfall, the tax loss to Federal, State and local governments out of that $200 billion loss in national production has been about $65 billion. You wouldn’t think it would be that high, but the reason is that as business volume sinks below normal revenues, tax revenues fall faster.

I didn’t mean that I was proposing a different progressive tax system.

Mr. WIDNALL. This bill as proposed would build approximately 74,000 units. What do you think the priorities ought to be in the use of those 74,000 units?

Mr. KEYSERLING. I don’t know exactly what you mean.

Mr. WIDNALL. Well, should it be single family, multiple family housing, or what type of housing?

Mr. KEYSERLING. I wouldn’t be prepared to answer that as to this particular 74,000 units.

Mr. WIDNALL. I asked you that as a representative of the National Housing Conference, not as an economist.

Mr. KEYSERLING. Well, I would say I would answer that this way, and then I want to say one word more about the interest rate thing, if I may.

I would say that if this committee were now considering legislation that dealt with the housing problem in a way approaching its totality, and were seeking as the Taft-Ellender-Wagner inquiry did, between 1944 and 1949, to develop an overall housing program of private housing, middle income housing, low income housing, subsidized housing, conventional housing, and new admixtures to meet the entire housing needs of the American people—then the question of priorities, how much for this group or that group, would be extremely important.

But I say very frankly to this committee that, while I am for this bill, and I hope you won’t take umbrage at this, this does not begin to meet in full the housing needs of the American people. It touches so limited a portion of it that I think the general impetus which it gives to a larger volume of construction at somewhat lowered costs, to more reasonable financing terms, to some additional Government backing of the mortgage market, I think these are all steps in the right direction, but the bill is not of a scope where I could say in terms of this particular bill just whom it should hit.

I think it will help, within the area that it covers, to prevent costs from rising quite so rapidly, and therefore it will tend to help bring housing within the reach of lower income groups than otherwise would be reached, and I think that is eminently desirable because the great bulk of construction now is not serving the middle and low income people.

Mr. ADDONIZIO. Might I point out, too, that we don’t necessarily have to take the premise that this will only build 74,000 units, because if this money goes into the market, it will attract certain private lenders, and there may be many more starts. This certainly was true of the bill that we enacted in 1958, isn’t that so?

Mr. KEYSERLING. That is right.

Mr. ADDONIZIO. Mrs. Sullivan.
Mrs. Sullivan. I have no questions, Mr. Chairman, but I do want to say, by way of passing, that I understand this is not going to be the Housing Bill of 1960; this is just a little shot in the arm to get more housing started.

Mr. Addonizio, Mr. Ashley.

Mr. Ashley. Did I understand you to point out, Mr. Keyserling, that the recessions that we have had during the 1950's have been getting progressively more serious?

Mr. Keyserling. Yes, this is undoubtedly true. The recession of 1953-54 was more serious than the recession of 1949, and the recession of 1957-58 was more serious than 1953-54, and the reason is that we are sweeping the problems under the rug. We are gradually accumulating a larger disparity between our power to produce and our ability to consume, under the existing distribution of income as it is affected by private action and public policy. Because of the supports which have been built into the economy over the years, we haven't yet had a test serious enough to give us a big depression. But we should take note, very serious note, of the fact that the recessions have been recurring with increasing frequency and increasing depth, and I see no reason to believe that this will be reversed unless we have a change in our attitude toward housing and toward many other things.

Mr. Ashley. As far as this bill is concerned, you have heard the statements of the administration officials who have testified, or you have read them, I presume, and you are aware that Mr. Mason predicts for the coming year that money will become increasingly plentiful, and that interest rates will go down.

Does this make sense to you in view of the monetary and fiscal policies that have been followed?

Mr. Keyserling. What does the stock market think about it? To interpret the stock market is not easy. But insofar as the stock market interprets the judgment of sober businessmen and large investors as to what is going to happen, the recent behavior of the stock market certainly hasn't indicated they think money is going to get easier, or that the spread between the yield on stocks and the yield on bonds and other forms of interest-bearing obligations is going to become more favorable to stocks.

If the stock market trends mean anything, and I think sometimes they do, they mean that the general view of the business community is that money is going to get tighter, and I share that view.

Mr. Ashley. I was interested in your comments on the kind of inflation that we have been having. You said with respect to home-building, for example, and other lines of economic activity, that this is caused by the increased cost of money, and also by relative inefficiency based on half-hearted production.

Is this essentially what I understood you to say?

Mr. Keyserling. I want to say something in all fairness to Mr. Widnall over here. I have not intended to take the position, and I don't think I have taken the position anywhere, and I think this would be borne out by my writings and my publications and everything else, that the cost of money is the only factor in the economic trouble we have been in. If I took this position, it would be really ridiculous.
There are many factors. Bad farm policy is a factor, our wage-price-profit relationships are a factor, and I don’t want to go into them here. Our lack of long-range planning in our Government budget and our Government monetary policy are other factors. There are all kinds of factors playing upon our economic difficulties, and I have discussed them all at various times in proper relationship.

When I come before a committee, because you can’t deal with the whole world of problems, I have to concentrate upon the factors that are relevant to what the committee is considering. There is not much use here in my talking before this committee at this moment about whether wages have been too high or too low relative to prices. I have strong feelings on that subject, and it is very important, but there is no use getting into that this morning.

I have very definite feelings about our horrible farm policy, but there is no use getting into that this morning.

I do feel that the tight money policy has been a very important factors in our poor economic performance and in the inflationary trend, and since this bill deals with that, and since the testimony of the Housing Administrator bears upon that point, I have dealt with that and placed emphasis upon it.

Now, in the next place, I think the tight money policy has a symbolic significance which outweighs its detail significance. If the tight money policy were measured only in terms of its quantitative impact upon the economy, I think it would have a serious effect but not an all-prevailing effect. What I am more concerned about is that the tight money policy is an embodiment of a philosophy which is extended into other areas of economic policy, namely, the philosophy that the way that this great and dynamic economy meets the problem of inflation and economic health is not to do things, but to stop doing things.

Now, there are times when you have to stop things. In a war, you stop civilian housing and automobiles. But the whole idea, over the last few years, has been that our main economic problem has been to stop us from going too fast in housing, too fast in resource development, to stop us from growing too fast in the expansion of social security, to stop us from going too fast in the expansion of national defense. I think all of this is based upon a fundamental misappraisal of what the problem of the American economy is in periods other than total war.

I don’t think our problem over the past 7 years, or prospectively over the next 7 years, is going too fast. It is going too slow.

Mr. Ashley. Let me ask you this. With respect to the inflation that certainly has taken place in the price of homes for American people, do you think that this is attributable in large measure to the fact that there haven’t been enough homes built?

Mr. Keyserling. There is no question about that, and that is the difference between what I call the long-range view and the short-range view.

Every productive activity imposes some strain upon the economy. It may be an inflationary strain in that it increases demand for goods and labor.

But we have got to distinguish between a one-shot operation and a long-term operation. In other words, even if the annual volume of
homebuilding needed to get the supply of housing for the consumer and the demand for housing in balance imposed some inflationary strain in its initial phase, you have also to take into account this question: How are you ever going to solve the long-range problem, and it is childish for national economic policy to deal only with the problem of the months, and never with the problem of the years, if we don’t start vigorously to overcome the shortage?

We had the same kind of problem when I was in the Government during the Korean war. Mr. Baruch, regarded as a great economic savant because he helped fight a war more than a generation earlier, was saying at the beginning of the Korean war that we should finance the whole war effort out of cutback of consumer goods; freeze everything, he said.

I said, “If it is true that we have a long-range problem, if we are going to have for many, many years to carry a high level of armaments, we have got to expand our production base so that we will be able to carry both military supplies and civilian supplies.”

They said that would be inflationary, and I said, “Sure, it will exert some pressure in the short run, but if we don’t do it, we will be plagued with a problem of inflation for 25 years.”

We did it, and it was inflationary in the short run. It would have been less inflationary if we had obtained from the Congress the controls we sought. But by 1951, not mainly because of controls but mainly because we had expanded the production base, the price inflation stopped, we had ample supplies to meet both the war need and the civilian need, and we didn’t cut back on either, and we were fit for a long-term struggle, and the inflation stopped.

Housing is the same thing. You can always make a spurious case that, if you speed up anything, it may exert some pressure. But housing is inflated now because we don’t have enough of it, not because we are producing too fast.

Mr. Ashley. What should be the annual increase in the money supply?

Mr. Keyserling. The annual increase in the money supply should approximate the annual growth potential of the country, which is a combination of growth in labor force and growth in productivity. I think it is now about 5 percent a year.

Mr. Ashley. And just a couple of fast questions, if I may.

First, let me ask whether you are concerned about the national debt, and specifically do you think the Federal spending should be curtailed during a boom period such as the one we are in in order to produce a budget surplus which can be applied to our debt?

Mr. Keyserling. This committee has had ample warning of the condition of my terminal facilities, and if you want me to get into a general discussion of the economics of the national debt—

Mr. Addonizio. I would like to state that we are running a little behind time and the Chair would appreciate it if we could move a little faster.

Mr. Keyserling. I don’t want to duck your question, I can answer that question, but if you want me to talk about Federal spending and taxation and the national debt, this is going to be quite an undertaking.

Mr. Ashley. I do have one question.
Mr. Keyserling. I don’t want to seem flippant, but you asked a big question.

Mr. Ashley. Perhaps it would be better if the answer were submitted for the record, but I would be interested in it, because I think that your views are so persuasive on the necessity for expansion, but at the same time there is certainly this other problem of an increasing debt that has to be faced.

Mr. Keyserling. To put it in a nutshell, I think that we have many great national priorities, and to make the reduction of the national debt a top priority, from the viewpoint of national fiscal policy, is not a good ordering of priorities if I may let it rest at that.

Mr. Ashley. That is all, thank you, Mr. Keyserling.

Mrs. Griffiths. Mrs. Griffiths.

Mrs. Griffiths. I would like to ask you, Mr. Mason made a statement that if the ceiling were lifted on long term Government bonds that this would make mortgage money available.

I understood you to say you didn’t agree with this, but I would like to know whether you understand their reasoning.

Mr. Keyserling. I understand it, by process of interpretation, as Mr. Widnall would say. I don’t understand it directly by reading it; I don’t think anybody can. As to the reason why you can’t understand it directly by reading it, let’s apply it to your very question. You raise the question as to whether the Housing Administrator took the position that lifting the ceiling would make money available.

Mrs. Griffiths. He did, it is in the record.

Mr. Keyserling. All right, he did; but why? Did he take the position that lifting the ceiling would make money more available by making the interest rates higher or by making interest rates lower?

Now, the President’s position, as I understand it, and I hope I am fair to him, is that removing the ceiling would make more money available by making interest rates lower.

I don’t agree with his conclusion that removing the interest ceiling would have either of these two results, but that is his conclusion, that by giving the Government more flexibility, the taking off of the ceiling would make interest rates lower.

But how making interest rates lower, under Mr. Mason’s philosophy, would make more housing money available, I don’t quite see, because on the next page of his testimony, where he is talking about the premium, he argues that you have to pay enough for the money if you are going to get it out. And certainly, the position taken by the housing people in the Government all the way through, year by year, has been that you have to pay more for the money to get the housing investment, and that the main reason why we haven’t gotten a high enough level of housing investment is that we haven’t paid enough for the money, and that therefore the rates ought to be higher.

This argument is used to reinforce in every request they make to raise interest rates all along the line.

I say there is inconsistency in these positions. Basically, I think I understand the position, because I think the basic position—which is not Mr. Mason’s position, I want to be fair to him; he is speaking for the Treasury, the Federal Reserve Board, and the Budget Bureau about a bookkeeping analysis, not a housing analysis—the basic position is that a higher level of housing construction would be threatening
the stability of the country, and threatening the value of the dollar, and threatening the crusade against inflation, and therefore the basic position is that we should not have a higher level of housing construction.

I think that is the basic position, and I think it is basically wrong.

Mrs. Griffiths. Thank you very much.

Mr. Miller. On that very point, I ask the spokesman for the administration whether they regarded the housing industry as the place most likely to inhibit this growth which they feared, and they denied that that was the case.

Specifically on that point, do you think that the testimony of the administration officials indicates that they regard the housing industry as the place where they can best cut back and inhibit the inflation which they are afraid of?

Mr. Keyserling. I don't think they are too clear on that. If you just read Mr. Mason's testimony, and it is a little confusing for the reason that I have given, Mr. Mason says as clearly as any one man could say in English that he fears this bill because it would provide a higher level of housing construction, and that a higher level of housing construction would raise costs.

He says just as clearly as one man could say in English on the next page that we don't need to worry, because there are going to be plenty of funds for a higher level of housing construction; the American people are going to save more when the interest rate ceiling is taken off; the surplus position of the Government and the retirement of the national debt is going to provide more funds.

So, I can't tell by reading the testimony whether he is saying that we don't want a higher level of construction and therefore don't want the bill, or that we will get a higher level of construction without the bill and therefore the bill is not necessary. And I challenge anybody, on a reading of Mr. Mason's testimony alone, to find out which of these two things he means.

Mr. Miller. Would you say that the administration generally believes that the housing industry is a good place to start in inhibiting inflation? We have had definite information to that effect.

Mr. Keyserling. I would say that the Federal Reserve Board and the Treasury and the Budget Bureau have had what I would almost call an irrational aversion to housing for several years. They have always thought of it as one of the first places to dampen off real or imaginary inflationary factors. And I have said this to my good friend Mr. Martin: "Look, in the first place, you are completely misanalyzing the causes of inflation; this inflation hasn't been caused from overstrain upon our resources, and therefore a higher level of housing would not be inflationary, it would be anti-inflationary in the long run."

"Second," I have said, "What are your national priorities? Even if a higher level of housing exerted too much pressure on resources, why don't you cut back on something else, since housing is one of the things the country most needs?"

Look at the ridiculous nature—if that is not too strong a word—of Mr. Mason's testimony. He argues that we shouldn't have more housing now because we are highly prosperous, and weren't in 1958.

Well, suppose the managers of our national fiscal and monetary policies were more and more successful in helping to make us pros-
Then, by their lights, we would have less and less room for housing, on the ground that we were prosperous and that housing would be inflationary. When I was discussing the matter with a former member of the Council of Economic Advisers, somebody said we should build more schools, and he said "No," it would be inflationary because the country is so prosperous.

I said, "Suppose it stays prosperous, would we never be able to afford the schools we need or pay the teachers what we should, but if by the grace of God we have another depression, would we then be able to afford it? What kind of economics is this?"

If we are as prosperous as the administration says, we need to improve housing more than many other things, and the Reserve Board should have a selective control policy to pinch the things we don't need instead of those we need most.

The trouble is that the tight money policy and the kind of credit controls we now have has stopped everything that was going too slow and didn't stop anything that was going too fast.

Mr. Addonizio. Thank you very much for being here, Mr. Keyserling. I want to thank you for your very fine testimony.

(Mr. Keyserling's prepared statement reads as follows:)

**Testimony of Leon H. Keyserling**

Mr. Chairman and members of the subcommittee, I appreciate this opportunity to appear in support of the emergency homeownership bill. I am here today as an independent economist, concerned with the well-being of the American people and the sound functioning of the American economy. I speak also on behalf of the National Housing Conference, of which I am a board member.

**Five Basic Reasons for Proposed Bill**

I favor the proposed legislation because it represents an important step toward these essential and interrelated objectives: (1) to reverse the long-term American economic trend, since the end of the Korean war, marked by an exceedingly low average annual rate of economic growth and an unduly high average annual level of unemployment of plant and manpower; (2) to reverse the prospect that, under current national economic policies, another economic recession looms ahead, possibly as early as 1961; (3) to reverse the national trend, during a number of years, toward sore neglect of the housing needs of the American people, especially those in middle-income and low-income groups; (4) to reverse the so-called tight money policy which, in my sober judgment, is an economic monstrosity and a social abomination; (5) to reject the economic philosophy which Government spokesmen, including the head of the Housing and Home Finance Agency, have very recently advanced in opposition to this legislation, a philosophy which I believe to be founded upon highly inaccurate factual observations and dangerously erroneous practical conclusions.

The proposed bill will not, of course, accomplish all of these purposes by itself, nor any one of them in full. It does not purport to be a full-blown housing program, responsive to our total housing needs. But it moves, generally speaking, in the right direction. I shall not deal with the details of the bill, but rather with the broad economic reasons why I favor it.

**The Role of Housing in Our Poor Economic Performance 1953–59**

From the beginning of 1953 through the end of 1959, our average annual rate of overall U.S. economic growth, measured in real terms, has been only about 2.3 percent. This contrasts with at least 4½ percent needed to maintain the maximum employment and maximum production envisaged by the Employ-

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1 Former Chairman, President's Council of Economic Advisers, consulting economist and attorney, and president of the Conference on Economic Progress.
ment Act of 1946. In consequence, we have during this 7-year period as a whole had a shortfall of about 15 million man-years of employment opportunity, and a shortfall of almost $200 billion in total national production. This has had an immense adverse effect upon private economic progress. It has had also an immense adverse effect upon the public revenues which are needed to pay for national security and essential domestic public programs.

A shortfall in investment, especially in housing, has played a very important role in the overall shortfalls in our economic performance since 1953. To illustrate, the shortfall of almost $200 billion in total national production, during the past 7 years, has included a shortfall of almost $32 billion in gross private investment, including net exports of goods and services. Upon much more detailed analysis, it appears that at least $30 billion of this $32 billion investment shortfall was a shortfall in private investment in nonfarm residential construction. This is quite aside from a deficient level of public investment in slum clearance and low-rent housing.

I arrive at this $30 billion figure by apportioning the $52 billion private investment shortfall in line with a sustainable pattern of optimum overall economic growth. It appears that not more than about $22 billion of the $52 billion figure could have been absorbed on a sustainable basis by other forms of investment, including producers' durable equipment, changes in business inventories, new construction other than housing, etc. It appears also that about $30 billion more of private investment in nonfarm housing, over the 7-year period, would have helped to bring the average annual level of new home construction into line with a long-term housing program geared to population growth and new family formation plus sufficient removal of substandard housing to be compatible with satisfactory speed in the improvement of overall housing standards.

Thus, it appears that about 15 percent of the total $200 billion production deficiency, during the 7-year period, was directly and immediately attributable to the shortfall in private housing investment, aside from the stimulatory effects of this kind of investment on other types of investment. A comparable portion of the excessive unemployment, 1953–59, can be attributed to the shortfall in housing investment.

HOUSING'S ROLE IN CURRENT AND FORESEEABLE ECONOMIC SITUATION

Despite the current recovery movement, we have by no means restored maximum employment and production. In December 1959, the true level of unemployment, taking into account the full-time equivalent of part-time unemployment, was almost 4.8 million, or almost 7 percent of the civilian labor force, seasonally adjusted. In the fourth quarter of 1959, the annual rate of our total national production was about $58.5 billion below maximum production, indicating an overall slack of more than 11 percent in the economy. The total private investment deficit in fourth quarter 1959 was at the annual rate of about $15.3 billion, or considerably more than a quarter of the total investment shortfall of $58.5 billion. And I would say that between a quarter and a third of the shortfall in private investment during fourth quarter 1950 was represented by a shortfall in private nonfarm residential construction.

The same economic policies, private and public, which have produced this poor 7-year record, threaten to repeat it unless these policies are drastically revised. In its essential characteristics, the recovery movement today is not different from that of 1955 or 1957. Informed businessmen are now wondering whether the next recession will come in 1961, or even a bit earlier. But none seems to believe that we have yet found the key to more stability and more growth. If the 5-year period 1960–64 inclusive should register the 2.3 annual average rate of economic growth which marked the 7-year period 1953–59, instead of the 5-percent annual growth rate which we now need to absorb the new technology, our shortfall in total national production during this 5-year period would be about $350 billion. Our shortfall in employment opportunity would be about 19 million man-years of employment. At existing tax rates, the shortfall in public revenues would be about $100 billion at all levels of government, leaving us less and less able "to afford" the things we most need to do.

A shortage just as serious is the role which private housing investment should play in an optimum rate of economic growth for the American economy as a whole, geared to sustained maximum employment and production. This rate of overall growth would lift total civilian employment from about 65.5 million in 1950 to 69.9 million in 1961 and 73.7 million by 1964. It would lift our total national
production, measured in uniform 1958 dollars, from an estimated $470.5 billion in 1959 to $549 billion in 1961 and $637 billion by 1964. In this framework of growth, gross private domestic investment should rise from about $67.4 billion in 1959 to about $81.5 billion in 1961 and about $97 billion by 1964.

However, residential nonfarm construction needs to rise much more rapidly, because this area represents one of the most significant unmet needs of the American people, and one of the largest opportunities for the expansion of production and employment to absorb in part the consequences of the new technology in many industries. I estimate that, as a part of the above-cited overall economic objectives, private investment in residential nonfarm construction should rise from an estimated $23 billion in 1959 to about $27 billion in 1961 and about $32 billion by 1964. These investment goals would be consistent with the amount of housing that the American people need, reconciled with their other needs in terms of our total resource potentials.

These goals contemplate the desirability of about 1.7 million new nonfarm housing starts in 1960, and about 2 million in each year thereafter through 1964, contrasted with less than 1.4 million in 1959. In addition, there ought to be about 130,000 new farm housing starts in 1960, and about 150,000 thereafter in each year through 1964.

With this sort of homebuilding program, about 12.5 million substandard nonfarm and farm housing units as of early 1958 would be reduced to somewhere between 1 and 2 million substandard units by 1965, contrasted with an estimated 10 million substandard units by 1965 if drastic efforts are not made to reverse the trends indicated by recent years. And the quantitative housing shortage, now estimated at about 2 million units, would become negligible by 1965 if the total housing effort of the Nation conforms to the magnitudes I suggest.

Mr. Widnall. At this point I request permission to insert in the record, an article in the Wall Street Journal dated January 25, 1960, about the National Association of Home Builders' convention in Chicago.

Mr. Addonizio. Without objection, that may be done.

(The article is as follows:)

[From the Wall Street Journal, Jan. 25, 1960]

**BUOYANT BUILDERS: THEY DISPUTE GLUM 1960 FORECASTS, SEE STARTS NEAR LAST YEAR'S PACE**

MOST SAY SALES ARE BRISK, CLAIM RISING COSTS WILL PUSH UP PRICES OF HOMES—DID POLITICS DICTATE GLOOM?

(BY WILLIAM R. CLABBY, STAFF REPORTER OF THE WALL STREET JOURNAL)

CHICAGO.—Homebuilding plans for 1960 are taking on a rosier hue. Housing starts may approach the near-record pace of 1959. Sales have been brisk in recent weeks and some builders are finding their financing problems aren't as severe as they had expected them to be. But price tags on new homes probably will increase.

These were some of the predictions of a cross section of 12,000 builders as they headed home over the weekend from the annual convention here of the National Association of Home Builders.

While few builders entertain hopes of outstripping the boom year they enjoyed in 1959, a growing number figure they'll come closer to last year's pace then they had anticipated. A poll of nearly threescore builders shows that more than half plan to hammer up the same number of homes this year as in 1959. About 30 percent predict a decline but the other 20 percent are counting on an increase.

**DOWN LESS THAN 3 PERCENT**

This group expects to begin construction on 7,196 houses this year, down less than 3 percent from the 7,363 they built in 1959. At this rate, the Nation's builders would put up about 1.3 million units in 1960 or nearly as many as the estimated 1,341,500 erected in 1959. This would mark the fourth best housing year on record, the high of 1,352,000 was reached in 1950.
This forecast finds support in figures released recently by the Government on homebuilding over the past 2 months. After a 6-month decline, housing starts, on a seasonally adjusted basis, turned up in November. The upturn continued into December and in that month builders were starting work on houses at an annual clip of 1,310,000 units. That represented a gain of more than 100,000 starts from the rate a month earlier.

Most housing industry executives and many economists and congressional leaders, however, are still expressing deep concern about housing. They view housing as the one dark cloud in an otherwise bright economic picture. Only last week, Carl T. Mitnick, outgoing head of the NAHB, predicted that housing starts for the year would decline more than 200,000 units from 1959. He estimated that between 1,100,000 and 1,150,000 homes would be started in 1960. Federal Housing Administrator Norman Mason made a similar forecast.

A few months ago, the average homebuilder might have agreed. But now, despite the severe squeeze on mortgage credit, many are raising their sights for 1960. The glowing general economic picture, the end of the steel strike and, for some, a slight easing in the tight money situation, are rapidly wiping out the builders’ earlier doubts about 1960.

“I don’t see how we can miss this year,” reports Riley McGraw, executive vice president of ABC Construction Co., Indianapolis. “We’ve already sold out one subdivision and just got another one underway. A week ago Sunday we had one of the largest turnouts at our model homes that we’ve ever had and already have sold 10 houses this month.” Mr. McGraw says he’s sure the company will register a big gain in 1960 from the 135 houses it built in 1959.

PLANS 320-ACRE PROJECT

“I feel so good about this year that I just went out and bought another 320 acres for a new development,” declares Ernest A. Becker, of Las Vegas, Nev. “The bank tells me to be conservative this year but I don’t see how I can. We sold eight houses in the 2 weeks before Christmas and have been selling two or three a week since then. That’s pretty good when you consider our big sales push doesn’t begin until March.”

“The lookers are out to buy,” says Richard Hipp, head of a building firm in Minneapolis bearing his name. “I don’t know what has happened—the end of the steel strike probably has a lot to do with it. Then, too, I think a lot of folks have taken a look at their balance sheets and decided that maybe things aren’t too bad. Anyhow, I’ve sold 10 houses since the first of the year and wish I had more land ready for building.”

Any improvement in the building outlook, of course, represents good news to a wide range of industries. The fortunes of such industries as glass, lumber, appliances, and roofing depend to a great extent upon the success of housing contractors.

SEE POLITICAL CONSIDERATIONS

“I don’t want to make any accusations against our industry leaders but I can’t help feeling there might be some political considerations in the pessimistic estimates being made on housing,” declares one Ohio homebuilder in attempting to reconcile a rosy outlook for his area with the gloomier national forecasts. “After all, the industry is plugging away for some mortgage aid from the Government and it wouldn’t strengthen their case if they were singing about a good year coming up.”

One such piece of legislation before Congress, sponsored by Representative Albert Rains, Democrat, of Alabama, for the Federal National Mortgage Association would provide an additional $1 billion to buy Government-insured mortgages. A similar measure was approved by Congress in 1959 and is credited with adding about 40,000 home starts to the 1959 total.

Many builders already are off to a good start this year and figure only a drastic change for the worse in the Nation’s economy will upset their plans.

“We have 50 homes under construction and will be starting more in a few days,” states Emil Downey, president of DHR Construction Co., East Hartford, Conn. Mr. Downey, who subcontracts for other builders, reports he has orders for 200 homes in his pocket and expects to wind up with 500 starts for the year. In 1959, his total was 300.

Mr. Hipp of Minneapolis, has 110 houses underway and, about 75 percent of them have been sold. “My only regret is that I haven’t enough ready land,” he adds.
Somewhat surprisingly, a number of builders say financing is not the major stumbling block that they earlier had expected it to be. A big majority of the builders have their financing lined up for the first half of 1960 and many are set for the full year.

**TIGHTNESS IS UNEVEN**

Mortgage money generally is considerably less plentiful than it was a year ago and interest rates are a good deal higher. But the tightness is uneven; builders find that lenders in smaller cities often are able—and even eager—to take care of their borrowing needs. Even in the larger cities, where lendable funds generally are less plentiful, money has eased slightly in recent weeks. Business loans of major New York City banks have declined seasonally for 3 consecutive weeks. Wholesale and retail trade firms, for example, are paying off loans obtained to finance accumulation of inventories for the Christmas selling season. But most bankers look for a renewed tightening of money soon, so builders' financing problems may grow later on.

For the present, however, some builders seem unworried. “Money is expensive, of course,” says Daniel T. Mistick, president of a Monroeville, Pa., building company. “But if a fellow is really interested in a house I can take care of him.”

Some money lenders agree that financing isn’t quite as tough as it was a couple of months ago. “I won’t say we have money running out of our ears but I will tell you that I’m again looking for builders,” says Theodore R. Simson, president of First Investment Co., mortgage banker headquartered in Columbus, Ohio. “I’ve got $1 million a month to place now. It’s costly, but 2 months ago I didn’t have any to place at any price.”

**BANK TO REENTER MARKET**

Mr. Simson, who represents 11 insurance companies and banks, says one Chicago bank indicated only last week that it was ready to move back into the home mortgage market after having pulled out completely last June. “The bank believes that money might ease up a bit this summer and wants to place its funds while interest rates are so high,” Mr. Simson says.

Robert H. Wilson, president of Percy Wilson Mortgage & Finance Corp., Chicago, takes a similar view. “It’s a little better now on money than it was before Christmas,” he remarks. “There are some indications that savings are improving.”

To be sure, the shortage of lendable funds is having unpleasant effects on some builders and nearly all agree that a long siege of tight money will force some changes in plans.

In the South and West, where money for lending is traditionally less plentiful than in other sections of the country, builders are complaining especially loudly about financing. “This money situation is terrible,” says Jack Y. Williams, president of Florida Builders, Inc., St. Petersburg. It’s a big reason, he declares, why the company is planning to slash home starts this year to about 1,000 units; in 1959 the company built more than 1,400 houses.

“Everything depends on money but things aren’t looking good,” says Barney H. Morris, Beverly Hills, Calif., builder. “We’re expecting about 240 starts in the first half but after that I can’t say. It could be mighty rough.” Last year, Mr. Morris built 600 houses in the Beverly Hills area.

While the view on tight money varies, the builders generally agree on other aspects of the 1960 housing outlook.

For one thing, they say, prices of new homes are bound to rise in the year ahead. They point to rising interest costs on the money they borrow and to higher costs of labor and materials.

“I’m done absorbing all these cost increases,” states Kenneth Borschel, Cedar Rapids, Iowa, builder. “The carpenters got a raise in September and the rest of the building trades will probably get one in May. If the steel companies can’t hold wages down, I don’t see how we can. It’s either pass the increases along or go out of business,” he concludes.

Some builders already have boosted prices. For instance, Arthur C. Russell, Memphis builder, has just posted $500 increases on his $25,000 homes. “I couldn’t help it; everything is coming up,” he declares. In the last 3 months, Mr. Russell says, the costs of furnaces and sheet metal for his homes climbed from $450 to $550. The cost of plumbing jumped $75.
"I'll be raising my prices, too," says E. N. Williams, Denver builder. "Land prices are going sky high and we've been warned to expect increases from some of our suppliers."

Nat Rogg, economist for the National Association of Home Builders, looks for prices generally to start climbing. "The price line is being thinly held at the moment," he declares, "and there's practically no depth to the defense. It won't take much to start the parade upward."

Most influential, perhaps, in the trend to higher prices is the rapid rise in discounts on financing arranged by the builder.

The discount is used by moneylenders to get around interest rate limitations imposed on mortgages backed by the Federal Housing Administration or the Veterans' Administration. The discount is used to raise the yield on mortgages. Here's how it works: If the builder wants to line up a $10,000 FHA loan for a buyer of one of his homes, the lender may agree to give the builder only $9,500. This represents a discount of 5 percent or five "points." Since the buyer will repay the lender the full $10,000 loan, plus interest, the yield to the lender far exceeds the 5⅞ percent maximum rate permitted by the FHA.

A builder tries to pass along the discount to the buyer in the price of the house, but sometimes, for competitive reasons, is forced to absorb it.

In some areas, discounts are running as high as 10 or 12 points on VA-backed mortgages. This type of Government-insured lending has been hit the hardest because the maximum interest stands at 5⅛ percent, below the FHA rate and further below the prevailing 6 or 7 percent rate on loans which do not carry U.S. backing.

Mr. Addonizio. Our next witness is Mr. Boris Shishkin of the AFL-CIO.

Will you please come forward, Mr. Shishkin?

We are running a little behind schedule, so we would appreciate expediting this as much as possible.

STATEMENT OF BORIS SHISHKIN, SECRETARY, HOUSING COMMITTEE, AFL-CIO

Mr. Shishkin. Thank you, Mr. Chairman. I appreciate the opportunity to appear before this committee, and I welcome the opportunity of testifying before our good friend, Mr. Addonizio, in the chair.

I do want to say, however, that I am very sorry to note that the chairman, Mr. Rains, of this committee is not with us today not only because we are considering Mr. Rains' bill, but also because Mr. Rains has been one of the foremost champions in this Congress over the national housing policy that is responsive to the public interest, and I feel that his proposed bill is very much in line with that record of his, and I also would like to note that Mr. Addonizio has been very much with Mr. Rains in furthering that policy.

I am here to represent the American Federation of Labor and Congress of Industrial Organization. We are a nonpartisan organization representing around 14 million wage earners in the United States.

I have with me, Mr. Chairman, Mr. John Edelman, national representative of the Textile Workers Union of America, and a member of the housing committee of AFL-CIO, and Mr. Bert Seidman, an economist of the AFL-CIO, who are with me in this appearance.

We are here to testify in support of H.R. 9371, the Emergency Home Ownership Act, introduced by Chairman Raines of this subcommittee.
I would like to say at the outset that I, too, have studied Mr. Mason's testimony before this committee, and I think I can explain some of the contradictions that appear in it.

I think it is quite apparent to anyone who has worked as closely in the field of housing with the Housing Agency and its administrators as I have that the voice is the voice of Mr. Mason, but the hand is the hand of the Bureau of the Budget.

In other words, Mr. Mason was trying to convey his interpretation of the administration's policy with respect to housing. I think that he, as any Housing Administrator, just does not believe in that kind of policy, because anybody who has the responsibility under law to administer a housing program and is told to come and oppose a program which he knows is necessary doesn't have his heart in it.

With regard to the general discussion that occurred here this morning, I would like to say, also, that I think that one of the problems of this administration has been that it has placed interest ahead of principal, and this comment is not original with me.

In the first session of the U.S. Congress, if you will look up the record, you will find that John Randolph of Roanoke, Va., had flung that charge at the Tories at that time because they were placing interest ahead of principal, he said, and I think it is deplorable that we have to revert to the record of the First Congress to say the same thing 170 years later, because the position with respect to interest as against the basic principles of public welfare I think is a Tory stance, and it does not go in 1960 to have this dichotomous philosophy in programs of public welfare.

I would like to commend this committee for directing its attention at the very outset of this congressional session to the immediate threat of a disastrous decline in housing activity. I think that is clearly imminent.

Proper action taken now can forestall this threatened downturn. Moreover, if such emergency action is immediately followed by enactment of comprehensive, forward-looking housing legislation, the stage could be set for a much needed expansion of the Nation's housing activity.

Let me say a word about the housing outlook.

According to the Department of Commerce, 1,341,500 housing units were started by private builders in 1959, about 200,000 more than in the previous year. However, the seasonally adjusted annual rate of private housing starts reached a peak of 1,484,000 in April 1959 and has declined since then by more than 100,000.

In fact, by October it was down to 1,180,000. Although the seasonally adjusted annual rate in December 1959 was up somewhat to 1,310,000, the winter starts rate is seldom a particularly accurate measure of housing activity. In any case, even the December rate was below the average for the year 1959 and sharply below the high point reached in April 1959.

Let me also point out, Mr. Chairman, that even if we were to maintain a rate of 1.3 million starts per year, this would be a million starts or about 45 percent less than the minimum required to meet the Nation's total housing requirements.

I am submitting with my testimony the September 1959 issue of our AFL-CIO publication, Labor's Economic Review, which on page 50 shows in detail estimates of new housing needs for the period
1960-75. These estimates indicate total requirements of at least 35 million new housing units by 1975 or a minimum of 2.3 million units a year. I respectfully request that this publication be incorporated in my testimony as part of the record of this hearing, at the conclusion of my statement, if I may.

Mr. ADDONIZIO. You may do that without objection. However, I note that there are some charts which we may not be able to have duplicated, but we will do the best we can with it.

Mr. SHISHKIN. I appreciate that, Mr. Chairman. Thank you very much.

This estimate shows that even the recent level of housing activity, erroneously described in some quarters as a housing boom, is far less than what is needed. Unfortunately, there is every indication that even this inadequate pace will not be maintained in the coming months.

"Builders See Belt-Tightening Era Ahead" is the banner headline in the real estate section of the Washington Post of January 16, 1960. The news story under the headline reports that spokesmen for builders predict a 10 to 12 percent decline in homebuilding in 1960.

The New York Times of January 22 reports:

Builders from all parts of the country believe that in 1960 fewer homes by far will be built than in 1959. They see no encouragement in Government reports showing that home construction in November and December was greater than could be expected if a building recession was approaching.

The consensus today, as the National Association of Home Builders' Convention drew to a close, was that unless emergency legislation is enacted, there will be a sharp downturn in housing starts, and that the 1959 total of 1,341,500 housing starts will not even be approached.

It is difficult to understand the Eisenhower administration's complacency regarding the housing situation because Federal housing officials also anticipate a housing decline. According to the Wall Street Journal of January 15, 1960, Housing Administrator Mason and other Government housing officials have forecast a drop in private housing starts in 1960 to 1.2 million or even 1.1 million.

The handwriting is already on the wall. Housing starts last month were 10 percent below December 1958 but the combined FHA applications and VA appraisal requests were 23 percent less than the level of a year ago. This could mean a substantial drop in housing starts in the months ahead.

The low level of housing starts and the even lower level anticipated cannot be attributed to a reasonable satisfaction of housing needs. The major reason for the dismal prospects for housing construction is the disastrous tight money policy adamantly pursued by the Eisenhower administration. Substantial discounts, which are simply disguised interest payments, piled on top of sky-high interest rates are keeping large numbers of families out of the housing market.

The present effective interest rate on FHA-insured mortgages is an effective 6¼ percent—5¾ percent official interest rate plus one-half of 1 percent mortgage insurance premium. However, as of January 1, 1960, the average discount on FHA-insured new home mortgages for section 203 sales housing was 3.6 points with a range from 2 to 7 points. This means, therefore, that to the 6¼ percent effective interest rate should be added an additional one-half percent represented by the average discount, which would mean that the real interest rate averaged 6¾ percent.
In the places where the discount was seven points, the effective interest rate was nearly 7 1/4 percent. These are breathtaking figures, Mr. Chairman.

Even where home buyers have been willing to pay unreasonable discounts and excessive interest rates there have been many cases where they have have been unable to obtain necessary mortgage funds. Here is what has been reported by the Survey Research Center of the University of Michigan based on their study during the fourth quarter of 1959, a recent study just completed:

Plans to buy a house for owner occupancy during the next 12 months rose substantially from the summer of 1958 to the summer of 1959 but declined sharply by October and November 1959. The major reason for this decline is to be found in the increase in interest rates and the tight money situation.

In the months since this survey was conducted, the situation has undoubtedly become even worse.

It is estimated that for every home that is built, one man-year is required onsite in actual construction. An additional man-year is required offsite in factories producing bricks, lumber, steel, cement, electrical equipment, furniture, and many other products needed to build and equip new homes. A decline of 200,000 in housing starts next year, therefore, would result in addition of 400,000 persons to the ranks of the unemployed at a time when unemployment is already much too high.

Moreover, as I am sure the members of this committee are well aware, residential construction plays an important role in determining the overall level of economic activity. This fact was sharply pointed up during the two most recent recessions, 1953-54 and 1957-58. In both of these recessions a drop in housing activity preceded and helped to precipitate the general economic setback.

The seasonally adjusted annual rate of housing starts dropped from 1,486,000 in August to 918,000 in July 1951 and remained at very low levels until mid-1954. Housing starts were also relatively high during the latter part of 1954 and into 1955 but then dropped below an annual rate of 1 million in early 1957. In both periods, the low level of housing activity played an important role in bringing on the ensuing recessions of 1953-54 and 1957-58.

Certainly it would be a tragic mistake to disregard now the lesson of the last two recessions. Therefore, it is essential that every possible measure be taken immediately to forestall a downturn in homebuilding not only to prevent the housing shortage from becoming worse, but also to bolster the overall level of economic activity.

In urging enactment of the bill you are now considering, we would also remind the committee of the beneficial effects resulting from enactment of the similar Emergency Housing Act of 1958. The volume of mortgage funds which this legislation made available for moderate-priced housing was probably the most important factor contributing to the rise in homebuilding activity during the latter part of 1958 and the first half of 1959. Prompt passage of the proposed Emergency Home Ownership Act would undoubtedly have similar desirable effect in the months to come.

Let me add here, Mr. Chairman, that as far as the future outlook is concerned, I would like to note and observe that the current recovery from the lower depths of this recession which is now underway will,
we hope, be sustained. I am not a prophet of doom, and I never have been, and I have appeared before this committee over the years, but I would like to point out that I see nothing to sustain the course of this recovery beyond August or September unless special measures are taken, such as this legislation that is now before you to bolster up the economic course. For that basic reason I think it is quite essential for us to act now.

Let me turn now to the analysis of special provisions of H.R.9371. I would like to point out the sections which we regard as being particularly important. However, in doing so, I do not wish to convey an impression that failure to mention other provisions in any way indicates that we are opposed to their adoption.

Section 11 would make available $1 billion for purchase by the Federal National Mortgage Association under its so-called program 10 of FHA-insured and VA-guaranteed mortgages of $13,500 or less, except in high-cost areas where the maximum mortgage would be $14,500. That is the only exception.

Section 8 provides that FNMA shall purchase these mortgages at not less than par.

Section 9 reduces the maximum charges or fees FNMA may impose under the special assistance program for a 1-year period to 1 percent of the unpaid principal amount of the mortgage.

The effect of these sections would be to make possible construction and sale of a substantial volume of moderate-priced housing that otherwise would not be built. It would also provide assurance that home-builders would not be required to pay unreasonable discounts and charges over and above already excessive interest rates.

We strongly favor these provisions and we especially commend the emphasis on moderate-priced housing contained in this bill. Experience following the enactment of the Housing Act of 1958 provides assurance that enactment of these provisions will result in a stepped-up rate of building with a probable decrease in the price of the new homes built. According to the National Association of Home Builders, the median price of new homes fell from $15,100 in 1957 to $14,450 in 1950. This drop in sales prices of new homes was largely the result of the wise decision of the Congress in the Emergency Housing Act of 1958 to encourage construction of moderate-priced housing. That wise decision should certainly be repeated at this time.

Section 10 of the bill makes it clear that mortgages on cooperative housing insured by FHA would be eligible under the bill's authorization for FNMA's program 10. We understand that cooperative housing was excluded from the benefits of the Emergency Housing Act of 1958 by administrative decision.

Enactment of section 10 of this bill will prevent such an unwise decision from being repeated. It would make sure that families wishing to purchase their homes by the cooperative method will have equal access with other prospective home buyers to the funds made available by this legislation. There are many advantages in the cooperative housing approach which we have stressed on previous occasions. At this time we wish merely to emphasize that by encouraging cooperative housing, this bill will help to reduce housing
costs for moderate-income families thereby reinforcing one of the
major aims of the bill.

Sections 2, 3, 6, 12, and 13 are not confined to the so-called program
10 mortgages but inject worthwhile features into the broader housing
program in the light of specific problems confronting home buyers
at this time.

Section 3 would reduce the mortgage insurance premium home
buyers must pay on FHA-insured sales housing to one-quarter of 1
percent. As far as the home buyer is concerned, the so-called mort­
gage insurance premium of one-half of 1 percent which he must now
pay is as much a part of the interest rate as the actual interest rate
itself.

This means that the present effective interest rate for FHA-insured
mortgages—exclusive of discounts—is not 53/4 percent but 61/4 percent.
On so-called 203(i) houses in rural and outlying suburban areas, it is
actually 63/4 percent. Anything which can be done to reduce the real
interest rate the home buyer must pay is certainly to be desired.

There is every evidence that the FHA mortgage insurance funds will
remain actuarially sound if the mortgage insurance premium is re­
duced to one-quarter of 1 percent. The premium paid by home buyers
on mortgages insured by the FHA is held in the mutual mortgage
insurance fund.

As of December 31, 1958, the amount in this fund was $438,262,624.
Estimated reserve requirements were only $384,193,412. There was
thus a surplus in the account of $54,069,412.

The bill would reduce the premium to one-quarter of 1 percent but
only for a 1-year period, presumably in order to reduce the financial
burden of families seeking to purchase homes in the extremely tight
money market we have today. We are confident that this reduction
could soundly be continued beyond the 1-year period.

However, in order to make sure that this can be done without ad­
versely affecting the actuarial position of a mutual mortgage insur­
ance fund, we suggest that a thorough and detailed investigation be
undertaken not only of this fund but of all FHA mortgage insurance
funds during the coming year, so that the Congress in its next session
will have the necessary facts to make a decision on a permanent basis
with respect to the mortgage insurance premium necessary under the
FHA program.

The provision of section 12 which would outlaw the existing effec­
tive 63/4-percent interest rate on 203(i) mortgages is extremely de­
sirable. It is an outrage that a program intended to make mortgage
funds available at moderate interest rates is now saddling buyers of
low-cost houses with usurious interest rates. The attorney general
of the State of Maryland has already ruled that the effective 63/4-
percent interest rate for 203(i) mortgages is illegal under the usury
laws of that State. No doubt the same effect of this rate also prevails
in other States.

Section 13 requires mortgagees under FHA-insured or VA-guaran­
teed loans to report to the administrative agency the amount of any
fees, charges or discounts required in connection with such loans.
Presumably, this section is intended to restrain the excessive charging of discounts by requiring mortgagees to report such amounts to the FHA or VA.

This is desirable as far as it goes, but we believe that more than a reporting requirement is needed to prevent the gouging of home buyers through such financial practices. We would recommend that this section be strengthened by outright prohibition of requirements by mortgagees of such payments, or, if the committee will not go that far, establishment of specific moderate ceilings on the total amount of or percentage which can be exacted by FHA or VA mortgagees in the form of fees, charges, or discounts.

Section 2 of the bill would permit individuals to make FHA-insured mortgage loans. Section 6 would prohibit FNMA for a period of 1 year from selling or otherwise disposing of any mortgage which it may hold. Both of these provisions are evidently intended to increase the amount of mortgage funds available for housing under the various Government programs. In the present situation of extremely tight mortgage markets, this is obviously a desirable objective. Section 2 has the particular merit of making it possible for relatively small lenders not associated with large mortgage financing institutions to participate in the FHA programs. This will not only help extend the program to small towns and communities but will also help to break the grip, even if only to some extent, of the large banks and insurance companies on the FHA-insured mortgage market.

This is one provision which might enable this committee to take a specific step of assisting small business in concrete terms.

Now let me turn to the need for the comprehensive housing legislation which is the bill before us.

The title of H.R. 9371, Emergency Home Ownership Act, clearly indicates that it is intended as a stopgap measure to meet an emergency situation. We believe that enactment of H.R. 9371 will help prevent a housing downturn which could precipitate a general economic recession. We therefore give it our wholehearted support.

However, we wish to emphasize that while we strongly favor immediate enactment of H.R. 9371 as an emergency measure, it is not intended to be and is not a substitute for urgently required comprehensive housing legislation. Therefore, we urge this committee to consider and recommend enactment of a comprehensive housing bill as soon as possible after it reports out H.R. 9371.
We hope that we shall have an opportunity at that time to present our views on the necessary ingredients of a long-range housing program geared to the needs of the Nation in the 1960's. At this time, we wish merely to state without any elaboration the main features of such a comprehensive housing program that we envisage.

1. A large-scale, low-rent public housing program to provide decent homes for low-income families.

2. An effective middle-income housing program, for which there is an urgent and pressing need.

3. A fully adequate program of housing for the elderly.

4. A Federal policy to assure every family an equal opportunity to obtain decent homes without regard to race, color, creed or national origin.

5. A greatly expanded slum clearance and urban redevelopment program.

6. Effective encouragement to metropolitan planning.

7. Other measures, including encouragement for cooperative and moderate-priced rental housing; adequate housing for family farmers and farm workers; requirement of payment of the prevailing wage in any housing construction involving Federal financial assistance; and protection of homeowners against foreclosure in emergency situations.

Tangible aid and positive encouragement must be given by Congress in this session to enable America's enterprise system to step up the urgently needed housing supply and to bring good homes within the financial reach of the average American family.

We consider housing legislation to this end as “must” legislation in the present session of Congress.

Approval of H.R. 9371, the Emergency Home Ownership Act, is the first step and a vital step Congress must take to discharge its housing responsibility in 1960.

For, in approving this measure, Congress will not only help meet the acute need for the housing in our land, but will also provide a sure safeguard against renewed recession, unemployment, and economic distress which threaten to sap America's strength.

Mr. Chairman, I would like to have the study containing our latest estimate of housing needs to be placed in the record, as I indicated before, and I appreciate very much the committee's interest and attention to this statement.

(The information referred to is as follows:)

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Federal Reserve Bank of St. Louis
Still an Unmet Need:

GOOD HOMES FOR ALL

In the United States we have believed for generations that the home is the foundation of our American way of life. The home environment is the first and most significant influence on each succeeding generation.

Yet, despite our conviction as to the importance of the home, one-fourth of all occupied dwellings in the U.S.—about 18 million in all—do not meet minimum requirements for family living. An estimated additional 2 million or so dwellings are in livable physical condition, but they are located in such run-down neighborhoods that they make poor homes for growing children.

Thus, some 15 million American families are forced to live in substandard dwellings. In 1959 more than one-fourth of American families are still ill-housed.

About 1.4 million new housing units a year have been built on an average during the past five years. In order to provide a decent home for every American family by 1975, we must build an average of at least 2.3 million houses a year from 1960 to 1975. This is nearly two-thirds above the current construction rate.

In all, we will require construction of at least 35 million houses during that 15-year period—somewhat more than half to replace existing dwellings and a little less than half to provide houses for our rapidly growing population.

Let us take a look at the table on page 50 and see what it signifies. What factors will cause this tremendous requirement for new housing?

A glance at the table emphasizes the fact that a large part of it results from our long neglect of

1 This is about 200,000 higher than the current official figures. However, there are indications that the official figures now being published underestimate actual housing starts and, in addition, they do not include farm housing construction.
bad housing conditions. Some 15 million American families live in houses which do not meet minimum requirements for family living. Moreover, about half this number live in houses which are suitable now but will deteriorate by 1975.

### Housing Needs

Thus, by 1975 we will have to provide better housing for approximately 22.5 million families occupying substandard housing.

Since only about 5 million of these houses can be fixed up to provide decent accommodations, about 17.5 million will have to be replaced by new construction. An additional 2 million dwellings which are not substandard will be removed from the housing supply by storm, fire and other disasters or by demolition to make way for office buildings, highways, schools and other types of new nonresidential construction.

Thus, by 1975 nearly 20 million units now occupied or to be occupied during the next 15 years will have to be replaced. Just to replace these units would require about the present level of housing construction.

But this would not provide a single house for the new families we will have by 1975—at least 14½ million of them. Each of these families will need a decent home and certainly be entitled to have it. Finally, an additional million units will be needed to provide separate accommodations for families now forced to double up with other families.

It all adds up to requirements for at least 35 million new housing units by 1975, a minimum of 2.3 million units a year.

### Who Needs Better Housing?

Few would deny that it is the occupants of substandard housing who are most in need of better living accommodations.

Who lives in substandard housing? A Census survey taken in 1956 provides the answer to this question. It is doubtful that the situation has significantly changed since then.

Nearly two-thirds of all substandard houses (dilapidated or lacking plumbing or bathing facilities or both) are occupied by families with yearly income of $4,000 or less. More than 2 out of every 5 families in this income group live in substandard houses. Thus it is clear that bad housing is very much tied to low income.

A disproportionately large fraction of substandard housing is occupied by Negroes and other non-white families. In fact, in 1960, the latest year for which nationwide data are available, nearly three-fourths of Negro families in all income groups lived in substandard housing. Only one Negro family out of four occupied a dwelling meeting even minimum standards for family living.

Thus, low-income and minority families (a large proportion of which are, of course, low-income) are plagued by the worst housing conditions. Yet, as we shall see, only a tiny proportion of houses built during recent years have been available to these families.

### Estimate of New Housing Needs 1960-75

<table>
<thead>
<tr>
<th>(millions of units)</th>
<th>1960-75</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substandard</td>
<td>15</td>
</tr>
<tr>
<td>Becoming substandard</td>
<td>7.5</td>
</tr>
<tr>
<td>Total substandard</td>
<td>22.5</td>
</tr>
<tr>
<td>Less substandard suitable for rehabilitation</td>
<td>5</td>
</tr>
<tr>
<td>Total substandard to be replaced</td>
<td>17.5</td>
</tr>
<tr>
<td>Removed by disaster and demolition (non-substandard)</td>
<td>2</td>
</tr>
<tr>
<td>Total replacement need 1960-75</td>
<td>19.5</td>
</tr>
<tr>
<td>Increase in number of families 1960-75</td>
<td>14.5</td>
</tr>
<tr>
<td>Undoubling of doubled up families</td>
<td>1</td>
</tr>
<tr>
<td>Total housing requirements 1960-75</td>
<td>35</td>
</tr>
<tr>
<td>Average annual requirement</td>
<td>2.3</td>
</tr>
</tbody>
</table>

1 Includes one-person households.
Most Urgent Needs Neglected

In 1956 more than 8 million families with yearly incomes less than $4,000 (under $80 a week) lived in substandard housing. They represent nearly two-thirds of all families living in substandard housing. But virtually no new private housing financed with mortgages insured by the Federal Housing Administration is going to families in this group.

In 1958, less than 2.4 percent of purchasers of new single-family houses under the FHA program had "effective annual incomes" of less than $4,000. Here are the figures:

<table>
<thead>
<tr>
<th>Income</th>
<th>Percent of Purchases Under FHA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $2,000</td>
<td>Less than 0.05 percent</td>
</tr>
<tr>
<td>$2,000—$2,999</td>
<td>0.1</td>
</tr>
<tr>
<td>$3,000—$3,999</td>
<td>2.2</td>
</tr>
<tr>
<td>Total</td>
<td>2.3+</td>
</tr>
</tbody>
</table>

Moreover, the few families with incomes in these income groups who purchased FHA houses could do so only by devoting from 28 to 31 percent of their incomes to housing expenses. Yet, experts agree that 20 percent of family income is the maximum which should be devoted to housing.

In 1958, the average family income of buyers of single-family houses under the FHA program was more than $8,000. But in that year only 22 percent of all families and unattached individuals had incomes of $8,000 or more.

It is small wonder that in 1957 a Staff Report of the Senate Housing Subcommittee concluded that "the housing industry . . . is serving primarily the upper income groups."

Since new housing constructed by private builders cannot be purchased by low-income families, the only other direction these families can turn for decent living accommodations is housing built under the low-rent public housing program. This program is specifically intended to meet the housing needs of low-income families within their limited means.

When the current public housing program was authorized in 1949, the late Senator Robert Taft, one of its chief Congressional sponsors, believed that it would account for at least 10 percent of all new residential construction. Instead, the contemplated program has been literally cut to ribbons and public housing construction has come nowhere near the proportion of total housing construction Senator Taft thought was desirable.

In 1949, Congress authorized construction of 810,000 public housing units over a six-year period. In the ten years since this declaration of Congressional intent, only 245,000 units have been constructed. Thus, during these ten years the total low-rent public housing construction can have met the needs of only 3 percent of low-income families living in substandard housing.

The record on minority housing is even worse. In 1950, the latest year for which data can be obtained, 2.7 million Negro and other nonwhite families, nearly three-fourths of the total number of such families, lived in substandard housing. In metropolitan areas, housing conditions for Negro families are much better than in small communities and rural sections. Yet, in 1956, 5 to 55 percent of approximately 1.7 million rental housing units occupied by non-whites in metropolitan areas were substandard.

Government officials estimate that since 1955, Negro families have purchased about 10,000 houses built under programs involving Federal mortgage guarantees and insurance (FHA and VA). Perhaps an additional 100,000 have been housed through the low-rent public housing program. But 96 percent of Negro families living in substandard housing have had no new housing whatsoever available to them.

These facts add up to two conclusions:

1. The overall rate of housing construction is much too low. We should be building nearly a million more houses a year to meet minimum housing needs.

2. We are building too few houses because housing legislation and housing programs have all but completely neglected the families with the most pressing need for decent homes.

All of this means that we will not begin to build enough houses until housing programs are funda-

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a According to the Staff Report of the Senate Housing Subcommittee, FHA estimates of "effective annual income" understate actual family incomes by 15 to 20 percent. Thus an FHA estimated "effective annual income" of $4,000 is actually $4,600 to $5,000.

b The FHA estimated median "effective annual income" was $6,800. (See footnote a.)

c Percentages based on Census sample survey which did not show nationwide figures and for which percentages given for this item were subject to a relatively wide margin of error.
mentally changed. They must be redirected to give highest priority attention rather than cold shoulder treatment to the most urgent housing needs. But this will require formulation and development of a comprehensive, far-reaching program.

This program must be aimed at providing a decent home for every family, regardless of race or income, in replanned, rebuilt and modernized cities, and rural areas as well, from which blight and slums, shacks and hovels have been completely eliminated.

A Comprehensive Program

Although they may differ as to details, students of the housing problem have long agreed on the major features of the comprehensive housing and urban redevelopment program America needs. In fact, organized labor and other pro-housing forces have been urging adoption of this program for a good many years. While we have had some support in Congress, the combined pressure of the real estate and mortgage banking interests and a reactionary national Administration has thwarted any significant progress on the housing front.

A comprehensive housing program geared to meet total housing requirements should include:

1. A large-scale, low-rent public housing program to provide decent homes for low-income families. This must be the cornerstone of the nation's housing effort.

2. An effective program to make good homes available to middle-income families within their means. Such a program must provide low-interest, long-term loans in order to bring charges and rents within the financial reach of families in the $4,000 to $7,000 income range.

3. Similar financing for housing to meet the special needs of elderly couples and individuals.

4. A Federal policy to assure every family an equal opportunity to obtain decent housing without regard to race, color, creed or national origin.

5. An expanded slum clearance and urban redevelopment program on a sufficient scale to permit every city in America to wipe out its slums and blight and rebuild its run-down sections as fast as human and material resources will permit.

6. Effective encouragement to metropolitan planning so that artificial and outmoded boundaries do not block housing and redevelopment progress and dynamic growth of our cities.

Public Housing

Low-rent public housing offers the only effective way of making good housing available to low-income families.

Last year, families admitted to public housing had an average (median) income of $1,913. The rent they had to pay at the time they moved into their public housing dwellings averaged $37 a month.

If the reader will think about housing available in his own community, he will certainly agree that there is no new housing, rental or sales, for which a family can pay as little as $37 a month. Indeed, there is virtually no decent housing at all, new or old, which would be available at such a low cost.

Yet, for a family with an income of less than $2,000 to pay more than $35 to $40 a month for housing is to place such an intolerable burden on it that it would be deprived not of luxuries or conveniences but of the barest necessities of life.

That is why low-income families have just two possible alternatives—continued existence in disease-ridden, rotting slums or decent accommodations in public housing.

Why is it that public housing rents are so low that low-income families can afford them? The answer is an effective financing formula involving a relatively small Federal subsidy, long-term, low-cost financing in the private bond market and sponsorship and operation by housing authorities set up by local communities. Public housing is...
usually built by private contractors who nearly always employ local union building tradesmen.

It is highly doubtful that the financing formula now used in public housing can be substantially improved. On the other hand, more than 20 years of experience (the first public housing program in the United States was authorized in 1937) has pointed to some changes in other aspects of the program which would permit public housing to do an even better job.

For example, it has been suggested that in some communities, public housing could be built in small developments and on scattered sites rather than in the large "projects" which have been customary in most localities.

It has also been urged that special social and community services should be provided to help ease the adjustment of slum dwellers to decent living accommodations in public housing.

There is also general agreement that the local housing authorities which operate public housing should have a greater degree of autonomy and less detailed control from the central office of the Public Housing Administration in Washington.

These improvements should be made as rapidly as possible. But improvement of the present program, however desirable, is not enough. The major defect in the public housing program is its much too restricted scope.

Although Congress in 1949 authorized public housing construction at the rate of 135,000 units a year, subsequent Congressional limitations on the program have held actual building of public housing to only a small fraction of that rate. In 1952, the peak year since 1949, only 58,000 units were completed, and in 1955-58 completions have ranged from only 10,000 to 15,000 a year.

If public housing construction is to constitute even the one-tenth of home-building that Senator Taft recommended, the annual construction rate should be at least 200,000 to 250,000. Even this amount would provide rehousing opportunities for only a fraction of ill-housed, low-income families.

Middle-Income Housing

Low-income families are all but entirely excluded from the market for privately-built new houses. But even moderate-income families have great difficulty in obtaining new homes within their means.

In 1958, it took about a $9,000 income for a family to buy a new FHA house without committing itself for more than 20 percent of family income for housing expense. According to the Federal Reserve Board, only 20 percent of families had incomes of $7,500 or over in that year, which means that a substantially smaller proportion had incomes as high as $9,000.

It is clear, therefore, that only families at the top of the income scale can obtain new houses under the FHA program without over-extending their family budgets.

With the aim of better serving the housing needs of families in the middle-income range, organized labor and other groups concerned with meeting the nation's total housing requirements have urged the need for an effective program to make good homes available to workers and other middle-income families at costs they can afford.

The objective of these recommendations which have been offered since 1950 is to reduce the ever-

*The FHA "effective annual income" was $7,500 to $8,400. (See footnote 1.)

FHA figures show that about the same income is required for existing homes purchased under the FHA program.
widening gap between the financial charges families must pay to obtain homes and the incomes of most American families.

No subsidy is needed for moderate-income families to obtain decent homes within their means. All that is required is that financial charges and rents for new homes be reduced to a reasonable level.

The current terms for FHA-insured mortgages are 6.75 percent (5.75 percent interest plus 1/2 percent mortgage insurance fee) for a maximum 30-year repayment period. Monthly financial charges can be reduced by lowering the interest rate, extending the repayment period or both. In fact, extending the repayment period without reducing the interest rate would merely place an additional burden on the homebuyer. This is because all other things being equal, the longer the amortization period, the smaller the monthly charge, but the larger the total amount the buyer has to pay over the entire length of the mortgage.

From the standpoint of the homeowner, a long amortization period is desirable only at a low interest rate because only when the interest rate is low is the homeowner not unfairly burdened with high total costs.

Differences in financial charges for new housing substantially affect a family's chances of buying a home. For example, suppose a family wants to buy a $14,000 house with a $2,000 downpayment. It would then be required to pay off a $12,000 mortgage.

If the mortgage terms are 5.75 percent interest and for 25 years, the current customary terms for FHA-insured mortgages, the monthly financial charges (excluding other housing expenses, such as taxes, maintenance, etc.) will be $75.60. The same mortgage at 3 percent repaid over a 50-year period requires a monthly payment of only $38.64. Yet, the total amount the homebuyer pays over the entire period of the mortgage is approximately the same in each case.

If you add on other housing expenses, the total monthly cost is about $115 with a 5.75 percent, 25-year mortgage, but only $79 for the 3 percent 50-year mortgage on the identical house. A family with an income of $4,700 can afford the more liberal terms, while it takes $6,900 to handle the higher charges.8

What this means is that if financial charges are reduced by lowering the interest rate and lengthening the repayment period, a much larger proportion of middle-income families could purchase homes within their means.

To meet this objective, the AFL-CIO has supported a series of bills introduced since 1950. These bills have differed only in details. All of them would make available long-term, low-interest loans for cooperative, sales and nonprofit rental housing for moderate-income families. Such housing would be required to meet adequate standards of construction, space and livability, and access to community facilities and services.

With the launching of an effective middle-income housing program, large numbers of families now priced out of the housing market would be able to obtain houses on reasonable terms within their family budgets. Middle-income housing is an essential part of a comprehensive housing program.

Other Programs

Housing for the Elderly.
—The proportion of elderly persons in our population is mounting rapidly. These senior citizens, most of whom are retired, have

8 The financial burden can be still further lightened for families in the initial years of occupancy if the principal payments are held to a very low level in the early years. The cost to the occupant would rise somewhat in the later years, but these increases would be offset by anticipated increases in personal incomes and other costs.
different housing requirements than they did in their younger years. They may need less space, but, on the other hand, they need special facilities and equipment. Not least, of course, they need and are entitled to comfortable dwellings which will not shut them off from the rest of the community.

Some older individuals and couples have such limited incomes that only low-rent public housing can meet their needs. A start has been made in the public housing program to provide decent and suitable accommodations for the elderly, but many more public housing units should be made available for senior citizens of low income.

Relatively few elderly persons can afford the houses provided in the private market today, but the housing needs of a substantial number could be met if financial charges and rents were reduced. The Housing Act of 1959, as passed by the Congress but unfortunately vetoed by the President, had a provision especially intended to meet the housing requirements of older couples and individuals.

The bill provided for low-interest, long-term loans to nonprofit corporations for construction of housing for the elderly. Unions, cooperatives, church and other nonprofit groups could be expected to sponsor special housing facilities for the aging under this program. It was estimated that at least $15 a month could be shaved off the rents that could be achieved under the existing FHA elderly housing program.

Minority Housing.—Housing conditions are especially bad for Negroes and they are by far our largest “minority.” But in many cities, also, Puerto Ricans, Mexicans and other minority groups are confined in ghettos of slums and hovels.

Despite the atrocious dwellings in which minority families are forced to live, the acute shortage of housing they can obtain, even of the worst quality, has forced them to pay very high rents even for the most unsanitary, decrepit kinds of shelter.

The situation has become even worse with the large-scale displacement of Negro and other minority families which has taken place as a result of slum clearance, highway and other public construction programs. Many of these families have been forced to crowd into other slum areas with resulting worse conditions for themselves as well as the families already living in those areas.

Fair housing practices laws, which have been adopted in 14 states and 6 cities, will make more housing available to minority families. General housing legislation to provide more and better housing for low- and middle-income families would benefit minority families along with all others, but only if discriminatory barriers are removed.

To help provide equal housing opportunity, the Federal Government should undertake the positive responsibility to assure an opportunity to obtain adequate housing to all families without regard to race, color, creed or national origin. This will require that all housing built with the aid of Federal funds or credit or any other form of financial assistance should be made available to minority families on an equal basis with all other families.

Urban Redevelopment.—Under a program launched by the Housing Act of 1949, hundreds of cities throughout the country are undertaking a program of modernizing their communities. In programs of slum clearance and urban redevelopment, they are buying up blighted land, tearing down slum dwellings and either using the land for parks, community centers and widened shopping thoroughfares or reselling the land to redevelopers to build modern apartments or commercial facilities. In this program, the Federal Government bears two-thirds of the “write-down” cost—that is, the difference between the purchase price of the site and its resale price for redevelopment use—and the local government, one-third.

Funds available for this program have been so limited that only a small beginning has been made in urban redevelopment. At least $1 billion a year in Federal funds are needed to put this program on anything like an adequate basis.

But sufficient funds are not the only requirement. It is essential that slum clearance and urban redevelopment efforts be concentrated first and foremost on bettering the housing conditions of the community and especially of its worst-house members. This means that decent housing must be made available for families displaced by slum clearance. It means also that homes for ordinary people—and not luxury housing or new office or commercial buildings—must be the first objective in urban redevelopment.

Metropolitan Planning.—Lasting solutions for
housing problems will require that we begin to build integrated communities. This means not simply the gradual removal of artificial racial barriers, although this is of course very important. It means also that housing for families in all income groups should be built in all sections of the community. Most important, it means that neither replanning and rebuilding of the interior of our metropolitan areas nor the new development of outlying suburbs will be permitted to be stifled by obsolete and out-dated physical boundary lines.

If we are to develop an effective attack on housing and urban redevelopment problems, we must realize that metropolitan areas are communities and must be treated as communities. This will require coordinated metropolitan planning. Every possible encouragement should be given therefore to the development of cooperative metropolitan area planning in order to facilitate balanced growth of metropolitan areas.

Other Measures.—These are the major ingredients of the comprehensive housing program America needs. But there are other requirements also.

We need encouragement for cooperative housing; moderate-priced rental housing; an effective farm housing program and especially, decent housing for migrant farm workers and their families; requirement of payment of the prevailing wage in any housing construction involving Federal financial assistance; and protection of homeowners against foreclosure in the event of temporary unemployment, illness or other emergency.

Housing and the Economy

The main objective in expanding housing activity is to improve the living conditions of the millions of families deprived of the opportunity to obtain decent homes. But stepped up housing activity would also make an important contribution to the nation's overall economic prosperity.

It is estimated that for every home constructed, one man-year is required on-site in actual construction. An additional man-year is required off-site in factories producing bricks, lumber, steel, cement, electrical equipment, furniture and many other products.

We have stated that the annual rate of housing construction should be increased by at least 900,000 units. If we built 900,000 more houses each year, this would create an additional 1.8 million jobs.

The importance of this increased employment needed to expand housing construction to required levels can be seen in the fact that 1.8 million is just about half of the current unemployment of 3.7 million. Moreover, experience has demonstrated that residential construction is an important determinant of economic activity. Thus, in both of the most recent recessions, 1953-54 and 1957-58, a decline in housing activity preceded and helped to precipitate the general economic setback.

According to the official figures the seasonally adjusted annual rate of housing starts fell from 1,486,000 in August 1950 to 918,000 in July 1951 and remained at very low levels until mid-1954. Housing starts were also relatively high during the latter part of 1954 and until 1955 but then dropped below an annual rate of 1 million in early 1957. In both periods the low level of housing activity had an important effect in bringing on the ensuing recessions of 1953-54 and 1957-58.

Thus, if we can achieve the goal of good homes for all, it will also be good for the American economy.

A comprehensive, forward-looking housing and urban redevelopment program is needed now—to build homes for the ill-housed, to modernize our cities for mid-twentieth century living and economic requirements, and to help assure a prosperous economy.

11 See footnote 1.
Mr. ADDONIZIO. Mr. Shishkin, may I say to you first of all that certainly I think you have made a very good statement, and one that I can agree with wholeheartedly.

I also would like to indicate to you that I am sure it is the intention of the Chairman, Mr. Rains, and certainly I will assist in whatever way possible in bringing about a good comprehensive housing bill in this session of Congress, and it is my hope that it will embody all of the recommendations that you have made.

May I just say, too, that as far as this present bill is concerned, I agree with what you have indicated so far as the administration is concerned, and the fact that they have made far too much of the fact that the housing starts in December indicate that we can expect a very good year in 1960.

I notice that you said, and I quote you now, that "winter starts rate is seldom a particularly accurate measure of housing activity."

Mr. SHISHKIN. That is right.

Mr. ADDONIZIO. Would you please explain to the committee why winter start figures often tend to be unreliable?

Mr. SHISHKIN. Well, there are several elements of unreliability and uncertainty about winter starts. There are, of course, important seasonal factors involved, and even though the figures that are given here are adjusted for the seasonal rate, still the characteristic of the housing pattern over each year is shaped primarily in the spring and summer season of construction.

Those are the guiding lines that are laid down as we know from a study of the past record.

Mr. ADDONIZIO. Now, the administration has indicated that the present situation does not call for this bill, and I am talking about the present economic situation.

I am sure that you agree with me that the bill that we enacted in 1958 was a long step in bringing about some degree of prosperity, and taking us out of that recession we found ourselves in.

Mr. SHISHKIN. I think the record will demonstrate that.

Mr. ADDONIZIO. Could you pinpoint for me some of the economic features which are similar today that perhaps were prevalent prior to that recession of 1958?

Mr. SHISHKIN. Well, of course, in the present situation, as we see it today, there are elements of danger in instability present. First of all, we have a large volume of unemployment with us, despite considerable progress made in the production record.

In that connection, of course, we are in the midst, today, of a rapid technological change, almost a revolution, and we are facing the problems of adjustment resulting from it.

Now, if you will permit me, I would like to just mention one fact that I think illustrates this dramatically. In the United States of America today, 90 percent of all electrical bulbs, and that includes all bulbs, including radio tubes—not TV picture tubes, but radio tubes and all the electric lamps we have manufactured in the country today, 90 percent of all electric bulbs in the United States of America today are manufactured by 14 men operating 14 machines, and I think that is the kind of fact that can be readily understood and appreciated by everybody to realize what the impact of automation has
on the labor force, on production, investment problems, and everything else.

We do need to face up to these realities today. They are upon us, we are in the midst of it now, and I think we need not only assure people who are unemployed today that they can regain their employment, but also that they will have a home to live in, and have it within their reach when they are employed. It is for that reason that we are emphasizing the need for the enactment of this legislation now.

Mr. Addonizio. Mr. Mason in his testimony before the committee indicated that when we enacted the Emergency Housing Act of 1958 that construction costs of homes rose about 5 percent. Of course, I didn't dispute that, but I would like to have your views as to whether you think the administration is correct in anticipating if we enact this bill that we can expect higher construction costs so far as providing funds for the Fannie Mae special assistance?

Mr. Shishkin. Well, of course, I don't agree with that conclusion. I think whatever statement might have been made there has not shown the necessary connection between the enactment of the emergency bill of 1958 and construction costs at that time. I think the cost studies that are available would not support that conclusion.

Mr. Addonizio. One fact remains certain, and that is we did get lower priced homes.

Mr. Shishkin. That is correct, and that is from the standpoint of inflation the most important element in the picture today.

Mr. Addonizio. Mr. Barrett.

Mr. Barrett. I just want to commend Mr. Shishkin on his very splendid statement. The closing part certainly adds a very human touch to this housing situation. However, that is characteristic of your presentations here, and we are certainly glad to receive your views.

Mr. Shishkin. Thank you, Mr. Barrett. I would like to add one more human touch to this, if I may, and that is a point I made before this committee some time ago, but a point that I am afraid has been lost on those who should really pay greatest heed to it, namely those in charge of this housing program under this administration, and that is that we have facts that need to be studied and examined right now, because the problem is right upon us, and that is at the end of the war we had an abnormal rise in our population curve by having produced, as the result of wartime marriages, producing a crop of war babies. We had more births, a great increase in the birth rate at the end of the war at that time, and these were war babies that came upon the scene at that time. That happened at the end of World War II.

Since that time, these children born then have grown up and now are reaching the marriage age, so within the next 2 or 3 years we are going to have the effect of that which is known, which is predictable, which is visible to the naked eye, and these are young people that are going to get married themselves and are going to go around knocking on the door for new homes, and unless we foresee that and make provision and take account of the need for additional housing starts to provide for that housing, we are going to have another crisis upon us, and we will try to deal with that after it has taken place.

Let's deal with the facts now, we know what the need is, and I must say in our estimates, which are very conservative, we have not
taken account of that particular factor, but we wish the committee would.

Mr. Addonizio. Mrs. Sullivan.

Mrs. Sullivan. I have said before and I say it again today that every time Mr. Shishkin comes here to testify I learn more.

You have always made very good statements, which dug in deeply to the statistics that are needed, and I feel many of us can go away enriched from what you have told us.

I just wish that we could start his testimony some time earlier, because he always seems to be ending up when it is time to stop the hearing.

I have no questions.

Mr. Shishkin. Thank you, Mrs. Sullivan. I appreciate it very much.

Mr. Addonizio. Mr. Widnall.

Mr. Widnall. I don't have any questions, Mr. Shishkin, but I do believe as you do that we should take a long, hard look at the long-range picture of housing for America, and consideration of this bill certainly is not the answer to the housing problems as we see it through the days and years ahead. I am just as concerned with employment and adequate housing as you are. Perhaps my own approach is a little different, and my own belief, an honest belief. I think that when we talk about these various programs we have to talk about the positive and also the negative, and sometimes we don't get into the negative of them, because people are afraid to hurt feelings and face the facts of the abuses that have occurred in some of the programs that are on the books today.

I think as we go on with urban renewal, for instance, we definitely have a need for it, the program should be supported, but there have been bad abuses of the program that should be faced up to, honestly faced up to, and I hope you are interested in curing those abuses the same as I. I never hear any criticism of the program, it is always "enlarge it and spend that much more." There have been abuses in the public-housing program, too, acknowledged by people that have been ardent advocates of public housing.

I think as we go on with that program we ought to be mighty sure it isn't abused as it has been in some areas in the past.

Mr. Shishkin. Let me say, Mr. Widnall, I appreciate very much the spirit in which he said that. I appreciate his understanding and I also want to express my agreement with him that we not only need better housing legislation, but better administration than we have today.

Mr. Addonizio. So there is no misunderstanding that no one has tried to claim this is the answer to the housing problem of our country this is just a long step in the right direction.

Mr. Seidman. I might say this is not a hearing dealing with other aspects of the housing program, but in past years when our representatives have testified before this committee, we have not hesitated to criticize certain aspects of programs with which we were generally in agreement, including the urban-renewal and public-housing programs.

Mr. Addonizio. Mr. Ashley.

Mr. Ashley. I have just a comment, Mr. Chairman.
I also would like to commend Mr. Shishkin on his statement, and to acknowledge the presence of his very capable colleagues.

I am glad that he included a copy for each of us of the Labor Economic Review. I have noticed on page 51 of this review the statement that in 1956 there were 8 million families having an income of less than $4,000 and that these families represent two-thirds of all of the families in the United States having substandard housing.

I think it is very interesting that this goes on to relate that virtually no new private housing financed with mortgages insured by FHA are going to families in this group. We are simply not answering an extremely vital problem for families that need it most. That would certainly appear to be the conclusion, wouldn't it?

Mr. Shishkin. Yes, indeed. I think that is a crucial point this analysis brings out.

Mr. Ashley. I think until this problem is really faced up to squarely, there will continue to be a blight on the conscience of our country. It is astonishing to think of 8 million families in this country living in substandard housing, with no real effort being made to meet the problem.

Mr. Shishkin. That is why we feel the stimulation of housing, as it is under this bill and as we hope it will be in the broader housing bill, will be for the families of moderate income.

Mr. Ashley. Thank you, Mr. Chairman.

Mr. Addonizio. Are there any further questions?

Mr. Shishkin. Mr. Edelman is here with me. I wonder if he would like to add to what I have said.

Mr. Addonizio. We are always glad to hear Mr. Edelman. He has always been a fine witness before our committee. If he has anything to add, we would appreciate it.

Mr. Edelman. I would make the one obvious comment, Mr. Chairman, that since this bill has been dealing, and the testimony with respect to this bill has tended to be on a very theoretical basis, we would just simply like to make the comment, or I would like to make it on my own hook, that the very brilliant testimony that you heard in terms of economic theory presented here by Mr. Keyserling earlier not only represented an extraordinary intellectual performance but, in addition to that, perhaps the most extraordinary presentation of hard commonsense that has been offered to a congressional committee in some time. I think this fact should be somewhat underscored. I think that Mr. Shishkin could have given you the same type of discussion, as we understood the overall theory of the administration's objections to this kind of legislation.

Mr. Shishkin could have indulged on this, but knowing Mr. Keyserling was making this type of presentation he underscored and made a more prosaic type of presentation.

Mr. Addonizio. I certainly agree with you. Thank you, gentlemen, we appreciate your testimony.

Mr. Shishkin. Thank you, Mr. Chairman, and I thank the committee.

Mr. Addonizio. Our next witness was supposed to be Mr. Henry Du Laurence, chairman of the legislative committee of the National Apartment Owners Association, Inc. I understand that he is ill, and
that he has a representative here, a Mr. Brinkman. Would Mr. Brinkman please come forwrd?

STATEMENT OF OSCAR H. BRINKMAN, EXECUTIVE SECRETARY, NATIONAL APARTMENT OWNERS ASSOCIATION

Mr. Brinkman. My name is Oscar H. Brinkman. I am the executive secretary of the National Apartment Owners Association, with offices here in Washington, D.C.

Mr. Du Laurence, who is the chairman of the legislative committee of the association, was here on Sunday and Monday and prepared his statement and intended to appear here, but he was overtaken by flu—I guess that is the official name for it—and he had to return to Cleveland and is under a doctor's care. He has asked me to appear and present this very brief statement which I don't think will take more than 5 or 6 minutes in the reading, if you gentlemen have no objection.

Mr. Addonizio. We are very sorry to hear about his illness. I am sure the committee wishes him a rapid recovery, and I am sure you will make an able substitute.

Mr. Brinkman. Thank you.

Mr. Du Laurence in this statement says this association is vitally interested in H.R. 9371 and appreciates the privilege of being able to appear and give its views on the bill.

As its name indicates, the National Apartment Owners Association is a national association representing rental housing, and its membership and associations are active in 37 States of the Union through either local or State associations or direct membership.

There are approximately 15 million rental housing units in the Nation and therefore it is quite evident that any legislation proposed for or having to do with housing is of vital interest to this association and the property owners it represents.

The association through its legislative committee has taken House bill H.R. 9371 under consideration. The first question that appeared to the committee was the name of the bill itself. It is entitled an "Emergency Housing Bill." The body of the bill indicates that some emergency faces housing and the housing industry faces a critical decline in its construction.

Our investigation shows that housing construction in the year 1959 will constitute one of the highest construction years on record in the last 15 years. In addition, our survey has indicated that there is more rental housing available for our population than at any time since the beginning of the Second World War in 1939.

Our survey further indicates that there is, at the present time, a vacancy in rental housing in the United States of approximately 5 to 6 percent and that this vacancy ratio is growing monthly. Under these circumstances it is difficult if not impossible for our organization to see any emergency facing the American people in housing. As a matter of fact, many of our associations indicate that, if anything, their localities are overbuilt and there is ample housing both for rent and for sale for the people of their communities.

The spending habits of the American people indicate that there is no crisis in housing or a great emergency in our housing needs. The Bureau of Labor Statistics figures show that Americans spend more
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for transportation, that is, automobiles, than they do for housing in every State in the Union except one. If there were any great shortage of housing, these figures would be reversed and the expenditures for housing in relation to other expenses would have risen rather than declined in the last 10 years.

Well-meaning people of good will consistently deplore our housing situation and demand better and cheaper housing at lesser expense and carrying charges for our low- and middle-income groups.

We believe that the BLS figures mentioned above indicate, beyond question of doubt, that this sympathy is misplaced. BLS figures indicate that the Nation, as a whole, spends approximately between 12 to 13 percent of its income for rental housing but in many cases considerably more than that for its transportation, that is, automobiles. The historical percentage set aside for family housing needs is between 20 and 25 percent of family income.

It is evident, therefore, that the demand for housing is affected not by the inability of the people to buy such housing under present financing, but by consumer preference. If people insisted on spending their earnings on cars, television sets, powerboats, yachts, and other luxuries, as BLS figures indicate, it is difficult to see what moral or sound economic right the Nation has to furnish subsidized housing at Government expense.

Until people spend up to a minimum of 20 percent of their income for housing any further subsidization will be in truth subsidizing not the purchase of their housing but subsidizing their ability to purchase bigger cars, bigger television sets, bigger powerboats, bigger luxuries. This fact should be self-evident.

Our investigation has indicated that many organizations more familiar with mortgage and banking principles will testify on the individual provisions of the bill. We will leave the individual provisions of this bill for their able analysis.

However, we would like to sum up our findings regarding the bill's provisions. In our estimation, these provisions will further stretch the rubber band of unsound finance to nearer its breaking point. The sound economic principles that have grown up over the centuries and on which this Nation has become a great financial power are being increasingly abandoned.

The reduction of the insurance premiums should be based not on the ability to scatter these loans at random but on the ability to properly place and service these loans.

The buying of any and all mortgages regardless of values disregards the most basic principles of sound banking and finance.

Stabilizing the mortgage market regardless of the market situation has the obnoxious smell of market rigging so ardently objected to by the SEC.

It is the concerted opinion of the members of this association that the provisions of this bill would undermine the values and the rents of billions of dollars' worth of presently existing rental housing and that this would be one more step toward the creation of more debilitated housing and slums. Proper maintenance of rental housing depends on fair and reasonable rents. If these be undermined, debilitation and slums will follow.
The pressure for further housing subsidy must be based not on the opinions or good intentions of well-meaning individuals but on market demand. As long as present housing is meeting this market demand, further pressures for construction over and beyond these needs could only create a surplus of housing with its obvious results.

The National Apartment Owners Association calls up Members of Congress to take a constructive attitude toward the Nation's biggest asset—its housing. Any actions that would eventually undermine this asset will be harmful to the future of this country, regardless of any temporary benefits that they might achieve.

The National Apartment Owners Association respectfully submits that the provisions of House bill H.R. 9371 are not in the best interests of the owners of rental and private housing of the Nation, and therefore respectfully requests that this committee oppose its provisions.

That is all of Mr. Du Laurence's statement, and we appreciate very much the opportunity to appear here and present the views of the members of this association.

Mr. Addonizio. Mr. Brinkman, in view of the time I am going to forgo asking you any questions, but I assure you that I will study your statement very carefully in my consideration of this legislation.

Mr. Brinkman. Thank you.

Mr. Addonizio. Mr. Barrett?

Mr. Barrett. No questions.

Mr. Addonizio. Mrs. Sullivan?

Mrs. Sullivan. None, Mr. Chairman.

Mr. Addonizio. Thank you, again, Mr. Brinkman.

The committee will stand in recess until 2 p.m. this afternoon.

(Whereupon, at 12:33 p.m., the subcommittee recessed until 2 p.m., the same day.)

AFTERNOON SESSION

(The subcommittee met, pursuant to adjournment, at 2 p.m.)

Present: Mr. Addonizio (presiding), Mr. Barrett, Mrs. Griffiths, Mr. Widnall, and Mr. Bass.

Mr. Addonizio. The committee will be in order.

Our first witness this afternoon is Hon. Clem Miller, a member of our distinguished House Banking and Currency Committee. I understand he has several people with him that he would like to introduce.

Mr. Miller. Mr. Chairman, we certainly appreciate the opportunity to appear here today to dramatize the situation in housing on the west coast. This is not just California, it includes Oregon, Washington, Arizona, Nevada, Idaho, and Montana, and I see in the audience my good friend and colleague, Congressman Porter, who will undoubtedly give emphasis to what we have to say.

We want to emphasize strongly that we are here today presenting the point of view of California. This is not just a California problem. It is a national emergency which demands the quickest possible action. Even though in other parts of the country they may be at the present time enjoying easier conditions with respect to home financing, there are strong indications that this is temporary.

We also are firmly convinced that all sections of our country are interdependent. This means that when one section is in difficulty, the
effect transmits itself instantaneously to other sections of the country. We do not feel, therefore, that we are here presenting a sectional point of view, but that we are here presenting the housing needs of the country.

Yesterday, I was privileged to present the Governor of my State of California, who gave us the overall facts about the housing emergency, and requested the immediate assistance of Congress.

Today, with builders and contractors who are on the ground, in the subdivisions day in and day out, we are going to pinpoint this emergency for you; we are going to do it with dispatch; we are going to do it in detail so that we may have a basis in this committee for taking action.

Mr. Barrett. Mr. Chairman, before Congressman Miller introduces his friends, I would like to say for their benefit that he is one of the most capable men ever sent to Congress from the west coast. He is admired and respected by all the members of the House and he certainly has proved a great asset to this committee.

I am quite sure he will most capably represent his friends here today.

Mr. Miller. Thank you very much, Congressman Barrett. I appreciate that a great deal. I consider it a privilege to serve on this committee and to work with you in implementing legislation. I might say that the emergency housing bill which you brought out in 1958, while I was on the outside looking in, is one of the principal reasons that I am here today. Thank you very kindly.

I would like to introduce, if I may, to give you the scale of our problem, Mr. Richard Barrett of Barrett Construction Co., San Francisco.

Will you tell us what you produced last year and what you plan for the future?

Mr. Barrett. We are currently not building homes. We have given up 400 lots in Contra Costa County. We have developed 154 lots down in Santa Clara County which we are not building on, but are selling as developed lots. There is no need for us to try to fight the discount market. We have absolutely given up on the housing market except for urban renewal and redevelopment.

Mr. Miller. Mr. Barrett, what were you building last year—to give them some idea of the scale of your operations?

Mr. Barrett. On housing, we were going two to three hundred houses a year.

Mr. Miller. Mr. Dan Schwartz.

Mr. Schwartz. My name is Dan Schwartz, representing the Perma-Bilt Homes, building in the East Bay, northern California. We are building in three counties.

Last year we produced 954 homes. This year we have no takeout commitments for construction at all. We have been unable to obtain it. We don't have any indication at this time as to what our production may be.

Normally, at this period, we would be preparing land and getting ready our model homes for our spring operation. We have been unable to do this, financing being unavailable in any form.

Mr. Miller. Mr. Jack Mason.
Mr. Mason. I represent Inland Empire Builders, Inc. We have been building 400 to 450 homes a year. At the present time, we have only 177 homes that are being ready to go under construction. We have 247 lots in addition to that that are being developed, but because of the mortgaging problem at the moment, we are not going ahead with the 247. We will only go ahead with 77 until something is clarified for us.

Mr. Miller. George Goheen.

Mr. Goheen. I represent the Goheen Construction Co., Mill Valley. We have been building approximately three to four hundred homes a year. Last year we built about three hundred, two hundred of which were in the Vandenberg area serving a missile base. We have over 250 more to do in that area.

At the present time we are shut down due to the fact that financing is impossible. It is certainly needed.

Mr. Miller. Mr. Chairman, this indicates from builders who are on the spot in California what their prospects are for this year, and I am sure that you will agree that the prospects are very bleak. These are the facts.

We have witnesses with me who will detail the reasons why we are on the spot in California.

First is Donald L. Stone of Stone & Schulte, San Jose, on my right. On my left is Chester Spiering of Blakeslee-Squier Co., Arcata, Calif. I also have John H. Tolan, of Richmond, Calif.

All of these builders represent different kinds of housing problems from that of the smallest builder to the largest. With us we also have, to my extreme right, Mr. John Hennessy, executive vice president of Associated Home Builders in Berkeley, one of the largest constituent organizations of the National Association of Home Builders.

We are not here representing the National Association of Home Builders, as such, but representing individual builders giving substantially what our California situation is.

Mr. Stone.

STATEMENT OF DONALD L. STONE, PRESIDENT, STONE & SCHULTE, INC., SAN JOSE, CALIF.

Mr. Stone. Mr. Chairman and members of the committee, my name is Donald L. Stone and I am a homebuilder in San Jose, Calif. I appreciate this opportunity to present my views.

To begin with, may I state that housing’s position in our economy must not be underestimated. It is now contributing an estimated 4 percent to our gross national product. In the State of California, where 16.6 percent of the Nation’s housing units were built in 1959, it is our third largest industry.

The American families who want better homes, and the thousands of small businessmen who build homes for them, share the viewpoint that inflation is wasteful and oppose further erosion of the American dollar. But, the effectiveness and the fairness of a governmental anti-inflationary policy which relies principally on monetary restraint must be questioned.

The tens of thousands of modest-income home buyers, who only a short time ago could have bought homes well within their means, are now disqualified by the high cost of credit.
Raising interest rates has not produced more capital. The total demand for credit exceeds the supply, and home buyers, together with the home building industry, are the first to feel the impact of tight money.

I believe it is time to reevaluate the usefulness of an adequate and decent national housing inventory. I am told that there are over 6 million homes in the United States today which still do not have inside plumbing. At a 1.3-to-1.4-million starts per year we cannot provide for this deficiency, let alone providing homes for the new family formations in the era ahead when the population will be exploding.

The question then seems to revolve around whether capital should flow to the production of less essential nondurable goods or toward the long-term asset of better housing. It is an American axiom that homeownership provides the incentives for better and more productive citizens.

In light of the above statements I feel that we must find a way to displace the flow of capital. One, we must find a way to attract short-term investment capital into the long-term mortgage market. Two, we must find a way to provide for liquidity of mortgages so that long-term investment capital, not now investing in governmentally insured or guaranteed mortgages, will confidently so invest. Three, we must reduce, if not eliminate, the competition that exists between the Government bond and the governmentally insured or guaranteed mortgage. Four, we must find a way to provide for more equitable tax treatment for all types of investors in governmentally insured or guaranteed mortgages.

I feel that a Central Mortgage Reserve facility will provide another instrument in the mortgage and finance field so that mortgages can compete effectively in the open market. A Central Mortgage Bank cannot be regarded as an end in itself to the solution of all mortgage problems but will help to stabilize the flow of mortgage money and level off the hill-and-dale effect caused by supply and demand.

To be more specific as to what I mean as to a Central Mortgage Bank, may I refer you to the proposal as presented by Richard G. Hughes and Thomas P. Coogan which they submitted to the Economics and Planning for Industry Committee of NAHB, and on which committee I have the pleasure of serving.

Mr. Chairman, I would like to enter my full report for the record, but I am going to eliminate the details which I have outlined in this report for expediency of time.

Mr. ADDONIZIO. Without objection that may be done.

Mr. STONE. Briefly, and to summarize:

1. Ownership: The Central Mortgage Bank should be an independent Government corporation of mixed ownership with stock sold to its members as a requirement necessary to do business with the facility; also, so as to qualify as an independent Government corporation. The Government should provide the necessary initial capital for it to properly perform its function. It should have a Chairman and a Board of 12 Directors, appointed by the President, for staggered terms and representing the 12 Federal Reserve districts, and also broadly representative of the housing industry and the public.
2. Coordination with monetary and fiscal authorities: The activities of the Central Mortgage Bank should be coordinated with, but not controlled by, the Federal Reserve Board and the Treasury. Housing should be recognized for its stature in the economy and should have a major status in the Government structure. I recommend Cabinet status for housing.

3. Management and operations: The Board of Directors of the banks should set the buying price for mortgages from time to time and the posted prices should reflect all the cost to members doing business with the facility. Purchase prices, fees, and charges should be set by the Board, and should be based upon its ability to secure funds by the sale of its debentures.

The Board should have the authority to set interest rates on FHA and VA loans within maxims established by Congress, such rates to be as low as possible to further promulgate the long-term low-interest-rate easily amortized mortgage which has been predominantly responsible for the phenomenal increase in home ownership in the past quarter century. These interest rates should be consistent with the average cost of the money raised by the sale of its notes and debentures in the open market with a differential purchase of operating expenses and the accumulation of a sensible reserve. While it is anticipated that the Central Mortgage Bank will operate at a nominal profit, its motivation should be to provide a needed service in the economy, and not basically as an operation for profit.

4. Eligibility of loans: The bank should buy any mortgage insured or guaranteed by the FHA or VA that is not in default at the time of submission and in which there are no title defects.

5. Discount facility: The Board should set from time to time the term, charges, and interest rate for making loans against eligible mortgages and should stand ready at all times to make such loans.

These loans should be for a renewable term of 6 months with such margin as the Board may require, and shall be made with full recourse to the borrower. This function should be available to stockholder members and should function to stabilize the mortgage market through assisting existing lending institutions by standing ready and willing at all times to loan money to any existing lending institution for short terms.

6. Notes and debentures: The Board should have the authority to issue at its discretion notes and debentures for sale on the general market, and at no time should the total amount of such outstanding notes and debentures be in excess of the acquisition cost of the insured and guaranteed mortgages in its portfolio.

The legislation creating the Central Mortgage Bank should also amend the National Banking Act and such other legislation as is necessary to make such notes and debentures legal investments for all federally operated and supervised institutions.

These debentures should also be eligible for purchase by the Treasury at the direction of the President or by act of Congress, when, at their discretion, such action is necessary to support the market or stimulate the construction of housing.

Inasmuch as the notes and debentures are fully backed by loans guaranteed and insured by agencies of the United States, it should be possible to classify all debentures issued as insured debentures, as was done in the case of the maritime loans.
7. Membership: The right to sell loans or to buy advance commitments, to use the discount facility, or otherwise deal with the Central Mortgage Bank, would be restricted to members owning and holding a prescribed amount of stock. This amount should be set by the Board, but to encourage wide use, the initial requirements as set by Congress, should be nominal and not based on the members' assets.

It is believed this is essential to encourage participation in the initial operations, and after the bank is functioning, members may be required to increase their holdings based on the volume of their transactions, but all at the discretion of the Board of Directors.

The stock should not be transferrable and the bank should stand ready at all times to repurchase at par any outstanding stock that may be offered.

8. Summary: Essentially, the Central Mortgage Bank is to be a fiscal device for converting hard-to-sell mortgages into notes and debentures acceptable in the private marketplace. Such universally acceptable notes and debentures will have the ability to attract all sources of investment funds, including pension funds, mutual investment funds, and real estate trusts.

In addition, the establishment of a Central Mortgage Bank with rediscount powers would encourage those lenders who already have the facilities for making and servicing mortgage loans to use more of their resources for mortgages. The Central Mortgage Bank would stand by to aid, assist, and stabilize these lenders by making such loans to them on their mortgages should the need ever arise.

There is no intention, in creating a Central Mortgage Bank, of opening a back door to the Treasury for general use of Treasury funds to support the mortgage market. As in the case of most other Government credit agencies, Government help may be necessary at certain times.

Next, I believe, we discussed the subject of refinancing existing housing with Government insured or guaranteed loans and the effect this is having on our economy. I voiced my opinion that translation of housing equities—savings—into stock and nondurable goods seems inflationary in itself.

The FHA program was initiated for the announced purpose of improving the housing conditions of the American people. In recent years, with the extension of the FHA program to existing dwellings, a practice has developed which was not contemplated at the time the FHA program was launched. Specifically, a vast majority of those utilizing FHA insurance for mortgages on existing dwellings are doing so as a means of refinancing for the purpose of reducing their equity so that the funds obtained may be used for other forms of consumer purchases.

This has resulted in an overdraft on the available supply of money for FHA and VA financing which has distorted the fundamental FHA concept of creating new home ownership, new jobs, and a healthy American economy.

Improving the housing standards of the American people has been deemed by Congress to be in the national interest. Providing job opportunities so as to keep employment high has also been deemed by Congress to be in the national interest. Further, the income taxes from the payrolls resulting therefrom have contributed substantially to the tax receipts of the Federal Treasury.
The refinancing of older homes, except where trade-ins on new homes are involved, does not provide jobs nor taxes. To the contrary, it adds to the inflation of older homes and, to the extent that equities are converted to other forms of credit by such practice, it adds further fuel to the flames of inflation.

Until such time as mortgage funds are again in adequate supply at reasonable interest rates and discounts, it is thought that Congress might abolish, by law, the payment of discounts on the resale of older homes under FHA or VA except for sales involving trade-ins on new homes financed under FHA-insured loans or VA-guaranteed loans.

This viewpoint, in discussion with many homebuilders and realtors around the country, is not readily acceptable and, therefore, I am not urging any action in this direction but that an exploration to determine the facts in the matter which could very well prove that the conclusion drawn in the large picture may be biased through provincial thinking.

In reference to our discussions on the subject of suggested tax legislation necessary for attracting more investment capital into the mortgage market, I would like to just briefly touch on this and possibly we can elaborate at a later date. I feel that commercial banks should have the same tax treatment on earnings from long-term mortgages as now provided to thrift institutions. And that savings and loans should not be belabored with additional tax burden which would further curtail the proportion of total savings flowing into the mortgage-lending institutions. Mutual investment trust funds should be allowed to be formed and invest in the FHA and VA program, as they do in the stock market, and receive similar tax treatment.

It has been a pleasure to have this chance to give you my views on these matters. I appreciate your attention and courtesy. I will be happy to try to answer any questions that you may have.

Thank you.

Mr. MILLER. Mr. Spiering.

STATEMENT OF CHESTER H. SPIERING, DEVELOPER AND BUILDER, CALIFORNIA, OREGON, WASHINGTON, NEVADA

Mr. SPIERING. Mr. Chairman and members of the subcommittee, it is a real pleasure to appear before you to discuss and hopefully assist you with thoughts that may better enable your preparation of housing legislation and, if possible, better establish in your minds that housing should be branded "board for board" in the national interest.

I shall simply summarize my remarks contained in this statement with the request that the full statement be made a part of the record, and attached thereto is certain illustrative correspondence and exhibits.

Mr. ADDONIZIO. Without objection, that will be done.
Emergency Home Ownership Act

(The information referred to is as follows:)


Hon. Clem Miller,
Washington, D.C.

Dear Clem: In confirmation of our recent telephone conversation and furthering that discussion, we present the following for your consideration:

We have endeavored in our letters of November 17 and 30 to Senator Clair Engle and in meetings with other builders in the San Francisco Bay area to draw attention to the most dangerous problems we feel are present in existing avenues of home-mortgage finance, and to suggest a comprehensive, long-range legislative program that would provide stability in mortgage financing for the homebuilding industry and enable it to provide for the people of these United States a sufficient quantity of reasonably priced and properly financed homes which today is primary in the national interest.

We have kept in mind at all times the administration's lack of enthusiasm for housing bills which have been given them for acceptance, in recent years, following legislative action and approval. We believe that legislation patterned closely after the thoughts contained particularly in this letter with reference as required, to our letters of November 17 and 30 to Senator Clair Engle will demonstrate to the administration that our industry is in the national interest perhaps even more than other industries and that we have given them a forthright "feet on the ground" sound solution to the Nation's need for homes and at costs to the Government of far less than they have been experiencing. For the sake of sound permanent legislation, in our opinion, appropriation issues such as public housing, etc., which require periodic consideration should be separated from a permanent housing bill, and should be included in annual appropriation bills.

In our meeting with others, we proposed the abandonment of the use of the term "special assistance program" which is the term used in recent years to indicate a partial coverage obtained for mortgage financing. This term approaches a condition connected with flood, earthquake or other disaster but in this instance is directed toward need for homes across the Nation. The group readily accepted our proposal. The bill introduced by Chairman Rains of the Housing Subcommittee again approaches this problem by the use of the titled bill "Emergency Home Ownership Act." Emergency solutions and special assistance are the most costly and time-consuming for all concerned, and are a frantic approach to a great industry's sober requirements. They are always a short-term stopgap measure requiring further attention almost immediately and inciting unreasonableness in many circles in the path of obtaining the required approvals. As this further attention is not immediately given due to the press of other congressional problems, the homebuilding industry is historically faced with a stop-and-go program, resulting in costs that are carried into the product, producing inflation unnecessarily.

We, in the deepest concern and feeling for one of our Nation's most necessary industries, do most seriously request the Congress to consider that inasmuch as homes are needed in every segment of our United States to house all our people and that homes have not been built for many years through the cutting of trees at a homesite and raised in a matter of hours by neighbors and that today much has taken place since that time, which we all prefer to call "Progress," and that we must now face today's and tomorrow's national requirement for homes by employing today's and tomorrow's economic measures. What manner of men are we, if we must constantly, year after year, cloak the building industries' requirements behind a banner of critical need and urgency? We know that these homes are in the national interest and since so many conditions present themselves in our vast Nation today, when we consider the term housing, should we not therefore face up to the realistic facts that like the highways, schools, airlines, U.S. mail, electric power, and many others that are fed through Federal aid even to the extent of special taxes as gas tax for highways, so should housing receive the necessary Government support with an honest and forthright program and not rescued each year in a half drawned condition. This support
should be sufficient to make a dollar spent by the ultimate home purchaser one that has the true value of an uninflated dollar purchase, and at the same time provide a healthy building program for those interested in providing a healthy program and not rescued each year in a half-drowned condition. This support and the builders of the Nation will welcome such solution and place every effort toward reasonably priced good living. We suggest later in this letter how this, in our opinion, is possible.

The trend in recent years and continuing today has been away from FHA and VA programs and toward conventional mortgages coupled with a second mortgage, for the reason of many difficulties in obtaining FHA and VA mortgage money at reasonable discount rates. Carrying on a building program involving high discount rates is costly to the builder, expensive to the home buyer, and inflationary to the Nation. We are all aware of this, and we are suggesting later in this letter methods of curing this, hopefully for all time. Because of these difficulties inherent in FHA and VA programs at high discount rates, the trend above mentioned has resulted in the fact that now conventional mortgages, coupled with second mortgages, are the larger fraction of financing for homes built today. Due to the risk to the home purchaser, the builder, and consequently to the Nation, as spelled out conservatively in our letter to Senator Engle of November 17, we feel most strongly that Congress should consider two simultaneous approaches to the problem. First, to pass enabling legislation suggested herein, to again make the time-tested and proven FHA and VA programs readily available to the home purchasers of the Nation, and secondly, to study and enact regulating measures to control these conventional financing patterns which risk disaster for the home buyer, which condition prevailed and added greatly to the horror of the great depression of 1929.

It was due to this calamity wherein great numbers of people lost their homes that the FHA was born with safeguards to prevent a recurrence of this type to home buyers.

Certainly we wish to place no responsibility for the lack of a healthy operating building program upon our Congressmen, for the reason that it is up to us as an industry to clearly set forth our needs to you in Congress and thereafter continue to pursue the needs of the industry through your good offices so that the people of the United States in their good government are able to benefit by realistic legislation in housing to meet their needs.

Chairman Rains' Emergency Home Ownership Act is the initial attempt at rescue for this year. As presently written, it will put FNMA in the position of being out of funds and therefore it would be in no position to assist in stabilizing the mortgage market within a very few months after passage of this bill. This would result in the complete loss of the only present avenue for mortgage funds for the greater part of the United States which includes virtually all areas away from metropolitan centers and would therefore result in near chaos in the mortgage market. If, however, FNMA were given sufficient funds to do the job for a year, which would amount to several times the present proposed amount in this bill, and if meanwhile legislation were studied and enacted to provide continuance and to remove FNMA from the position of selling the par loans bought during the coming year for a loss, we would then be in favor of Chairman Rains' bill for immediate passage to provide a basis for the homebuilding business during 1960.

To provide the continuity under Chairman Rains' bill for FNMA, Congress for example, could provide in all future FHA and VA mortgages, a 5-year review of interest rates on the remaining balance, which plan is discussed in more detail later, effecting a reduction of discounts. (Also see our letter to Senator Clair Engle of November 30.) Further, if an allowable maximum of 3 percent of discounts were allowed to be paid by the builder but to be evidenced openly and publicly as proposed by Chairman Rains, and if FNMA, or other governmental-controlled mortgage facility, were to be powered and funds authorized by Congress to recoup the loss, if any, upon the resale of these mortgages, this program would then have continuity. There should be, however, a maximum discount of perhaps 2 percent for FNMA above the builder's maximum participation of 3 percent for a maximum total of 5 percent, above which FNMA could not resell these mortgages, for the reason of assuring Government's participation where the maximum dollars expended by them can be determined closely on an annual basis, and also holding against undue inflation.

We must qualify our endorsement of this bill to the extent that there are some apparent inconsistencies in the summary of the bill which we have received from
you. This we are discounting and are considering that the bill is in itself consistent. We are wondering as to what success builders in metropolitan areas will have in meeting their market and maintaining quality at a maximum price of $13,500 to $14,500, if only for the reason that the price of land would preclude the desirable locations.

As stated, Chairman Rains' bill, with the above recommended modifications, is considered necessary as another stopgap measure and is, in our opinion, satisfactory only if it can be followed with a major comprehensive housing program to be enacted by the 1960 Congress. The comprehensive legislative program should include all of the following points, in our opinion, to be effective:

1. Reconstitute FNMA as a central mortgage facility, with a directing principle that adequate and sufficient homes for our citizens is of paramount importance to the national interest, and that the primary function of FNMA would be to provide a sufficient, continuing supply of mortgage money to stabilize the homebuilding business at a level as determined by the Congress to be sufficient to meet the need of our citizens for homes. Specifically, the following methods are suggested to enable FNMA to accomplish this objective:

(a) That in addition to entering the open market to buy and sell mortgages, FNMA also would retain permanently a portfolio of mortgages to be used as a basis for securities issued against this portfolio and sold to the general public. This would open up markets not now available for mortgage lending, for instance, pension funds.

(b) That FNMA be empowered to adjust interest rates on FHA and VA mortgages, within statutory limits as set by Congress, regionally so as to minimize discounts, and to make the VA interest rate equal to the FHA interest rate. This would immediately lower discount rates in areas where they are now highest.

(c) That FNMA be enabled to accept, and FHA and VA to insure mortgages wherein the interest rate would be subject to review and periodic adjustment, either upward or downward, according to the market condition as estimated by FNMA in each of its geographic zones. For instance, at 5-year intervals from origination, each mortgage could be adjusted to the then prevailing interest rate as determined by FNMA for that region, and the amortization schedule would be adjusted, so that the remaining payments would amortize the remaining balance at the new interest rate. This action, in our opinion, would greatly reduce the risk of lenders in their holding of long-term mortgages which is now facing them due to the continuing inflationary trend, and would therefore reduce the necessity for lenders to discount against predicted risks.

(d) That FNMA be given authority to make, and banks be allowed to accept, loans against each bank's portfolio of mortgages, thus permitting banks to remain in mortgage lending during periods of tight money.

(e) That FNMA continue its present operations of buying and selling mortgages, providing standby services, prior commitments, etc.

(f) That instead of special assistance programs and veterans direct loan programs involving full purchase of mortgages by use of treasury funds which on occasion total billions of dollars annually, Congress consider instead a program where neither the builder nor home purchaser participate in the payment of discounts on certain types of mortgages, such as low-cost homes (under $15,000), slum-clearance programs, cooperatives, housing for minority groups, and housing for the elderly. These certain type mortgages could be sold on the open market by providing FNMA with funds and the authority to use the funds to pay the discounts necessary to sell these mortgages. For instance, if a minority group housing program were to be considered at an interest rate which would involve a 6-percent discount to the open market on a $1 million program, instead of using $1 million of Federal money, this method of marketing these mortgages would require only 6 percent of that amount, or $60,000 of Treasury money. It is also our suggestion that this method be used in all mortgages received by FNMA, other than the above certain type mortgages, but with a maximum of 5 percent to be paid in total discount wherein the builder pays no more than 3 percent and FNMA pays no more than 2 percent. This 5-percent discount should be the maximum required if other suggestions contained
herein are used, such as the 5-year review of mortgages for the purpose of increasing or decreasing the interest rate. This, in our opinion, should, in many locations cause the average discounts to be no more than the builder participation, and provide the balance as requiring the only Government support. Assuming that Government assistance could conceivably be required on 30 percent of all mortgages made during a given year involving an approximate 2 million homes, then assuming an average figure of $15,000 per mortgage involved at the 2-percent discount for a total cost to the Government of $180 million annually. This program would place in action a stabilizing influence on the industry's requirements, promoting security and continuity. This security and continuity would enable builders in general to develop the technology in the use of labor, materials, and equipment, and to develop sales tools, and merchandising methods, all of which would effectively reduce sales prices, increase quality, promote competition and encourage people in general within the industry to perform with quality in their sale of homes at increasing values, without commensurate increase in sales prices.

This is the governmental support program, we earlier mentioned. This is the support that, by taking the top of the heavier discounts off of the builder, will enable him to continue when otherwise he could not. Yet the Federal Government should not provide more than $180 million for the general program. The cost of the support of the certain classes of mortgages to be supported at a higher level, as first mentioned, would be in addition at a figure to be determined by Congress in accordance with their view of the need, but here the cost would be only a small fraction of what has been expended in recent years.

2. That in addition to reconstituting FNMA as a central mortgage facility, that Congress consider bringing additional money into the mortgage market by revision of present banking law, so that national banks would be permitted and required to invest in a set dollar volume of new home mortgages annually, in proportion to their total deposits, and to retain these mortgages for a minimum period of 5 years. Each bank would have the option of either originating the mortgage, or of purchasing the mortgage from FNMA. If a national bank were to originate more dollar volume of mortgages annually than the amount to be retained by them in accordance with our suggested legislation, then that bank could dispose of the excess dollar volume to FNMA. The total dollar volume of mortgages required to be invested under this program should, in our opinion, reach $10 billion annually during the years of maximum need for new homes. To provide the funds for participation of national banks, credit curbs may be found necessary to control lending in other directions. It is our opinion that consumer credit is the lending that should be controlled for this will help to check and control inflation. Also this would have the added advantage of making it easier for people to qualify for home purchases for the reasons stated in our earlier letters. "Every citizen can buy a car, furniture, appliances, sporting gear, and vacations on unrestricted credit, which is keeping the average American broke and in debt. Extended monthly payments for purchases such as these prevent, under the present restrictions, his purchasing the home that makes him a better citizen."

3. That the activities of the savings and loan institutions be investigated by the Congress so that restrictive legislation could be properly formulated to halt unsound practices now engaged in by many of these institutions, to the detriment of the national interest. This in accordance with our letter to Senator Engle of November 17 in which we have felt justified in considering this group for participation in mortgage loans in an amount approximating $10 billion annually.

4. That FHA and VA be instructed by Congress to further encourage homeownership by judging the qualification of buyers in accordance with performance, rather than by a set rule of income. In other words, if a citizen has a record of successful payment of his obligations, including rent or house payments, that he should not be prevented from purchasing a home because he does not fit a set ratio of income to housing expense. Again, this in accordance with our letter to Senator Clair Engle of November 17.

You will note that housing starts increased in November of 1959 and again in December of 1959, so that the number of starts for 1959 approximate 200,000
above 1958. This is the result of the $3 billion increase in loans for 1959 made
by savings and loan institutions, as shown by published statistics mentioned
in our letter of November 17. This money is sustaining the amount of home
construction in this Nation, but it is very largely the type of conventional mort­
gage and second mortgage which, as above mentioned, is dangerous to the pur­
chaser, the builder, and the Nation. In other words, although the number of
new homes constructed in 1959 is up to the level of years past, but not nearly
to the level needed in this decade or even today, the greater part of these homes
are not financed in the manner contemplated by the Congress in establishing the
FHA and VA home program, which programs are secure for all, but instead the
greater part of the homes built in the Nation during 1959 are financed by
methods proven disastrous in the recent past.

We have spent much time and effort in preparing these letters and in meeting
with others at your request, and we consider it an honor and a privilege to appear
with you before the subcommittee on January 27. We feel that through our
previous letters, meetings, and this letter answering your request on Chairman
Rains’ bill that you have obtained all of our opinions on these subjects. We urge
you and others in Congress to refer not only this year, but also through the
necessary time to come, to this and our other letters dated November 17 and 30
to Senator Clair Engle, to the end that items covered by us in these letters are
constantly before you and others in Congress until either the recommendations
of these letters are enacted into law or are satisfied by better recommendations
being enacted into law, so that the homebuilding industry is recognized as ful­
filling the national interest, and is therefore properly supported and encouraged
by permanent legislation rather than being rescued or half-rescued or not res­
cued at intervals, often more than once a year, with the resulting chaos in the
industry and much confusion and cost to all of the people of the United States.

Almost all of the people of the proper age aspire to own their own home, but
regardless of owning, all persons from birth to death must be housed, which
puts the homebuilding industry on a plane different from any other industry,
making its needs imperative in this time of an explosively growing population.

The methods set forth in this letter are a means for private industry and
capital to provide a stable mortgage market and a resultingly stable homebuilding
industry under congressional control and governmental support at an annual
expenditure amounting to far less than the Federal Government has been ex­
periencing in recent years.

Although we have no political experience or aspirations, it seems only reason­
able that in this, an election year, that the passage of a bill which will contain
legislation enabling the above stabilizing methods would provide to all of those
responsible for its passage, an accomplishment that in the national interest is
second only to an honorable and just peace, and we are confident of its obtaining
voter acceptance accordingly. It is our belief that a measure such as this will do
much to prevent or minimize recurring recessions, yet it is not inflationary but,
rather, anti-inflationary. In our opinion there is no time like the present for
the accomplishment of this goal, and we urge you and others in Congress and
in the administration to consider even more fully the benefits of a permanent
housing bill being made law prior to November 1960.

Best personal regards.

Sincerely,

CHESTER H. SPIERING.

ARACATA, CALIF., NOVEMBER 30, 1959.

HON. CLEM MILLER,
WASHINGTON, D.C.

DEAR CLEM: We should like to supplement our letter to you of November 17,
1959, by amplifying our suggestions for your consideration relative to home mort­
gage loans to be made by Federal Reserve member banks and savings and loan
institutions.

Lenders have a reluctance to provide mortgage money on a long amortization
program of repayment in the face of our continuing inflation. An excellent
example as to what lenders relate to their present activities in home mortgage
loans may be their participation some 10 to 12 years ago in VA loans made with
20- and 25-year maturities at 4-percent interest rates. Today these lenders are
having to pay 3 percent on deposits and are possibly, in order to remain com­
petitive, facing higher interest rates to their depositors in the near future.

Congress could therefore provide legislation permitting lenders to review
mortgages periodically at predetermined intervals. For an example, a 30-year
mortgage may be reviewed each 5 years to reamortize this loan to an adjusted interest rate for the remaining years under the mortgage without recourse to the time period preceding any 5-year review. This legislation must provide Congress with control of interest in a properly coordinated and acceptable manner. Again, as an example, many industries and our Nation at large depend upon the established cost of living index.

By following this plan, builder discounts to lenders should be minimized and in many instances eliminated. Purchasers of homes would not be saddled with these costs in their purchase prices at the time of their qualifying to buy a home, and, further, this high cost would not continue to plague those through the years who did qualify in their repayment of principal and interest. FHA- and Government-insured loans require an annual adjustment by lenders on impounds obtained each month from purchasers payments to cover taxes and insurance. Therefore, we are asking that you consider the probable additional periodical adjustments which would surely benefit all and further provide stability and security necessary to lenders in their consideration of our suggestions contained in this and our letter to you of November 17, 1959.

We should very much desire to continue assisting you in accordance with your request and will appreciate your thoughts from time to time in these matters.

Respectfully submitted.

CHESTER H. SPIERING.

ARCATA, CALIF., NOVEMBER 17, 1959.

DEAR CLEM: We appreciate very deeply the interest and concern for our business shown by you on your recent visit to our office during which we enjoyed very much making your acquaintance. This letter, detailing the major problems of the home-building industry as you requested, is late, we acknowledge, but it is late for the reason that we have put much effort into its preparation. We have tried to keep the information accurate and factual, and to make the recommendations first, last, and always in the national interest, but also acceptable and helpful to those who are responsible for the direction and control of our national economy, as well as to those businesses that we may affect. The information comes from many sources, the principal one of which is experience gained from my position as managing officer of construction firms which have had a part in planning communities and constructing homes for some 10,000 people from 1946 until now in the States of California, Nevada, Oregon, and Washington.

Our wonderful United States of America has a rapidly growing population. The State of California has an explosively growing population. Both of these are long-established trends intensified by the rapid increase in birthrate starting with World War II and continuing unabated therefrom and into the foreseeable future.

This increase in population requires an ever-increasing number of residences of all types; thus, our building industry must develop areas and build living conditions for an ever greater number of families, as well as replace old houses no longer usable, including 6 million without inside plumbing, and also replace those homes demolished for highway and industrial growth. A conservative estimate of total living units produced annually should be in excess of 2 million for the Nation and over 200,000 for the State of California.

We have seen the need for new elementary schools develop across the Nation. The need has been partially filled although many schools at times have had to use double shifts. Resulting higher taxes were borne by taxpayers cheerfully at first, then with more criticism and study of need.

Later the surge of students reached the high schools of the Nation, and again rapid building, double shifts, higher taxes, and more rumbles from taxpayers as taxes became even higher.

Colleges have felt the first swelling of their student numbers. Extensive and expensive building programs have begun. Here, however, selection of students control to some extent the number admitted. Most of our youth still do not attend college. Those not attending college are among the first group to become employed, and soon thereafter find themselves with a family and the need of a home.

These young people have attended double shift schools, and doubtless many will live with their parents at first, but when their families grow, will they be...
satisfied with prolonged living with their parents or with double shift homes. It is obviously impossible. Crime, broken homes, and all problems related to unfit living conditions will have confronted our Nation. Should something then be done to assist our plight it could only be approached in a hurried manner that would not permit logical and planned growth and of course many of the conditions would have progressed to the point of no return. Two million new living units a year are too few. In fact, are we drifting into double shift homes as we have into double shift schools?

The home industry is well prepared to fill the need for the quantity of residential units required annually in every respect, except for the lack of available mortgage money. Mortgage money is difficult to obtain for the reason that all forms of investment capital are in short supply.

Why is the richest nation on earth in this position?—The reasons that we are short on investment capital are that a rapidly expanding population requires many things, such as schools financed by bond issues, roads, streets, water and sewer projects, and all other municipal facilities largely financed by bond issues. Industrial and commercial growth also require very large amounts of investment capital both to finance technological changes, and to provide jobs for an increasingly large working population, which capital is provided by stock issues and commercial loans. In addition to these causes, taxes take very large shares of all earnings to provide for defense, foreign aid, and other items.

The money to purchase school and municipal bonds, together with commercial loans for industrial expansion have normally and historically come from the savings of all of the people, deposited by the people in banking institutions. This is also the usual source of mortgage loans.

In the first years after World War II, these funds were ample, interest rates were low and discounts were not employed by mortgage lenders. As these deposited funds, which were accumulating in the banks during the war years, became depleted, savings and loan associations, life insurance companies, and other mortgage lenders became increasingly active and small discounts began to be required of builders as money became competitive. After discounts were legalized, builders and their mortgage agents scoured the country for sources of money. Discounts at various times have become heavier than builders could bear, which has broken the backs of too many builders. For instance, the cost of money for a $13,500 home has gone from a low initial cost of $100 for course of construction interest (which was the only cost required), to a present high of $1,298 which now consists of interest during course of construction, interim loan service fee, discount fee and service fee to ultimate lender, standby fees as necessary. FNMA’s purchase and marketing fees and their required stock purchase.

Why, with our prosperous economy, have savings not increased to meet this need?—Savings deposits have in fact increased. However many opposing forces have been working with the result that the total deposits are not now in an amount sufficient to cope with the demand for mortgage money. The most important of these are:

Taxes: heavily increasing to pay for wars, defense, foreign aid, and the thousands of services that millions now find indispensable.

Higher cost of living: the result of years of inflation.

Short-term credit: provides purchase of virtually any consumer item, unrestricted, often ill advised and unwisely used. It has become a national habit.

Are other sources of mortgage money available?—All sources of investment capital are being very thoroughly exploited—Government borrowing, industrial loans, commercial loans, stock and bond issues and consumer borrowing are continuing to keep available money turning as fast as our laws will allow.

Can our laws be changed to help this situation?—The Federal Reserve Board controls the economy of our country by virtue of law enacted by the Congress of the United States, and in conformity with that law. The existing law provides for general control of the economy as a whole by changing of interest rates on borrowings of member banks, and by regulating the amounts member banks may borrow in proportion to deposits, and by regulating the amounts member banks may loan in various fields in proportion to their deposits, and by requiring certain amounts to be invested in Government securities. This Federal Reserve system, though applauded by many, has its difficulties. For instance, it could never overcome the last great depression. It has worked a great hardship on the building industry in recent years, for the effect of this system is
that mortgage money in general is obtained only after most all other needs for money have been met. This is for the reason that interest rates for mortgages are limited by Congress under FHA and VA programs, with the result that an reasonable interest rate is less than could be obtained through other forms of investment. After discounts were legalized, many lenders still preferred not to invest in mortgages, feeling that high discount rates would eventually produce hard feelings amongst their customers. Other lenders have set high credit standards for the prospective home buyer in order to obtain maximum security for a low rate of return. The most convincing reason, however, for the scarcity of money for home mortgages is that other investment fields offer greater profits. Government borrowings now offer approximately the same return, but on shorter terms and with no costs or risk. Consumer credit for items such as automobiles, boats, trailers, and other consumer items, to and including vacations, offers returns up to five times the return on home mortgages and with the additional advantages of very short term and high rate of turnover, but of course, instances, with larger risk.

The result of this Federal Reserve system of economic control to the home-building industry is that the available mortgage money fluctuates greatly. This results in wide fluctuations in the amount of housing construction from year to year, even from month to month. This fluctuation has no relation to need of the product, but is the result of the availability and cost of money. Congress wisely has seen this even though dimly, we believe, and has acted in creating the Federal National Mortgage Association, or as it is familiarly known, FNMA, calling it a secondary mortgage market. FNMA has become the primary mortgage market, and in many, if not most localities, the only mortgage market, and it has helped immensely in spite of the high discount rates it has found necessary to charge.

As another segment of the mortgage loan market, the savings and loan institutions have been increasing in size and in their participation in the mortgage market. The reason for the growth of these savings and loan institutions is due to two factors:

1. Their interest rates, on other than FHA and VA loans, are not controlled except by the limits of State usury laws. This allowed, and even encouraged them to pay higher interest rates to their depositors, for by so doing, they were able to attract money as it became scarcer.

2. On other than FHA loans, second mortgages at even higher rates of interest and discount are allowed by most savings and loan institutions. Discounts on second mortgages of 25 percent of the face value are not unusual.

This trend to savings and loan mortgages has continued until in the present very tight money market published statistics show that these institutions are making 40 percent of all mortgage loans. Their total deposits approximate $55 billion and this year’s dollar volume of mortgage loans made by them will be 25 percent greater than last year, and will be about $15 billion in new home loans.

This new money has helped many builders to remain in business, however experienced mortgage bankers and others fear that there are some very real dangers here. These persons feel that the looseness of control, without FHA or VA supervision, the high interest and discount rates involved with these first and second mortgages, and the lack of provisions in many cases for the automatic payment of taxes and insurance provides a pattern identical to the conditions prior to 1929, wherein owners lost their homes in great numbers.

In summation, it is our conviction, that to meet the need in the very near future of new homes for our citizens in ever-increasing quantities, the Congress must redirect the fiscal regulating agencies so as to provide from presently available and future funds a stable assured supply of mortgage money, regulated as to interest rate, subject to the FHA, VA, or other governmental supervision for the benefit of all.

In our opinion, if the present fiscal regulating policies are not changed, the building industry will continue its decline, irregularly fed by acts of Congress and leftovers from others. The decline of this industry which ranks first in size now in this Nation with all its many suppliers including lumber, will in our opinion, produce another great depression. Yet at the present annual rate of production, it would take 5 years to replace all existing homes without inside plumbing, if the present rate of 1½ million homes were applied only in that direction.

We are not asking that the Federal Reserve Board be eliminated. We are not asking any radical change in its structure. We are suggesting that this Nation
will benefit much if the fiscal policies under which the Federal Reserve Board works be changed so as to provide a stable basis for the building industry. We suggest this for two reasons; first that more homes are needed than can otherwise be provided, and second that the difficulties and large risks involved in this industry will make the building industry the first casualty of any depression or recession, and therefore lead the Nation deeper in this undesirable direction.

Every citizen can buy a car, furniture, appliances, sporting gear, and vacations on unrestricted credit, which is keeping the average American broke and in debt. Extended monthly payments for purchases such as these prevent, under present restrictions, his purchasing the home that makes him a better citizen. For instance, a man taking home $100 a week can qualify for the lowest price home we can here offer, only if he has no contract credit purchases. A good credit report will qualify him to purchase virtually anything except a home, and this ability to purchase is used by many with blissful abandon without realizing that they are disqualifying themselves for the purchase of a home. We feel that a good credit report, successful employment verified for 2 years, and a successful record of rent payments verified for 2 years in amount equal to his home purchase payments (including principal, interest, taxes and insurance) should qualify a home buyer. For other less essential items his ability to pay should be more strictly regulated than it is now.

In conclusion, we present the following suggestions for your consideration as what, in our opinion, is the minimum of changes to existing law necessary to provide a stable base of mortgage money for all forms of housing. We propose that the present goal of 2 million new housing units per year, at an average loan of $15,000 or a total of $30 billion per year be obtained from three sources as follows:

1. That the Federal Reserve Board be instructed by Congress that stability in mortgage lending is in the national interest, and that their member banks be required by law to invest in single or multiple dwelling mortgages in the total amount of $10 billion per year as a proportion of the member banks deposits. We feel these mortgages should be all guaranteed by VA or insured by FHA at the interest rates allowed by these agencies, and that consideration should be given by Congress to limiting the discounts and charges allowed under this program. Further, that these mortgages should be held by the initiating banks for a minimum of 5 years, with possible future extensions. To provide the funds for the participation by Federal Reserve banks, credit curbs will be found necessary to control lending in other directions; thus the desired restriction on consumer credit should be a part of this pattern.

2. That the laws regulating savings and loan institutions be reviewed in order that their potential can be realized, yet avoiding the very real dangers that some of these institutions are now courting. The depositors of those institutions are now insured by the Federal Government up to $10,000 per individual depositor. (This permits each member of a family to be a depositor.) Also, recently a private insuring agency, similar in effect to the FHA insurance, has been set up for savings and loan institutions. However, we feel that if Congress were to review this situation, that additional legislation would be found necessary to protect the home purchaser, the depositor, and the Federal Government against insurance claims on these deposits. In our opinion, this legislation should provide for periodic Federal review of all loans made by these institutions to insure adequate appraisal, qualification of buyers, compliance with set limits on second mortgages, and for automatic payment procedures for taxes and insurance where equities are one-third or less. In other words, savings and loan institutions should conform to establish banking procedures if they are to receive Federal deposit insurance. In this way, we feel that another $10 billion or more of mortgages yearly would be provided, and in a stable, secure manner.

3. The balance of needed funds we feel could be obtained from all other sources, FNMA, insurance companies, other banks, pension funds, etc. The above we feel not to be a cure-all, or necessarily the best solution, but it is a step in the right direction, to be taken without compounding the confusion already prevalent in the mortgage market and to provide a path along which Congress can proceed at this time.

Lastly, if the home-buyer qualification regulations of the FHA and VA could be liberalized again, as above mentioned, realizing that families must otherwise pay rent, and if their home purchase is not more, or not greatly more than their accustomed rental payments, they should be able to qualify to buy a home. Also,
if the above consumer credit curbs are applied, FHA and VA will realize that home buyers will not so easily enter into financial difficulties after purchasing their homes.

We fervently hope that all of the Congress of the United States will realize, that at the present, the Federal fiscal policies, both in consumer credit regulation, and in regulations directing the flow of money are preventing many citizens from becoming home buyers at a time when many more homes are desperately needed, yet this Nation has always been founded upon the love of God, family, neighbor, and home.

Respectfully submitted.

CHESTER H. SPIERING.

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales price</td>
<td>$18,890</td>
</tr>
<tr>
<td>FHA value</td>
<td>17,000</td>
</tr>
<tr>
<td>Loan amount</td>
<td>15,900</td>
</tr>
<tr>
<td>Downpayment</td>
<td>2,990</td>
</tr>
<tr>
<td>Closing costs (estimated)</td>
<td>300</td>
</tr>
<tr>
<td>Total cash</td>
<td>3,290</td>
</tr>
</tbody>
</table>

### INCOME

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual</td>
<td>$6,180</td>
</tr>
<tr>
<td>Bonus</td>
<td>400</td>
</tr>
<tr>
<td>Total</td>
<td>6,580</td>
</tr>
<tr>
<td>Less income tax</td>
<td>720</td>
</tr>
<tr>
<td>After tax</td>
<td>5,860</td>
</tr>
<tr>
<td>Payments</td>
<td>0</td>
</tr>
<tr>
<td>Effective income</td>
<td>5,860</td>
</tr>
</tbody>
</table>

### QUALIFICATION

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>(\frac{1}{3}) of first $3,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>(\frac{1}{3}) of balance ($2,860)</td>
<td>572</td>
</tr>
<tr>
<td>Allowable housing expense</td>
<td>1,572</td>
</tr>
<tr>
<td>Monthly</td>
<td>131</td>
</tr>
</tbody>
</table>

### PROPOSED HOUSING EXPENSE (MONTHLY)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15,900 loan at 5% percent, 30-year term:</td>
<td></td>
</tr>
<tr>
<td>Monthly payments (principal and interest)</td>
<td>92.80</td>
</tr>
<tr>
<td>Mortgage insurance premium</td>
<td>5.10</td>
</tr>
<tr>
<td>Taxes</td>
<td>27.11</td>
</tr>
<tr>
<td>Insurance premium</td>
<td>3.00</td>
</tr>
<tr>
<td>Maintenance</td>
<td>15.90</td>
</tr>
<tr>
<td>Utilities</td>
<td>20.00</td>
</tr>
<tr>
<td>Total</td>
<td>163.91</td>
</tr>
<tr>
<td>Difference (FHA rules)</td>
<td>32.91</td>
</tr>
</tbody>
</table>

Income to qualify ($32.91\times 5 \times 12 \text{ months} + 5,860 = 7,834.60 or $1,974.60 more annually.

Present income would qualify for $82 payments (principal, interest, mortgage insurance premium), or $13,300 approximately.

Mr. Zeiler wants to pay an additional $15.90, monthly, for principal, interest, and mortgage insurance premium. This the FHA will not allow unless his income increases $1,974.60 per year.
<table>
<thead>
<tr>
<th>Date</th>
<th>Name</th>
<th>Address</th>
<th>Age</th>
<th>Type</th>
<th>Number</th>
<th>Status</th>
<th>Date</th>
<th>Type</th>
<th>Income</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-29</td>
<td>Mr. John Smith</td>
<td>312 Market St, Humboldt, Calif.</td>
<td>35</td>
<td>Res</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-29</td>
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<td>Res</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**EMERGENCY HOME OWNERSHIP ACT**

**Credit Association of Humboldt**

**St. Louis Fed**

https://fraser.stlouisfed.org

Federal Reserve Bank of St. Louis
EMERGENCY HOME OWNERSHIP ACT

CONFIRMATION OF EMPLOYMENT

Date ________________________, 19__

TO:  

GENTLEMEN:

Please regard this as authorization to furnish the Bank of America N T & S A. with the information called for by the appended form, which is a verification of employment required in connection with an application for a home loan.

Yours very truly,

Signature of Applicant

Address

Bank of America

R.E. Paul R. Zeiler

This is to confirm that the person named is an employee of the undersigned

Length of time employed 3½ years
Present position Office Supervisor
Present rate of pay $2150 or Hourly $ ______
Appoximate annual earnings from regular schedule work, $ ______
Appoximate annual earnings for overtime work, $ ______
Appoximate annual commissions or bonuses, $ ______
Probability of continued employment and other remarks EXCELLENT

While the above information is believed to be reasonable accurate and is furnished in a desire to assist applicant in obtaining a home loan, no responsibility attaches to us for errors or omissions

Simpson Redwood Company

Albany, California

Brea, Mar.
REPORT ON APPLICATION

Mortgagor:

Commonwealth Inc.  Paul R. & Helen A. Zeiler
(Name of Mortgagor)  

Equitable Building  

Portland, Oregon  
(Street)  

Dear Sir:

This is to advise that your application for mortgage insurance identified by the case number above has been considered and it was determined after PRELIMINARY EXAMINATION that it is not eligible for processing and that a refund has been initiated. Any request for reconsideration must be accompanied by a remittance of the appropriate fee.

This is to advise that your application for mortgage insurance has been considered and it was determined after FINAL EXAMINATION that it does not qualify for mortgage insurance for the reason given below. The entire examination fee has been earned and there will be no refund. Request for reconsideration within two months, no fee required.

1. The mortgagors have been unable to establish that their prospective housing expense will bear a proper relation to their estimated effective income.

FHA Valuation $17,000.

Date Oct. 29, 1959

Federal Housing Administration

By: H. J. Neisel

Authorized Agent

At: San Francisco, Calif.
PROPOSED MORTGAGE LOAN:

Name of Mortgagors: Paul R. and Helen A. Zeiler.
Principal amount, $15,000.00, interest at 5.75%, service charge 0.50%, payment in 360 equal monthly installments.
A credit report from Humboldt Credit Association was ordered on Aug. 20, 1959, for direct delivery to you; the report is attached. Completion of FHA Form 2003e was requested on Aug. 20, 1959.

Completion of FHA Form 2004e was requested on Aug. 20, 1959, from the borrower’s employer, or another comparable information as attached hereto.

COMMONWEALTH, Inc.
421 S. W. Sixth, Portland, Oregon

By ____________________________
(Name and title of officer)

MORTGAGOR’S STATEMENT

The following statements are submitted for the purpose of obtaining credit in connection with—

☐ An application for mortgage insurance.
☐ A member of a Corporation organized under Section 213.
☐ A Guarantor.
☐ A purchaser of a property acquired by the FHA.
☐ Other.

A. PURPOSE OF MORTGAGE LOAN (Complete applicable Schedule or Schedules below).

1. Financing of New Construction.—(a) Approximate date construction was or is to be started. Committee.
   (b) Date land purchased 8-18-59. (c) Purchase price $2,750.00.
   (d) From whom purchased Spiering Homes, Inc. (Name and address).

2. Financing Purchase of Property.—(a) Date purchased ____________________________
   (b) Purchase price ____________________________
   (c) From whom purchased ____________________________ (Name and address).

3. Refinancing Existing Indebtedness (List in “C” below).—(a) Total amount owed ____________________________
   (b) Are payments current? ____________________________ (c) If not, state amount(s) in default for principal, interest, real estate taxes, special assessments, ____________________________
   (d) When was property acquired? ____________________________
   (e) Purchase price, ____________________________
   (f) If property is being acquired under contract for deed, attach signed or certified copy of contract.
4. Financing of Proposed Improvements to Existing Constructions as described in Property Description. Estimated cost to mortgagor of proposed improvements ................................................................. $........................................

5. Other.—(a) Describe briefly any other intended use of mortgage proceeds .................................................. (b) Amount required ................................................................. $18,890.00

Proposed sale price (if for sale) ........................................................................................................

B. ESTIMATED SETTLEMENT REQUIREMENTS:

1. Total amount, for purposes stated under "A" above ......................................................................................... $18,890.00

2. Approximate cost of closing the transaction (including deposits for taxes and insurance premiums, $..................) ................................................................. $300.00

3. Total ......................................................................................................................................................... $19,190.00

4. Less amount of mortgage loan applied for .................................................................................................. $17,500.00

5. Total investment required by mortgagor in cash or its equivalent ................................................................ $1,690.00

6. Less amount already paid: (a) In cash, $ ..................; (b) Equity other than cash, $ ..................; (c) Total ...........................................................................................................

(d) Date paid ..............................................................................................................................................

(e) To whom paid ........................................................................................................................................

(f) Nature of other equity, if any listed in item 6 (b) ...........................................................................................

(g) Balance of cash or its equivalent to be invested by mortgagor ................................................................. $

(h) The amount indicated in item (g) will be provided from the following sources ......................................


ITEMS ESSENTIAL FOR ELIGIBILITY

1. Do you intend to [X] occupy, [☐] rent, or [☐] sell this property? If for rent answer the following: Is the dwelling to be covered by the insured mortgage a part of, or adjacent or contiguous to, any project, subdivision or group of rental properties involving eight or more dwelling units? (Yes or no)

If the answer is "yes," do you have any financial interest in such properties? (Yes or no)

If the answer is "yes," furnish details as to the location of such properties and financial interest therein. (Yes or no)

2. Do you own four or more dwelling units which are subject to mortgages insured under any title of the National Housing Act? (Yes or no)

If answer is "yes,« execute Mortgagor's Contract with respect to Hotel and Transient Use of Property, Form 2561, and submit with application.

3. Have you incurred or do you intend to incur any indebtedness, secured or unsecured, other than that of the mortgage loan applied for, for any purpose connected with this transaction? (Yes or no)

If answer is "yes," give complete details, including description of any security offered.

4. For open-end only: Are additional rooms or enclosed areas proposed? (Yes or no)

C. INDEBTEDNESS AGAINST PROPERTY AT (Always show address)

The following is a list of all mortgages and other indebtedness against the property offered as security for the loan applied for, excluding taxes and assessments: (If there is NO indebtedness, insert "None.")

<table>
<thead>
<tr>
<th>Name and Address of Holder</th>
<th>Type of Lien</th>
<th>Date of Mortgage or Lien</th>
<th>Original Amount</th>
<th>Present Unpaid Balance</th>
<th>Maturity Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Indicate any which is FHA-insured mortgage loan above and give case number if available.
Use separate statement for items D. 2. through K. for Co-applicant other than wife.

D. EMPLOYMENT STATUS.

1. Applicant:
   (a) Employer's name ........................................
   (b) Employer's address ..................................
   (c) Type of business ......................................
   (d) Position occupied ...................................
   (e) Name and title of superior ................................

2. Co-applicant:
   (a) Employer's name ........................................
   (b) Employer's address ..................................
   (c) Type of business ......................................
   (d) Position occupied ...................................
   (e) Name and title of superior ................................

*Note.—If less than 2 years attach rider giving same details with respect to prior employment status.

E. LIFE INSURANCE (on applicant).

(1) Total in force, $ .................. Cash value, $ ...............
(2) Less amount of loans on policies . . $ ..................
(3) Net cash surrender value . . . . . . $ ..................

F. FAMILY STATUS.

Age of
(1) Total In force, $ .................. Cash value, $ ...............
(2) Less amount of loans on policies . . $ ..................
(3) Net cash surrender value . . . . . . $ ..................

G. FINANCIAL STATEMENT (Excluding equity and liability in connection with subject property).

A combined statement may be made for applicants who are husband and wife. In other cases a separate statement must be filed for each mortgagee on Form 2004c. A corporate applicant or an applicant who derives his principal income from his own business must attach a current balance sheet and operating statement of the business.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Statement date</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash accounts (list):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Where deposited—</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Earnest money deposit on purchase</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>U. S. Savings Bonds</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Stocks and other bonds:</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Estimated resale value of real estate owned, other than subject property, from Schedule H</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Other important assets (list or attach schedule):</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>. . . . . . . .</td>
<td>$</td>
</tr>
</tbody>
</table>

H. REAL ESTATE OWNED OTHER THAN SUBJECT PROPERTY.

| (Type and address of property) | Estimated Resale Value | Indebtedness | Annual Estimated Annual Estimated |
|-------------------------------|-----------------------|--------------|----------------------------------|------------------|------------------|
|                               |                       |              |                                  |                   |                  |
|                               |                       |              | Annual Estimated Annual Estimated |
|                               |                       |              | Mortgage Principal and Interest | Gross Income     | Operating Net      |
|                               |                       |              |                                  | (a)              | Income (b)       |
|                               |                       |              |                                  |                   |                  |
|                               |                       |              | Repayment terms for . . . months | at $ . . . . . per month. | |
|                               |                       |              | Repayment terms for . . . months | at $ . . . . . per month. | |
| TOTAL | . . . . . . . . | | $ | $ | |

(If more than one property is owned attach separate schedule.)
# L. ANNUAL INCOME

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base pay of applicant</td>
<td>$</td>
</tr>
<tr>
<td>(Based upon current rate of earnings, except earnings from commissions or fees, which should be reported on the basis of the past 12 months.)</td>
<td>$</td>
</tr>
<tr>
<td>Overtime or other employment earnings</td>
<td>$</td>
</tr>
<tr>
<td>Base pay of wife</td>
<td>$</td>
</tr>
<tr>
<td>Annual overtime or other employment earnings</td>
<td>$</td>
</tr>
<tr>
<td>Net income from real estate, from Schedule H</td>
<td>$</td>
</tr>
<tr>
<td>Income from other sources (list sources and amounts)</td>
<td>$</td>
</tr>
<tr>
<td>TOTAL INCOME</td>
<td>$</td>
</tr>
</tbody>
</table>

# J. ANNUAL FIXED CHARGES (past 12 months)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal and State income tax</td>
<td>$</td>
</tr>
<tr>
<td>Premium on life insurance</td>
<td>$</td>
</tr>
<tr>
<td>Social Security and Retirement Contributions</td>
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</tr>
<tr>
<td>Payments on installment accounts</td>
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</tr>
<tr>
<td>Mortgage or contract payments on other real estate from Schedule H</td>
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<tr>
<td>Payments on other loans</td>
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<tr>
<td>TOTAL FIXED CHARGES</td>
<td>$</td>
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# K. APPROXIMATE HOUSING EXPENSE (past 12 months)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Mortgage payment or rent</td>
<td>$</td>
</tr>
<tr>
<td>(b) Taxes and insurance</td>
<td>$</td>
</tr>
<tr>
<td>(c) Heat</td>
<td>$</td>
</tr>
<tr>
<td>(d) Water, gas, electricity</td>
<td>$</td>
</tr>
<tr>
<td>(e) Maintenance</td>
<td>$</td>
</tr>
<tr>
<td>TOTAL HOUSING EXPENSE</td>
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</tr>
</tbody>
</table>

# WARNING

Section 1010 of Title 18, U. S. C., "Federal Housing Administration transactions," provides: "Whoever, for the purpose of ..., influencing in any way the action of such Administration ..., makes, passes, offers, or publishes any statement, knowing the same to be false ..., shall be fined not more than $5,000 or imprisoned not more than two years, or both."

(Do not sign the following certification until the Statement has been completed)

This Statement (including the reverse side hereof) is made by the undersigned for the purpose of obtaining the benefits of a mortgage loan to be or which may be insured under the provisions of the National Housing Act, and the undersigned hereby represents that to the best of his knowledge and belief, the statements, information, and descriptions contained herein are in all respects true, correct, and complete. The Commissioner and mortgagee may verify the statements contained herein by communicating with any of the persons or institutions named in this statement. These statements will otherwise be treated as confidential.

The undersigned hereby certifies that in his (their) best knowledge and belief, no restriction upon the sale or occupancy of the property covered by this application, on the ground of race, color, or creed, has been filed of record or at any time subsequent to February 13, 1958; and that, until the mortgage has been paid in full or the contract of insurance otherwise terminated, he (they) will not file for record any restriction upon the sale or occupancy of the mortgaged property on the basis of race, color, or creed, or execute any agreement, lease, or conveyance affecting such property which imposes any such restriction upon its sale or occupancy.

Note.—The filing of record of such a restriction or covenant subsequent to February 13, 1956, will render a mortgage covering the property ineligible for mortgage insurance.

(Signed) ____________________________  Mortgagor (Age)__
(Mortgagor's present address) ____________________________
(Telephone number) ____________________________

Co-Mortgagor (Age) __

EMPLOYMENT STATUS—PROPOSED PURCHASER OF PROPERTY ACQUIRED BY FHA

The statement in the above Schedule D as to employment and income therefrom has been verified by me at the source.

(Signed) ____________________________
(Property Manager or Broker) ____________________________

FHA Form No. 1044 c  ____________________________

U. S. GOVERNMENT PRINTING OFFICE: 1956—0-438317

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Federal Reserve Bank of St. Louis
Mr. Spiering. During the past 14 years we have been building in or near smaller towns, each of which has been distant 120 to 375 miles from metropolitan centers. These areas of building have been in 10 small communities in the States of California, Oregon, Washington, and Nevada.

Our building has been aimed at buyers in the medium to low income bracket.

When mortgage financing was available at costs that could be absorbed in the sales price of our homes and still permit a healthy even though less profitable building program, we were building better than 400 homes per year.

Our experience in 1957 was near disastrous, when we suddenly faced a condition of a large inventory of unsold homes. As we worked out of this problem, the recession was taking its toll, time and again, by increasing cost of discounts. Consequently, we built no new homes in 1958 and the cost to us in sales of homes to remove them from inventory amounted to substantial losses in the sale of virtually every home.

In 1959 we built only 50 homes despite the fact that we had 179 fully developed lots in 5 different locations. We had been previously extremely successful in each of these areas. This is not a matter of lack of demand for sales but rather a lack of suitable mortgage facilities.

Because of our remoteness from metropolitan areas, we were able to obtain mortgage financing with FHA and VA insurance through regular banking channels. FNMA, therefore, remains the only source of financing for our purchasers.

Homes priced to sell at $14,000 require total costs for financing of an approximate $1,400. FHA and VA will not recognize these costs in values. Furthermore, in areas distant from metropolitan centers, FHA, and occasionally VA, do not cover actual costs and a reasonable profit to a builder in arriving at their values.

Qualification of purchasers also becomes difficult and too often impossible. In this we submit FHA case No. 64-143820 and supporting correspondence which in our opinion warrants study and correction in this and all other like cases. This man had an annual income of $6,500, no debts, a perfect credit record, $3,300 cash and he was refused qualification despite the fact that his rental expense was greater and the only available housing is 21 miles from his job.

A builder in more remote areas can and must fill existing needs—build a larger number of homes than even metropolitan areas could absorb in times past, which is a reflection upon the present growth of our Nation. Yet this is only a hint of things to come. For within the next few years the population increase will reach the building business which together with the present trend of industry to locate away from metropolitan areas will bring a development of remote areas far beyond what we have seen or even conceived. This is in the national interest, for dispersion of industry aids defense as well as provides better living for our citizens.

The problems of building in remote areas, especially in the West and South are mortgage-money problems. The supply of money is in the East and the remote and new areas are generally elsewhere. Surprisingly enough, money is not a readily exportable commodity—
at least for the purpose of housing financing. In periods of abundant supply, eastern money finances western homes, in addition to eastern homes. In periods of shortage of money, eastern money finances eastern homes only and there is none left for western homes.

In Boston, at this time, VA financing is available without discount. In San Francisco, if it is available, it is available only by paying heavy discounts and in the rural areas of the West it is not available at all. Money is available in inverse proportion to the distance from New York.

A builder that is unable to shut down must turn to conventional loans with second mortgages and all the accompanying dangers. Purchasers are left without the opportunity for the help and protection afforded by Congress in the FHA and VA programs.

As I have stated adequate financing is even now available in some areas. Others have none or must depend upon the inadequate base of FNMA. Possibly Congress should consider emergency financing for these areas on a need basis.

Your bill would be an answer to builders across the Nation who find themselves now and from time to time facing financial obstacles. It is my opinion that we need a bill of this type, and I certainly support it.

I would now like to address myself to the long-term problem as it relates to a permanent housing bill.

1. It is proposed that FNMA be reconstituted as the central-mortgage facility with the usual recommended features, but in addition, the contents of these items.

   (a) That FNMA be empowered to adjust interest rates on FHA and VA mortgages, within statutory limits as set by Congress, regionally so as to minimize discounts, and to make the VA interest rate equal to the FHA interest rate. This would immediately lower discount rates in areas where they are now highest.

   (b) That FNMA be enabled to accept, and FHA and VA to insure, mortgages wherein the interest rate would be subject to review and periodic adjustment, either upward or downward, according to the market condition as estimated by FNMA in each of its geographic zones.

For instance, at 5-year intervals from origination, each mortgage could be adjusted to the then prevailing interest rate as determined by FNMA for that region, and the amortization schedule would be adjusted, so that the remaining payments would amortize the remaining balance at the new interest rate.

This action, in our opinion, would greatly reduce the risk of lenders in their holding of long-term mortgages which is now facing them due to the continuing inflationary trend, and would, therefore, reduce the necessity for lenders to discount against predicted risks.

(c) That instead of special assistance programs and veteran direct loan programs involving full purchase of mortgages by use of Treasury funds which on occasion total billions of dollars annually, Congress consider instead a program where neither the builder nor home purchaser participate in the payment of discounts on certain types of mortgages, such as low-cost homes (under $15,000), slum-clearance programs, cooperatives, housing for minority groups, and housing for the elderly.
These certain type mortgages could be sold on the open market by providing FNMA with funds and the authority to use the funds to pay the discounts necessary to sell these mortgages.

For instance, if a minority group housing program were to be considered at an interest rate which would involve a 6 percent discount to the open market on a $1 million program, instead of using $1 million of Federal money, this method of marketing these mortgages would require only 6 percent of that amount, or $60,000 of Treasury money. It is also our suggestion that FNMA participate in all other types of mortgages, but with a maximum of 5 percent to be paid in total discount wherein the builder pays no more than 3 percent and FNMA pays no more than 2 percent. This 5 percent discount should be the maximum required if other suggestions contained herein are used, such as the 5-year review of mortgages for the purpose of increasing or decreasing the interest rate.

This, in our opinion, should in many locations cause the average discounts to be no more than the builder participation, and provide the balance as required the only Government support.

Assuming that Government assistance could conceivably be required on 30 percent of all mortgages made during a given year involving an approximate 2 million homes, then using an average figure of $15,000 per mortgage, 600,000 homes would be involved at the 2 percent discount for a total cost to the Government of $180 million annually. This program would place in action a stabilizing influence on the industry's requirements, promoting security and continuity.

This security and continuity would enable builders in general to develop the technology in the use of labor, materials, and equipment, and to develop sales tools, and merchandising methods, all of which would effectively reduce sales prices, increase quality, promote competition, and encourage people in general within the industry to perform with quality in their sale of homes at increasing values, without commensurate increase in sales prices.

This is in part a governmental support program. This is the support that, by taking the top of the heavier discounts off of the builder, will enable him to continue when otherwise he could not. Yet the total cost to the Federal Government should never exceed $180 million for the general program. The cost of the support of the certain classes of mortgages to be supported at a higher level, as first mentioned, would be in addition at a figure to be determined by Congress in accordance with their view of the need, but here the cost would be only a small fraction of what has been expended in recent years.

2. That in addition to reconstituting FNMA as a central mortgage facility, Congress consider bringing additional money into the mortgage market by revision of present banking law, so that national banks would be encouraged and, if necessary, required to invest in a set dollar volume of new homes mortgages annually, in proportion to their total deposits, and to retain these mortgages for a minimum period of 5 years.

Each bank would have the option of either originating the mortgage, or of purchasing the mortgage from FNMA. If a national bank were to originate more dollar volume of mortgages annually than the amount to be retained by them in accordance with our sug-
gested legislation, then that bank could dispose of the excess dollar volume to FNMA.

The total dollar volume of mortgages required to be invested under this program should, in our opinion, reach $10 billion annually during the years of maximum need for new homes. To provide the funds for participation of national banks, credit curbs may be found necessary to control lending in other directions.

It is our opinion that consumer credit is the lending that should be controlled for this will help to check and control inflation. Also, this would have the added advantage of making it easier for people to qualify for home purchases for the reasons stated in our letters submitted for inclusion in the record.

Every citizen can buy a car, furniture, appliances, sporting gear, and vacations on unrestricted credit, which is keeping the average American broke and in debt. Extended monthly payments for purchases such as these prevent, under the present restrictions, his purchasing the home that makes him a better citizen.

3. That the activities of the savings and loan institutions be investigated by the Congress so that restrictive legislation could be properly formulated to halt unsound practices now engaged in by many of these institutions, to the detriment of the national interest. This in accordance with our letter to Senator Engle of November 17 in which we have felt justified in considering this group for participation in mortgage loans in an amount approximately $10 billion annually.

4. That FHA and VA be instructed by Congress to further encourage homeownership by judging the qualification of buyers in accordance with performance, rather than by a set rule of income. In other words, if a citizen has a record of successful payment of his obligations, including rent or house payments, that he should not be prevented from purchasing a home because he does not fit a set ratio of income to housing expense.

You will note that housing starts increased in November of 1959, and again in December of 1959 so that the number of starts for 1959 approximate 200,000 above 1958. This is the result of the $3 billion increase in loans for 1959 made by savings and loan institutions, as shown by published statistics. This money is sustaining the amount of home construction in this Nation, but it is very largely the type of conventional mortgage and second mortgage which, as above mentioned, is dangerous to the purchaser, the builder, and the Nation.

In other words, although the number of new homes constructed in 1959 is up to the level of years past, but not nearly to the level needed in this decade or even today, the greater part of these homes are not financed in the manner contemplated by the Congress in establishing the FHA and VA home program, which programs are secure for all, but instead the greater part of the homes built in the Nation during 1959 are financed by methods proven disastrous in the recent past.

Almost all of the people of the proper age aspire to own their own homes, but regardless of owning, all persons from birth to death must be housed, which puts the home-building industry on a plane different from any other industry, making its needs imperative in this time of an explosively growing population.

The methods set forth in this statement are a means for private industry and capital to provide a stable mortgage market and a resultingly stable home-building industry under congressional control and
EMERGENCY HOME OWNERSHIP ACT

governmental support at an annual expenditure amounting to far less than the Federal Government has been experiencing in recent years.

Gentlemen, this adds up to a great emergency, and this industry deserves and I am sure will receive your serious attention. Thank you.

Mr. Miller. With the chart on this blackboard, Mr. Schwartz is going to give a graphic illustration on what Mr. Spiering has just testified to.

Mr. Schwartz. First may I point out that in a discussion of mortgage discount, the mortgage discount is the amount that we refer to which the builder has to pay in order to secure a loan for the buyer. Related into dollars and cents, in the case of 11 percent on a GI loan, it amounts to $110 on each thousand, and $11 on each hundred.

This is the current discount being charged in California, when and if it is available.

Going down the chart, if I may, in the case of an average $16,000 home, under GI financing, the current interest rate being 5¼, 30 years, we are forced to pay—in order to secure a loan—this 11 percent discount, which in the case of this sales price amounts to $1,760.

Mr. Miller. That $1,760, in other words, is the additional amount of the cost of that $16,000 home?

Mr. Schwartz. That is correct. It is a direct cost the same as the lumber, the roof, or anything else that would go into the house. It is added on just like a product that would have to go in, and it is tacked on to the sale price, and is paid in effect by the buyer over the term of the loan—plus interest. He pays interest, as well, at 5¼ percent on the $1,760.

This reflects monthly payments, on the $16,000 home, of $125 a month, including taxes and insurance.

In the average case, under the GI loan program, there is no down-payment. We are selling with no downpayment. However, needed to qualify, in order to qualify a GI for this $16,000 home with the $123 monthly payments, the lenders are required that the house expense to income ratio be a minimum of 5 to 1, and so we have to find a veteran who has earnings of $7,800 per year, that is take-home pay, less any outside payments he may have to make, any purchases he may have made on credit.

In effect, we know in our selling programs that the average buyer is financing an automobile or appliances or something else in his home, and we find that the average man, in order to purchase this $16,000 home, has to make in the vicinity of $8,000 a year, and we contend that this is largely due to the $1,760 that has to be tacked on to the price of the house.

Mr. Bass. Is this a requirement of the VA?

Mr. Schwartz. That $7,380?

Mr. Bass. Yes.

Mr. Schwartz. The VA qualification is close to this. The Veterans' Administration does not qualify on a specific formula, 4 to 1 or 5 to 1 housing income to expense. They make an economic appraisal of the individual, but having serviced thousands of loans, we find their qualifications come very close to this, and that is the pattern that has been picked up by the lenders. It is very close to it, between 4½ and 5 to 1.
Mr. Bass. Doesn't the bank pass on the qualifications of the GI?

Mr. Schwartz. That is correct, but it is twofold. In order to sell a house GI we have to get a credit commitment. We have to get a commitment from the Veterans’ Administration approving credit, in addition to credit being approved by the lender, as well, so if the lenders should relax their policy, it does no good. The credit still has to be approved, before the loan can be closed, by the Veterans’ Administration, and their credit qualifications would come very close to this standard at this time.

Mr. Widnall. Mr. Chairman, I would like to ask a question. That $1,760 that you say is included in the cost, is that included in the $16,000 sales price?

Mr. Schwartz. That is correct. In other words, the house would sell—

Mr. Widnall. What does the VA recognize as the value of the house?

Mr. Schwartz. In effect what is happening is that in arriving at a reasonable value for the house, the VA—and we are having great difficulty in this regard, and it is one of the reasons that it is becoming almost prohibitive for the builder to go forward under the GI program.

The Veterans’ Administration in arriving at valuations does not recognize mortgage discount, and, as such, in order to sell GI, we have to get a certificate of reasonable value stating the sales price of the house, and it is making it prohibitive at this time to sell GI even if this money were available, not being able to get this CRV.

Mr. Widnall. I understood you were selling at $16,000 including the $1,760 discount approved by the VA as to value.

Mr. Schwartz. The answer to that, sir, is this, that in arriving at valuation, the Veterans’ Administration uses a cost index, that is basically set up for the 25 to 50 homebuilder.

Our company, producing somewhere in the vicinity of a thousand homes a year, is able to effect substantial savings in the purchase of land and the purchase of supplies and material which in effect is offsetting to a great degree, if not all of the mortgage discount involved. This is the way that we are able to proceed.

Mr. Widnall. How long have you been building this same type of house?

Mr. Schwartz. We have been building for 8 years.

Mr. Widnall. What was the original price of the same type of house before you got into this discount?

Mr. Schwartz. It would be hard to say. The costs of construction have increased so substantially over the years, in addition to mortgage discount, it would be difficult to say what a $16,000 priced house today would have sold for 8 years ago. I can tell you this, that without the mortgage discount there is no question that the house would be selling for $1,760 less.

Mr. Miller. Mr. Chairman, would it be possible for Mr. Schwartz to proceed to get this chart on the record in an orderly fashion, and then submit to any questions that the members may have?

Mr. Addonizio. You may, Mr. Schwartz.

Mr. Schwartz. In the case of FHA, the interest rate is 6 ¼, the term is 30 years. The current mortgage discount, if it can be found,
is 9 percent, or $1,383. The monthly payments, on taxes and insurance, are $130. The downpayment being $630, again in order to qualify, $7,800 a year net after the payment of any outstanding credit expenses.

I would like to go on to the conventional. We have two types of conventions, one with a second mortgage, one without a second mortgage. First, in the case of no second mortgage, current interest rates in California are at 7.2 percent, maximum term being 25 years. The mortgage discount on conventional is 6 percent, or $762. The monthly payments, $126. Downpayment, $3,300. Needed to qualify, only $4,320.

May I point out at this time that the majority of the conventional loans are being made through savings and loan associations in the State, and their credit requirements are four times the first mortgage, only.

Now, coming to another situation which is becoming more and more prevalent in the State, the last figures showing that 80 percent of the homes produced in southern California were conventional with second mortgages, and 60 percent of the homes in our area were produced with conventional, with second mortgages.

In this situation we have a 7.2-percent first mortgage for a term of 25 years, on top of that being an 8-percent second mortgage with a 7-year due date, which is the average situation, with payments at 1 percent per month.

Again the discount for this type of mortgage is 6 percent, or $762. However, the monthly payments are $158. The $158 comprises the approximately $90 on the first mortgage, 1 percent of the $3,300 second mortgage, or $33, plus an average of $35 for taxes and insurance, and, of course, the big danger here is that come the end of the 7 years lightning strikes.

Mr. Miller. Would you amplify on that?

Mr. Schwartz. At the end of 7 years the buyer is going to have to face a fantastic problem. His 1 percent a month didn't begin to pay off the $3,300 second mortgage over the 7-year period, so as of the end of the seventh year he finds he has to make a payment of $1,750 on the house that he got into with no downpayment, and this, gentlemen, we feel is a growing and very serious situation, and why has this come about?

It has come about because builders such as myself and others up and down the State have been unable to finance GI and FHA, the money not being available. We have had to resort to a conventional program, doing a tremendous injustice to the people of the State of California, knowing that at the end of this seventh year there is going to be a big problem.

May I point out again that this is no downpayment, the buyer being qualified on 4 to 1, first and second mortgage, needing a total of $6,756. This is your conventional program, and this is why we are selling houses.

Due to the mortgage discount, we can't find the man that earns $8,000 a year that wants to buy a $16,000 home.

Mr. Miller. This does not include taxes and insurance?

Mr. Schwartz. That is correct. The qualifications by the average conventional lender in the State of California is made on four times, in the case of the conventional without the second, four times the first
mortgage only. In the case of the one with the second, it is made by four times the first and second. In the conventional lending, both taxes and insurance are not accrued the way they are in the GI or FHA loan, but are paid semiannually by the buyer.

Mr. Miller. Mr. Chairman, I would request permission to enter this chart as an exhibit immediately following the testimony of Mr. Spiering and Mr. Schwartz.

Mr. Addonizio. That may be done, without objection.

(The chart referred to above is as follows:)

### Qualifications for conventional loans

<table>
<thead>
<tr>
<th>$16,000 sales price</th>
<th>Interest rate and term</th>
<th>Discount on the mortgage</th>
<th>Monthly payments, insurance and taxes</th>
<th>Down payment</th>
<th>Monthly income needed to qualify buyer, per year</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Percent</td>
<td>Years</td>
<td>Percent</td>
<td>Amount</td>
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<tr>
<td>GI ...</td>
<td>5¾</td>
<td>30</td>
<td>11</td>
<td>$1,760</td>
<td>$130</td>
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<tr>
<td>FHA ...</td>
<td>6¼</td>
<td>30</td>
<td>9</td>
<td>1,383</td>
<td>$3,300</td>
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<tr>
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<td>7.2</td>
<td>25</td>
<td>6</td>
<td>762</td>
<td>None</td>
</tr>
<tr>
<td>Conventional (with 2d mortgage) ...</td>
<td>7.2</td>
<td>25</td>
<td>6</td>
<td>762</td>
<td>None</td>
</tr>
</tbody>
</table>

1 Does not include taxes and insurance which are paid separately semiannually by buyer.

2 See the following:

- Payment on 1st mortgage: $90
- 1 percent payment per month on 2d mortgage: $33
- Taxes and Insurance: $3

Total: 158

3 8 percent, 7-year, 2d mortgage payments at 1 percent per month.
4 After 7 years, balance due of $1,750.

Mr. Miller. Are there any questions of Mr. Schwartz?

Mrs. Griffiths. Might I ask some questions?

What do you get in a $16,000 home in California?

Mr. Schwartz. The average $16,000 home in the State has approximately 1,100 to 1,200 square feet, three bedrooms, two baths, it usually has a family room or breakfast nook, between 1,100 and 1,200 square feet. The average lot is 60 by 100. They usually have a two-car garage.

Mrs. Griffiths. One floor?

Mr. Schwartz. One floor, California ranch-type home.

Mrs. Griffiths. Is the lawn in when they buy it?

Mr. Schwartz. Depending on the situation, the builder, and how they merchandise. They are ordinarily both ways, some are given with lawns, some without, some are given with fencing, some without. It all depends on the package that is put together by the individual builder, the area, the land cost has a lot to do with it. We are finding, however, as a result of this mortgage discount that in order to stay in the $16,000 bracket, and in order to compensate for some of the $1,760 we are having to take more and more out of the home.

Mrs. Griffiths. Is the $7,380 income—does it have to be in the income of the husband only, or can it be husband and wife?

Mr. Schwartz. I might point out there it depends on the status of the wife. In qualifying a woman, the lenders will only take certain women's income into consideration. In the case of a woman over 35, they will consider a portion of it. In the case of a woman who can’t
bear children, they will take that into consideration; and many other factors take place.

Mrs. Griffiths. You say you can't find people making $8,000 who want a $16,000 home.

Mr. Schwartz. That is correct.

Mrs. Griffiths. Can you find people making $8,000?

Mr. Schwartz. Can we find them?

Mrs. Griffiths. Is it easy?

Mr. Schwartz. No; it is difficult. We know that we have many, many people in the State of California that are earning $8,000. We find that these people that are earning the $8,000 aren't willing to buy a $16,000 home. They feel they would like to get something better.

Mrs. Griffiths. But they can't afford that.

Mr. Schwartz. The people in the State are becoming more familiar with the fact that they are getting less and less value in the homes that they buy, and they just don't understand where the money is going—and it is going into mortgages.

Mr. Bass. Might I ask, Mr. Schwartz, how many houses do you now have for sale?

Mr. Schwartz. At the present time?

Mr. Bass. Yes; as of now.

Mr. Schwartz. At the present time, by "for sale" do you mean homes completed and for sale or under construction?

Mr. Bass. Homes that are completed and unsold.

Mr. Schwartz. I would say approximately 100. This is our normal inventory. We have approximately 100 homes at the present time—completed, unsold, which is our normal inventory. It is a 30- to 45-day inventory that we always have. It is like the old days of the hardware store. You have to have goods on the shelf in order to sell. These homes are located in Sacramento, in San Jose, in Santa Clara County, and Alameda County.

Actually they are located in seven different locations.

Mr. Bass. That is your normal inventory, you say. You are pretty well fixed, then, as far as your inventory is concerned?

Mr. Schwartz. I would say that our inventory is normal. You might recall my initial statement. The homes that we have on inventory now were built with the commitments taken out last year. On the completion and sale of these homes, we are finished. We have tried and tried, and we are unable to secure commitments to construct next year—this year, 1960. These homes that we have now were built in 1959.

Mr. Miller. Mr. Schwartz, you say you tried and tried. Where have you tried?

Mr. Schwartz. The Government-insured mortgages in our State come from two main sources—one being the eastern banks, the other being the California Savings & Loan. I have tried both these sources.

I have tried through mortgage brokers to secure financing from eastern banks which we have had before, and there is no indication of any interest.

Mr. Bass. If you were below your normal inventory, I could see where you would feel the pinch.

Mr. Schwartz. Mr. Bass, the current inventory I have is not really the problem. The problem is that I have no means of building homes.
for the balance of this year. This is the problem, and this is what we want to bring to your attention.

Mr. Barrett. Mr. Schwartz, do I properly understand that the people in general in California feel the pains of this tight money policy as well as the builders?

Mr. Schwartz. There is no question about it, sir.

Mrs. Griffiths. Do those houses have basements?

Mr. Schwartz. No.

Mrs. Griffiths. No basements and no second floor?

Mr. Schwartz. No second floor.

Mr. Addonizio. Mr. Widnall.

Mr. Widnall. With respect to FHA mortgages, you have a 9 percent discount that you show there of $1,383. Do they reflect that in their appraisal of the house?

Mr. Schwartz. No, the FHA is not permitted to reflect it in their appraisal. In effect, we are able to get the FHA commitments in the same method we do the GI, by volume construction, savings in supplies and material as against the cost indexes of both of these agencies which were set up, and their appraisals are made on the basis of small homebuilders of 25 to 50 homes a year.

They do not reflect mortgage discount in arriving at sales prices.

Mr. Widnall. Now, how do they obtain these second mortgages? Who gets the second mortgage for them?

Mr. Schwartz. The second mortgage is being held and has to be held by the builder. What is happening in the case of this situation here is that on the $16,000 home we have a first mortgage of approximately 78 percent, or $12,700 of our $16,000. The builder then turns around and carries back a $3,300 second mortgage for the 7-year term.

Mr. Widnall. At the end of the 7-year term, he says "Pony up, or I take the house over."

Mr. Schwartz. That is basically it.

Mr. Widnall. You want us to bail the builder out because he is taking back the second mortgage?

Mr. Schwartz. We want to do what is best for everybody in the State. It is not doing the buyer justice to get kicked out of a home he has lived in for 7 years.

Mr. Widnall. Hasn't the man working for 7 years normally increased his income capacity, increased his power to save? And hasn't he thought at all about meeting that commitment in the future? And can't he refinance the whole thing after paying off for 7 years on his first mortgage and making some payments on his second mortgage?

Mr. Schwartz. This is the reason, Mr. Widnall, that we are making these sales, in effect, is that people are hoping—they are hoping; they do not know but they are hoping that somewhere within the line over the 7-year period they are either going to save enough money, or someone is going to die and leave them the money, or something is going to happen—then, at the end of 7 years they won't lose the home—that they will have $1,750.

However, we don't know that they will, and I don't think they do, either.

Mr. Widnall. Let me ask you another question about second mortgages. When you place a $2,500 second mortgage on your house, do you get any payment for placing that $2,500 second mortgage, or does he purely get a $2,500 credit for the sale price of the house?
Mr. Schwartz. It is in effect merely a second deed of trust against the property; and instead of making the $2,500 downpayment, we are taking back the $2,500 in the form of second paper, which is paid off at 1 percent a month for 7 years, and the balance due at the end of that period.

Mr. Stone. May I also interject a comment in reference to the Congressman's question? It was for this reason that FHA was originally created to produce a long-term low-interest rate, easily amortized mortgage, that homeownership expanded as rapidly as it did in the last 25 years. Today over 60 percent of the American people enjoy homes where only 40 percent of them enjoyed homes in 1940.

With this increasing tendency of a second mortgage being placed on top of the burden of a first mortgage, homeownership is being jeopardized and thus the economy. This is a dangerous practice.

Recently we had a survey which indicated that 43 percent of the builders across the country today are forced to utilize this type of financing. We think that this is detrimental to housing in America.

Mr. Barrett. What are you referring to as a dangerous practice, tight money or second mortgages?

Mr. Stone. The dangerous practice of second mortgages becoming so prevailing.

Mr. Barrett. If we didn't have tight money you wouldn't have to go to second mortgages as frequently as you do now to dispose of your property?

Mr. Stone. If we had ample supplies of mortgage money, we would have Government insured capital available to us instead of the capital that is invested in less essential goods, I am sure we would not have the problem.

Mr. Addonizio. Do the builders themselves hold these second mortgages?

Mr. Stone. By and large the builders discount them by selling them to an investor who will buy them, and in our area the current market for second deeds of trust is 50 cents on the dollar. Some builders hold them, themselves.

For instance, a $3,000 mortgage, second deed of trust, would be sold by the builder to an investor who would buy this type of security for $1,500, cash. The investor, of course, is taking the gamble that this purchaser will either pay off the mortgage on time, and in accordance with the payments, or that he will sell the home and thus other capital will replace the investment which he has made.

Mr. Barrett. Well, isn't it also true the average GI—average GI pays off his mortgage in 11 years, 10 to 11 years? It is rarely carried for the 25-year period.

Mr. Stone. That is right. Today the investors in governmentally insured mortgages are presently using a yield table amortized schedule of 15 years, maximum, 12 years minimum, for determination of the average length of time that a 30-year loan will be on their books.

Mrs. Griffiths. What is the experience table that shows you that anybody making $5,756 a year, paying $158 a month, could pay off anything? You really have no experience; do you?

Mr. Stone. I think the greatest experience that we could relate to that would be the number of people who are renting homes today for monthly payments actually in excess of this amount, for which they receive no equity.
Mr. Miller. How do you account for the high number of starts in December, though, in California?

Mr. Stone. We have a high number of starts across the Nation as well as in California in December starts starting, but the large degree of this was the finishing up on schedule, within time to finish up on their commitments which they had purchased earlier.

Also, in California, due to the fact we have had extremely good weather for building, but poor for agriculture by virtue of the lack of rain.

On the other hand, let me point out that in December of 1959, in the San Francisco district office of the Federal Housing Administration, there were 55 percent less applications for section 203 type loans than there were in December of 1958, and December of 1959 was 20 percent lower than November of 1959.

Mr. Addonizio. May I just say this, that certainly all of you gentlemen have painted a very bleak and dismal picture so far as the housing situation in California is concerned, but hasn’t it always been difficult to get financing in California for homebuilding?

Mr. Stone. Mr. Chairman, it was, and has been on the average more difficult in California and the southwest and southern portions of the United States, but today it is my experience, discussing with the builders at the convention in Chicago, that this difficulty is now nationwide.

I discussed with one builder who was 30 miles outside of Chicago, and he told me that he had just finished negotiating a contract for a VA loan at 10 points discount.

Mr. Spiering. I mentioned in my report, Mr. Chairman, that it was difficult out there because of the money being in the East, actually in the State of California, 90 percent of the financing required in the State of California must be brought in from other than the State of California.

Mr. Addonizio. I was wondering how the present situation compares with years just prior to this.

Mr. Spiering. It is very dismal, much, much worse.

Mr. Stone. The only time we really had it easy in the last few years was during that 60-day period following the implementation of your special assistance program No. 10, when the gates of other types of investment money were relieved. True, we know this was not only from special assistance, it was due to actions by the Federal Reserve Board in lowering the discount rate three successive times and the open-market functions they participated in.

The psychological effect is that the liquidity of mortgages was evidenced by the special assistance program and did give confidence to the mortgage market, and we did have mortgage money available to us for a short period of time.

Mr. Addonizio. I didn’t quite get the answer to Congressman Miller’s question about the high number of starts you had in California in the month of December. I was wondering whether you had some specific reasons for that.

Mr. Hennessy. The high number of starts in December is attributed to the fact that financing had been previously arranged, lots had been developed, and the good weather—that is good from the standpoint of building—lack of rain in California, lack-of snow in other parts of the country.
There is one other factor I think is important. I know of five builders well into their 1960 building programs started in December because of weather situations.

Mr. Addonizio. You gentlemen have also indicated that second mortgages are very prevalent out there in California, and, of course, I don't know whether they have those so-called balloon-type payments, or what, but I know that several years ago our committee was down in the State of Florida looking into just this kind of a situation. As the result of our investigation, the Florida State Legislature has passed legislation affecting this problem, so perhaps it might be something that your State legislature could consider.

Now, when this committee was out in California some years ago, it was indicated to us that at that time there was an average of about 25,000 families a month moving into the Los Angeles area. Is California still growing at that rate, or is it greater today, or what?

Mr. Miller. It is slightly greater, but not a great deal. We figure about 500,000 into the State per year.

Mr. Addonizio. Your demand for homes out there just keeps increasing?

Mr. Miller. Geometrically.

Mr. Hennessy. It is for that reason that this last type of financing is used, they have to have the housing, they have to get it some way or another, and that is the reason it is going to the second trust.

Mr. Addonizio. You indicated in California there is going to be a drop off of home construction next year. How is this going to affect the rest of the country?

Mr. Stone. Well, Congressman, we see, now, the same factors in the market that prevailed at the beginning of 1957. I don't think that we can truly say by virtue of the number of housing starts across the country that this is an immediate emergency as of right at the moment all the way across the country. However, there is an emergency for the need for adequate mortgage money invested in governmentally insured mortgages in California and we see the trend going the same way it did in 1957. All of the factors are in the market that caused the same reaction.

Mr. Addonizio. Mr. Stone, may I say to you that in your statement you indicated that you felt that there should be some sort of central mortgage reserve facility set up to meet this problem, and I would like the record to show that the chairman of our committee has indicated in the past that this will be taken up at a later date when we consider our general housing bill, and I am sure the committee will give it every possible consideration.

Mr. Miller. Mr. Goheen, will you respond to the chairman's question regarding how the slowdown in California will affect the rest of the Nation?

Mr. Goheen. Yes, I would say that probably 30 percent of the material used in homes is produced outside the State of California, all throughout the Nation—steel, plumbing supplies, electrical supplies—not all of it comes from the State of California. In fact, industry has just started to move to the State of California.

Therefore, any slowdown in homes is going to affect the use of materials throughout the entire country.
Mr. Miller. In amplification, Mr. Chairman, may I say that I represent a timber producing congressional district. We do not begin to supply the lumber necessary in the construction of California homes. A great deal of it comes from the 10 States of the South. The States of New England supply a great deal of it.

Mr. Chairman, our last witness, Mr. Tolan, has a brief word to say with respect to urban renewal, at the request of the Chair.

Mr. Addonizio. Mr. Widnall has several questions before we proceed with that.

Mr. Widnall. I have here a table submitted by the National Association of Home Builders' economics department dated January 25, 1960, "Recent Experience and Current Outlook."

They say with respect to California, in the Los Angeles area comparing September, October, and November of 1959 with the same months of 1958, Los Angeles building permits up 7 percent, San Francisco down 5. FHA new homes, Los Angeles minus 14 percent starts, minus 51 percent applications. San Francisco minus 19 percent starts, minus 27 percent applications.

But when you get to the VA field, Los Angeles plus 41 percent starts, minus 1 percent appraisal requests, plus 68 percent starts and plus 14 percent appraisal requests in San Francisco.

Now, why is the VA program going ahead while the FHA program is going down, and the reason I ask this, and I am very pointed about this, is VA including in its appraisal some of the discounts?

Mr. Stone. Mr. Chairman, if I may answer that, this is a prevalent practice on the part of the builders at least in northern California to simultaneously request, at the time they obtain their FHA commitments for housing, to request the CRV or certificates of reasonable value for the housing units which they propose to construct. This has no bearing upon the actual number of housing units which these builders will deliver to the Veterans' Administration.

I had a chance to get in and look at these figures with the Veterans' Administration, and only a fraction—I was trying to think of the exact fraction, but only a fraction of these applications are delivered to the Veterans' Administration.

There is one real big reason why the starts in northern California, and in the San Francisco area, were up in December, and that was due to the good weather.

Mr. Widnall. This is September, October, and November, VA starts in Los Angeles 41 percent up over the 3 months of the previous year. San Francisco area, 68 percent up. That is a big increase.

Mr. Addonizio. Mr. Stone, no one disputes that increase, but I think you have indicated that that does not necessarily hold true for 1960.

Mr. Stone. We have had, as I pointed out, an increase in housing in 1959. We have had an increase in housing in 1959.

Mr. Barrett. You had an increase in money?

Mr. Stone. A decrease in FHA and VA loans in the last 3 months is seriously concerning us, and this is what we are concerned with. We are concerned with the lack of the investor investing in long-term, easily amortized, low-interest-rate mortgages. He has disappeared from the market.

I have had the most unusual condition of having New York brokers quote me figures on discount, and I would say, "All right, I will take..."
the commitment,” and they say, “I am sorry, I cannot deliver it now, our portfolios are full.”

I was wondering why the quotation as to the discount and yet when you ask for delivery of a commitment their portfolios would be full. We recognize that the portfolios are full, and this is our problem.

Mr. Spiering. Mr. Chairman, I have been listening to your questions and also listening to the remarks of my very good friends here, and I hope again that you will realize that these men are from metropolitan centers, and they are here with a complaint.

Well, we are much removed from the metropolitan centers, and we not only have a complaint, we haven’t any money, and we have no way of starting homes under FHA and VA with commitments other than through FNMA.

Now, I am speaking, when I say that, sir, for most of our areas in the United States, and I feel that this is true especially in the West and in the South.

Mrs. Griffiths. Mr. Chairman, I would like to ask what does a 7-year-old, three-bedroom house sell for now?

Mr. Toland. It would depend on the area. You would probably be able to get a 7-year-old home now for about $13,500.

Mrs. Griffiths. What does a three-bedroom house with 1,200 feet of floor space rent for?

Mr. Toland. In our area, $125 to $175, depending on what went with it.

Mrs. Griffiths. How about a three-bedroom apartment?

Mr. Toland. From $90 to $275, depending on location.

Mr. Widnall. One more question, and anybody at the table can answer it. We had testimony this morning from Mr. Shishkin of the AFL-CIO that the average price of a house in 1957 was $15,100, and it went down to $14,450 in 1958.

Now, what do you think was the reason for the reduction in cost?

Mr. Stone. I believe that, as we have discussed this many times, the real reason was that the special assistance program No. 10 gave assurances to many builders across the country to get started into the lower bracket of housing. Simultaneously, the great lack, 2 or 3 years prior, of activity on the part of the builders to produce housing in that price bracket was largely the reason for the lowering of the average or median price of the homes built.

Mr. Widnall. You are starting to meet more competition in sales, it was becoming more a buyer’s market than a seller’s market, isn’t that true?

Mr. Stone. There is also another factor in addition to the one you pointed out, and that is that more of the people had difficulty in qualifying as the money tightened up. The credit qualifications on the part of the lenders automatically have a bearing on this.

In other words, you tighten up the reins when money gets tight.

Mr. Widnall. I think you have made constructive suggestions in your statements, don’t think I am trying to tear you all apart. I really want to get at this and find out what the honest answer is.

Mr. Stone. I would like to make an additional comment, if possible. I understand that there was prior testimony which indicated that there was no need for additional housing because of the vacancy factor of about 5 or 6 percent.
Might I offer for the record that it is my opinion, and I am sure it is the opinion of many other people in the country, that 5 or 6 percent vacancy factor is a very low vacancy factor, when you take into consideration the rehabilitation that is needed. Rehabilitating these units that may be vacant is probably the one principal reason why they are vacant.

Secondarily, may I also point out that the factor of the families who are living together, doubled up, has not been taken into consideration, and we homebuilders don't necessarily prescribe that people live doubled up as has been advocated by the Economic Adviser to the White House.

Mr. Miller. Mr. Chairman, one last witness on urban redevelopment and renewal, John Tolan from Richmond, who you will recall is the son of Congressman John Tolan of Oakland, for many years a Member of this body.

STATEMENT OF JOHN H. TOLAN, JR., BARRETT HOMES, RICHMOND, CALIF.

Mr. Tolan. Mr. Chairman and members of the committee, I am going to talk about the subject a little bit away from this, a little bit looking forward on what two provisions of this bill would mean to urban redevelopment areas.

In California we have an urban redevelopment law, and we have defined clearance areas for projects, and they are expanding. It is a new field, now, and I think the committee is going to hear a great deal more about it.

I am interested in sections 8 and 9, reduction of fees, and also par purchase. I don't know that section 9 applies, because I am not familiar with the particular section, but I believe the committee is indicating that special assistance mortgages would be purchased at par.

Now, I will just try to illustrate briefly what is happening in the urban renewal field. We are pioneers, the Barrett Construction Co., in sales housing in urban renewal. Rather than the very large metropolitan complex like Philadelphia, Baltimore, or the great projects in Detroit or Pittsburgh, we are building in a small city of 54,000, and we are building homes for sale under section 220.

Mr. Addontizio. May I point out that sections 8 and 9 do apply to urban renewal.

Mr. Tolan. I feel that that is extremely important, because our experience in building homes where the people are going to move in and own them we think is attracting an entirely different customer than the people who are going to rent, where they can walk away if the rent is too high or amenities are not right. We try to give them good value in a home.

We are building in this Richmond area, and have just built a test project of a hundred homes, and we built new designs. We built 62 units of row housing, which hasn't been done outside of the San Francisco area, 20 detached single family dwellings, and 9 duplexes to see what the rental situation was, and those houses were occupied on an interracial basis. They have been occupied 20 months, and they are occupied by Caucasian families, Negro families, Philippine fami-
lies, Japanese and Chinese families. It is three-quarters Caucasian in a town which has 20 percent Negro scattering through it.

In the redevelopment program, you have a heavy local public interest, you have years of planning by the Planning Commission, Redevelopment Agency, and the mayors. They have all been in to see you gentlemen about how the program drags.

Then we come down to the stark reality of producing a house, taking all the debt, getting some consumer to absorb it by way of taxes and payments to principal and interest, and you have to give him a good buy. And we are giving him a good buy. We sell him a four-bedroom, two-story row house on a 30 by 100 foot lot, 1,400 square feet, for $14,950, fenced, landscaped, lawns, trees, electric kitchens, and one- or two-car garages.

Now, that we can sell due to the very broad outlook by FNMA. We think Mr. Baughman has really studied urban renewal, and he, in his administration of FNMA and special assistance for urban renewal, has more than gone half way to see that sales type program is properly financed, but I want to say that when we set up a 220 project, the FHA valuation or replacement cost in the case of 220, will normally run higher on a tight pricing market. We are trying to encourage people to come back to the city. We have the problem of the interracial situation, we have blight surrounding us like you see south of the Capital, and one of the ways you bring them in is by value, overcoming the other obstacles.

We have the house at $14,950. We have a Veterans' Administration certificate of reasonable value of $15,050 and an FHA replacement cost of $15,650.

Now, the financing works in reverse, because of the different interest rates for VA, the gross cost for FNMA take out is 4.5 percent, and of course there you are about on the $15,000 house about $600—they happen to be over our price bracket, we can take it, but the CRV is not there, because they can't recognize it.

On the other hand, the FHA replacement cost is up there, and we could increase our price.

What will happen is next year in this program, with the discount situation being what it is, and the variation between VA and FHA we will not be able to give the buyers a GI loan which would save some 1 percent, reduce the monthly payments, and put more minimum families in.

I urge that this particular provision of the bill be very carefully examined in the light of urban renewal, particularly sales housing. In the rental housing, which we have to get into because the cities must realize as much as possible out of these lands to balance their own municipal budgets, in those rental projects we are just beginning to get into them, we think we need a longer period for rent-up, because we think these projects are really not finished, and finished properly, until rent-up. I think that should be examined.

Mr. Addonizio. Mr. Miller, we have several other witnesses. I don't want to cut you off, but I am sure you have impressed the committee.

Mr. Miller. Thank you for giving us this opportunity to present to you the situation in California, and the effect it is going to have on the country.
We earnestly urge the passage of this bill as quickly as it possibly can be accomplished.

Mr. ADDONIZIO. I assure you the committee will give very serious consideration to what you and your associates have said.

Our next witness is my very good friend and my distinguished colleague from my own State of New Jersey, Congressman Bill Cahill.

STATEMENT OF HON. WILLIAM T. CAHILL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. CAHILL. Mr. Chairman, Mrs. Griffiths, and gentlemen, I recognize time is pressing for the committee. Instead of taking the time necessary to read this statement, I would offer it for the record.

Mr. ADDONIZIO. That may be done without objection.

Mr. BARRETT. He may be your colleague, and he comes from your State, but the only thing that separates us is the Delaware River. It seems he has some magnetic attraction over there, because in Philadelphia we induce the people to register Democrat, and when they move across the river they seem to vote Republican.

Mr. ADDONIZIO. I might inform you that coming from the great State of New Jersey as Bill does, he has that magnetic personality all through New Jersey. He certainly has been able to influence a great many Democrats, including Democratic Members of Congress.

Mr. WIDNALL. May I say something on behalf of the Republicans at this point, coming from the great State of New Jersey myself. I certainly want to welcome you as a colleague. I know of the wonderful job you have been doing during your first term down here, and I hope these fellows at the head table will love you in November as they do now in January.

Mr. CAHILL. All I can say is it is real fun being here. I am here certainly not to discuss at length this bill, H.R. 9371, but to discuss only section 13 of the bill, and, as I say, I am going to ask that my statement be made a part of the record.

Mr. ADDONIZIO. It will be included in the record.

Mr. CAHILL. I would like to call to the attention of the committee, other than the New Jersey members who are familiar with it, the action of the Legislature of the State of New Jersey which recently filed its conclusions as a result of an investigation that was made by a joint committee of the New Jersey Legislature relative to the points and discount system prevalent today, and to quote their conclusions. They said:

After considering all the testimony at both the public and private hearings, the commission is convinced that the “point” system placed undue financial burdens upon individuals.

Since the commission designated by the Legislature of the State of New Jersey to inquire into this problem can act only within its jurisdictional sphere, the ability of the legislature to cope with the problem is necessarily circumscribed. The fountainhead of the evil lies with the Federal Government’s treatment of the FHA and VA mortgage loan system, more particularly its approval and sanctioning of the pernicious “point” system. It is the considered judgment of the commission that the Congress be memorialized to rectify the unhealthy practices hereinbefore described. Precipitate action on the part of the State or any group of States would undoubtedly deal a staggering blow to the homebuilding industry in jurisdictions taking part in such action. Therefore, despite its feeling that the entire “point” system is a predatory practice visited on unsuspecting people who are least able to afford it, the commission believes that the
States singly or collectively should not take any action which might dry up the source of capital for maintaining a healthy building industry in New Jersey.

Gentlemen, in this statement I have reviewed what I consider to be the purposes of FHA and VA with suggested illustrations to point up the nefarious practice, in my judgment, that has been going on at least in the State of New Jersey, and have suggested what I conceive to be at least some remedy to the problem.

I might say that I feel that section 13 of the bill is a step in the right direction, in that it causes a disclosure, but in my opinion, of course, it does not go far enough.

I know that you gentlemen have the experience and the learning and the know-how, and it is only my request, but I am sure I speak for all of the people of New Jersey of both parties, all segments of the State legislature, that this system of points and discounts be given the considered opinion and action of this committee.

Thank you very much, and I would like to offer this statement.

Mr. Anderson. That may be done without objection.

(Mr. Cahill's prepared statement reads as follows:)

STATEMENT OF HON. WILLIAM T. CAHILL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. Chairman and gentlemen, I appreciate the opportunity of testifying before this committee on H.R. 9371. I realize that the members of this committee and many of the witnesses who have appeared and who will appear know far more about housing and the problems of interest and financing than I shall ever know. I am not here to discuss H.R. 9371 in its entirety. My purpose in requesting the opportunity to testify is to comment on section 13 of this bill, which as you know relates to the fees, charges, or discounts paid in connection with FHA or VA mortgages.

The Legislature of New Jersey adopted a concurrent resolution in 1957 creating a commission to study and investigate unfair practices in connection with the making of loans secured by mortgages on residential properties. Just this month the final report of this commission was handed up to the legislature. I quote from the findings and recommendations of this board of inquirers:

"After considering all the testimony at both the public and private hearings, the commission is convinced that the "point" system placed undue financial burdens upon individuals.

"Since the commission designated by the Legislature of the State of New Jersey to inquire into this problem can act only within its jurisdictional sphere, the ability of the legislature to cope with the problem is necessarily circumscribed. The fountainhead of the evil lies with the Federal Government's treatment of the FHA and VA mortgage loan system, more particularly its approval and sanctioning of the pernicious "point" system. The basic overall issue is one to be considered at the national level. It is the considered judgment of the commission that the Congress be memorialized to rectify the unhealthy practices hereinbefore described. Precipitate action on the part of the State or any group of States would undoubtedly deal a staggering blow to the home-building industry in jurisdictions taking part in such action. Therefore, despite its feeling that the entire point system is a predatory practice visited on unsuspecting people who are least able to afford it, the commission believes that the States singly or collectively should not take any action which might dry up the source of capital for maintaining a healthy building industry in New Jersey."

As a result of this recommendation and report, I introduced H.R. 9314 which has as its objective the elimination of all discounts or points in relation to FHA and VA mortgages. After introduction of this bill, I learned of H.R. 9371 introduced by the distinguished chairman of this subcommittee, Mr. Rains. I have read carefully the provision of section 13 of this bill and while I believe it is a step in the right direction, it is my opinion that it will not correct the evil of the discount system.
It might be well to review for a moment the purposes of FHA and VA. As I recall, the FHA was created for the purpose of giving every citizen of this country an opportunity to own his own home and, thus, small downpayments and low interest rates were the order of the day. The VA was created to in some small way to repay the men who had taken 4 years out of their lives to fight for their country and to give them an opportunity over a long period of years at minimal downpayments and reduced interest to likewise purchase their own homes. These objectives have apparently been forgotten and today the only consideration seems to be the amount of return that lending institutions can get on their dollar. It is interesting to note that the VA mortgage which bore 4½ percent interest was increased in April 1958 to 4⅞ percent and in 1959 was again increased to 5¼ percent. Likewise, the FHA interest rate just last year was increased so as to return to a lender 5½ percent instead of 5¼ percent. One other fact preparatory to my observation: Under the existing regulations, the buyer is not permitted to pay any points or discounts.

Now I think we all understand what the real theory of the point system is. As I understand it, points are charged in order to bring the interest rate of a VA or FHA mortgage up to the current yield on the money market so that the lending institution will receive the same return as they did on a conventional mortgage. While it seems strange to me that a lending institution would expect the same return on a guaranteed loan as they would on a loan not guaranteed, they apparently do. What I cannot understand and what has never been explained adequately to me, is why the lending institutions expect by reason of their discount system to obtain more from a FHA or VA loan than they do from a conventional loan. In New Jersey the interest rate is limited by law to 6 percent on all conventional mortgages this is the maximum. This is not true of VA and FHA mortgages in New Jersey. Experts have told me that it takes approximately two points to raise the FHA interest rate to 6 percent over the normal life expectancy of the mortgage and six points to do likewise with a VA mortgage. In other words, one point takes care of the differential of one-fourth of 1 percent interest, thus in New Jersey there should never be any point charge over two on a FHA loan and six on VA. Unfortunately, however, as was indicated by the legislative committee and as I can attest by my own personal experience, this is not the case. Charges ranging up to 13 points have been made. As usual, the little man, trying to sell his home is the loser. Since the buyer by law cannot pay the point, the anomalous and insidious practice of charging a seller for the mortgage has come into practice and in most instances, the exact amount of the charges are not known to the seller until he enters the settlement room. In a great number of instances the seller has already used the downpayment received from the buyers for the purchase of another home and thus when called upon to pay points, he did not expect, he is left with no alternative since he does not have the downpayment to return to the buyer.

It serves no useful purpose to belabor the evil that exists. All of us, I am sure, recognize it. The question is how it can be remedied. While I believe the bill, H.R. 9371 takes a step forward by compelling a disclosure of the points, I think there are other matters which this committee should consider.

1. Since the purpose of the VA mortgage has been prostituted, it seems to me that there is no alternative if the present practice is to continue but to abolish the VA mortgage or to create a direct loan to the veteran. Under existing practices, the veteran is the loser, not the winner and he must pay more for his mortgage than anyone else—parenthetically.

2. It seems to me that there should be some regulation limiting the amount of discount so that in no instances can there be a charge in excess of the legal rate of interest prevailing in the State where the property is located.

3. This committee should consider the advisability of providing by law that no person can pay any discount or points on a FHA or VA mortgage. The argument advanced that this will "dry up" mortgage funds is in my opinion untenable. The committee knows that savings and loan associations, building and loan institutions, and similar groups have been prospering throughout the years and have been progressively increasing the rate of return to their depositors. This has been one of the great contentions of the savings banks who argue that this is the result of inequities in our tax structure. Be that as it may, these associations have made their money from mortgages and I have no doubt that on the present rate of return of FHA and VA mortgages they can continue to attract depositors and make money in the mortgage field. This must
inevitably lead to a contribution in these investments by insurance companies, savings banks, and others.

There probably are many other solutions to this perplexing problem and I know that this committee will give every consideration to the problem.

My purpose in appearing before you is to once again call your attention to the need for a solution, to point out the observations of the New Jersey Legislature and to urge for your serious consideration the complete elimination of discounts or points where a FHA or VA mortgage is involved.

I appreciate very much the opportunity of testifying before your committee.

Mr. Addonizio. Before you leave, Bill, might I just respectfully point out to you that certainly if this bill is enacted, and we are able to put this billion dollars into FNMA, this will lessen the pressure on these discount rates that you are speaking about.

Mr. Cahill. I think, Mr. Chairman—

Mr. Addonizio. I hope you as a Republican will give us some support when it comes over to the floor of the House.

Mr. Cahill. I will certainly be guided by the learned advice of my good friend, Mr. Widnall, who keeps me posted on the actions of this committee.

Mr. Addonizio. Up until now we have had no sign that he will support this bill.

Mr. Barrett. Mr. Chairman, I want to commend the Congressman from New Jersey on his splendid statement.

Mr. Cahill. Thank you, gentlemen.

Mr. Addonizio. Our next witness is our distinguished colleague from Oregon, Congressman Charles Porter. You may come forward.

Mr. Porter. Thank you, Mr. Chairman.

Mr. Barrett. Congressman Porter, certainly I want to pay my respect to you as a colleague coming here to testify, and I know I can go on record supporting your position, but due to an appointment I must leave, and I just wanted to let you know why my time is expiring.

Mr. Porter. I appreciate the gentleman’s concern.

STATEMENT OF HON. CHARLES O. PORTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. Porter. Mr. Chairman, thank you for this opportunity to appear before this important Banking and Currency Subcommittee on Housing. I want to speak briefly on behalf of the legislation the committee is considering before introducing a gentleman who has come from Oregon to tell you about conditions there.

Oregon’s Fourth Congressional District, which I have the honor to represent, produces more lumber and sells more timber than any other district. Our economy produces more lumber and sells more timber than any other district. Our economy and the State’s as a whole depends on lumber for 75 percent or more of its income. A healthy housing economy is meat and potatoes for Oregonians.

I hope you have had time to look over a little pamphlet prepared by Nathaniel H. Rogg, economist for the National Association of Home Builders of the United States. His factual documentation of the challenge facing the housing industry is titled “The Next Decade—A Decade of Change and Choice.”
He properly calls our population explosion “an enormous opportunity * * * if we face up to it properly.” He feels it can be a tremendous benefit to all of us, but he correctly says the population explosion “will not automatically guarantee golden years for everyone connected with the building industry.”

He finds our yearly new home requirement in these years of the sixties is 1.6 million. He calls it a market floor, not a ceiling. Statistics show individual American income is rising, that the two-house family is becoming more common.

What about the market of the sixties? Economist Rogg says it will be a choosy market. He lists as factors a period of capital shortages, great advances in construction technology, changes in the form of housing and its financing machinery, great effort in the field of merchandising and production.

He believes our yearly home need has a ceiling of more than 2 million by 1970.

We know that in the next decade we will have 34 million more people. At the same time the relative proportions of the young and the old in our population are increasing. Rogg shows the greatest increase will come in the school age group from 5 to 19. This will account for half of the growth.

Existing homes will require extra rooms. Older people will want smaller units.

Our basic shelter requirement this decade is about 16 million units. It means the expenditure of some $230 billion. It is a big and important part of our national economy. It could be bigger.

How do we meet the needs of this decade successfully?

I believe we do it at a national level by realizing that homeowners and potential builders don’t always have the ready cash available.

I believe we must recognize the need for long-term, low-cost financing.

I believe we must increase our urban renewal planning and assistance programs. As land prices for homesites skyrocket out of sight let us get to work clearing our blighted city areas. Let us replace slums with modern public housing units. Let us replace blight with beauty and utility.

I believe we must accept that the Federal Government has a role to play in college housing construction.

I believe we must make available more construction funds for housing for the elderly.

The legislation before this committee, the emergency homeownership bill, is designed to halt a threatened slump in residential construction. Housing starts ought to be steadily increasing. High interest rates must be reduced. The financing costs home buyers now pay under the administration’s tight money policy are outrageous.

The Rains emergency homeownership bill, which I have also introduced, Mr. Chairman, would correct these flaws.

We know housing construction is in trouble because the present tight money policy has virtually cut off the flow of mortgage credit to many sections of the country.

The emergency homeownership bill incorporates a $1 billion special assistance fund for the Federal National Mortgage Association to purchase Government-backed loans on lower priced homes.
This money could be used for the purchase of FHA and GI loans on lower priced homes.

This legislation would cut in half the premium a home buyer pays for insurance of his mortgage by the FHA. Federal Housing Administration reserves now are high and can support the proposed premium reduction.

The $1 billion special assistance fund will be returned to the Government with interest.

I strongly support and endorse the emergency homeownership bill.

Now, I am pleased to introduce in a moment Mr. Leonhard Netzorg, of Portland, Oreg. For the past 5 years Mr. Netzorg has been counsel for the Western Forest Industries Association.

A successful practicing attorney, he has considerable legal experience at the Washington, D.C. level and at State and local levels. Mr. Netzorg worked for 15 years with the Department of Interior. He is well versed in the fields of mineral and land resources, particularly timber. Part of his job is to know what is happening to the more than 100 members of the Western Forest Industries Association which he represents.

Before I introduce Mr. Netzorg, I would like to have included in the record an editorial from the Milwaukie (Oreg.) Review of January 21, 1960, and I would read the last paragraph, because it sums up my own feeling on this point:

When logging and lumbering—plywood, boon operations, shipping trucking, saw manufacturing, and all that lives on timber—is in trouble, we are all in trouble in Oregon; 201.5 failures led the Nation’s bankruptcy roll 2 years ago, and it will happen again unless a mighty effort rolls back the selfish, reckless program of tight money which the Eisenhower-Nixon administration has sponsored.

(The editorial, in full, reads as follows:)

[From Milwaukie (Oreg.) Review, Jan. 21, 1960]

HOME BUILDING DROP MEANS TROUBLE FOR OREGON

Will we ever learn that high interest rates mean depression?

Home building experts estimate that the Eisenhower tight-money policy, which now raises interest rates again, will cut housing starts this coming year by 10 percent. This throws a pall over all parts of our home-short Nation, but it hits Oregon hardest of all.

Dun & Bradstreet’s 1959 publication of “The Failure Record Through 1958” has just reached us. This volume tells how many Oregon businesses failed that unhappy year in a minor depression. What State led the Union in failures? Our Oregon, with 201.5 failures per 10,000 concerns. No other State in the Union was even close to us. Washington had 91.2 failures; the average for all 8 Mountain States was 32.7; Massachusetts was 42.8; Missouri, 26.9; Minnesota, 25.3.

The reason is not hard to find. When big finance was given its reward by the administration it took a double swipe at faraway Oregon, where the economic life is dominated by lumber. Lumber lives on the Nation’s new construction, and the price we pay is tragedy for 201.5 businesses out of every 10,000—and far greater numbers of others who are all but plowed under by the consequences.

Have the Wall Streeters changed in all these years? We have sometimes thought so as their tune changed, but now it appears the words and spirit have not changed. They are basically the same today as they were in 1928, when tight money and high interest rates led us down the path to national ruin.

The chief economist of Bankers Trust Co. of New York, Roy L. Reierson, recently lauded tight money in a New York University speech.

“Interest rates in recent years,” argues Mr. Reierson, “are just returning from subnormal depths. They are returning to the neighborhood of levels prevailing in 1928, a year of good business.”
How blind this is to history, which a year after 1928 saw the plunge of 1929 which nearly ruined the American economy, but banker Reierson called it "good business."

As the cost of loans on new houses soars well above 6 percent, the ability of young families to buy them is sharply curtailed. The cost of a 25-year $10,000 home mortgage (FHA) has risen a thousand dollars in 2 years—and few homes are built for a mere $10,000 these days.

High interest rates discourage borrowing, but by making money dear they increase the bankers' take at the higher level, at least temporarily. A community of new homes and future homes like our North Clackamas area pays two ways: We find our development slowed down and the costs much higher; we find our lumber industry, which underlies all of Oregon's economy, sickening again, and this affects many incomes in our own area.

When logging and lumbering—plywood, boon operations, shipping, trucking, saw manufacturing, and all that lives on timber—is in trouble, we are all in trouble in Oregon; 201.5 failures led the Nation's bankruptcy roll 2 years ago, and it will happen again unless a mighty effort rolls back the selfish, reckless program of tight money which the Eisenhower-Nixon administration has sponsored.

Mr. Porter. Mr. Chairman, it is my privilege to introduce to you and your colleagues my friend, Leonard Netzorg.

STATEMENT OF LEONARD B. NETZORG, WESTERN FOREST INDUSTRIES ASSOCIATION, PORTLAND, OREG.

Mr. Netzorg. Thank you, Mr. Congressman.

Mr. Chairman, I am Leonard B. Netzorg, an attorney of Portland, Oreg. I appear at the direction of Western Forest Industries Association, a trade association of lumber and plywood manufacturers located in the Western States, principally in Oregon.

Others have spoken of the details of H.R. 9371. I should like to discuss it in terms of policy from the viewpoint of our recent experiences.

It has been estimated that about one-third of all the lumber produced in the United States is consumed by the housing industry. Because of the fact that our members are largely producers of Douglas fir, a timber type particularly adapted to home construction purposes, it is probable that even more than one-third of our product goes into housing.

The State of Oregon, unfortunately, is essentially a one-industry area. While agriculture and tourism are of some significance, nevertheless the economy of Oregon turns directly upon the economy of its timber industry. When our timber industry is prosperous, the State is prosperous. But when the timber industry falters, the entire State and all of its people falter. A recession or depression in the timber industry is not absorbed in Oregon by other industries that may then be enjoying a period of prosperity.

A great deal of what I have to say stems from the tragic experiences of our State and our industry in 1957 and the first part of 1958, when we were in a period of tight money. Whether tight money is preferable to other forms of credit control, as an instrument to retard inflationary tendencies, is obviously a complex economic issue. The association is deeply concerned about inflation. But it does not have solutions to offer. If it is the conclusion of the Federal Government that in the public interest a tight money technique is to be adopted as an inflation control, then along with all other good citizens we are prepared to tighten our belts.
But we would prefer not to have to tighten our belts, as we did in 1957 and 1958, so many more notches than most other citizens did.

We hope that we can share more equitably in any economic contraction that may ensue if the tight money policy is pursued.

As a general observation, based upon our experience, it seems to us that the initial impact of a tight money policy is not a general contraction of credit. Rather, there is an initial reallocation of credit. The proportion of investment money that would ordinarily find its way into the mortgage market, where interest rates are relatively frozen, is suddenly and sharply reduced. Instead of flowing into the mortgage market, this money accelerates its flow into other channels of investment. When this happens, homebuilding suddenly deflates and the timber industry of western Oregon goes into a precipitate decline. And there we stay in a state of, or close to, real depression while most of the economy continues on its upward climb, slowly decelerates to a relatively flat peak, and then gradually turns down.

In the past this process has required many long months. And during those months we have found substantial Oregon communities with between 30 and 40 percent of their covered workers unemployed. Indeed, many of our workers were unemployed for so long that they drew their maximum of unemployment compensation and then found themselves without further income at all. Long lines formed in front of employment offices. Bankruptcies mounted; in 1958 Oregon led the Nation in the proportion of bankruptcies to total business units. In addition, in our industry the continuation of high fixed costs forced some of the smaller units into voluntary dissolution.

From the national point of view, such dissolution of our mills seems wasteful. We are approaching a period which will see a material increase in the rate of family formation. This is more than a guess, because the population approaching marriageable age now exists. This increase in the rate of family formation, plus the expanding size of families, plus the increased rate of home obsolescence and demolition indicate that within a few years there will be a mounting demand for homes and a heavy need for the products of these sawmills. As to these mills the capital is gathered, the machinery is in place, and the skilled labor forces are assembled. It seems wasteful to dissolve these entities when it is almost certain that within a few years the Nation will have need of their organization, their skills, and their products.

If the Government determines that a tight money policy is to be used to combat inflation, then we are in need of a device that will enable us to participate equitably in the deflationary consequences. H.R. 9371 would help to accomplish this.

Hence, if the Government decides to continue the tight money policy, we believe that legislation along the lines of H.R. 9371 should be enacted.

Mr. Chairman, I think you and the committee, and would be pleased to answer or try to answer any questions, if I can.

Mr. Adonizio, I have just one or two questions.

You have indicated in your statement that certain things happened in 1957 and 1958 that led to the recession of 1958, and it was particularly harmful to the State of Oregon.
I was wondering if perhaps you could point out now some signs of what the situation is in your State presently that would require the necessity of this legislation.

Mr. NETZORG. We are anticipating at this moment. Our market is off somewhat. How much is seasonal and how much is ascribable to weather conditions in one part of the country or another I don't know. The significant figure we watch is the applications for commitments from VA and FHA. As we see those commitments, or those applications for commitments fall off, we tighten belts, we are concerned about how much we can afford to pay the Government for timber and we begin to take in sail.

We are perfectly confident that as those housing starts fall off, as they must ensuing upon the falling off in application for commitments, we know we are in trouble.

I do emphasize that it is unfortunate in the State of Oregon, but we are not in the position of other States and communities. There are no other industries that are going along, we don't have a pocket of unemployment in a town here and a town there; we have unemployment solid, which reflects in the retail business, the banking business, the whole service industry that exists to serve the timber industries and its employees.

Mr. ADDONIZIO. It has been estimated by some of the witnesses before our committee that if the present tight money policy continues by this administration that housing starts for 1960 will drop off from 200,000 to 400,000 units. Certainly this would have a very disastrous effect on the economy of the State of Oregon; is that correct?

Mr. NETZORG. It would, in the absence of some legislation of the type now pending which would enable us to share more equitably in the contraction which ensues.

Mr. ADDONIZIO. Mr. Widnall.

Mr. WIDNALL. During the period that you were hurt so badly, you say, a couple of years ago, what was the percentage drop off in your normal industrial production as against home construction, because a great deal of your sales go to industry, don't they?

Mr. NETZORG. This is a guess, Mr. Congressman. I am sorry I don't have the figures here. I guess that somewhere between 40 to 50 percent of our lumber must go to homebuilding. When the homebuilding industry falls off, as is the problem of any manufacturer, it suddenly loses 40 to 50 percent of its market.

Mr. WIDNALL. You don't lose 50 percent, you lose a certain percentage of 40 to 50 percent of your market.

Mr. NETZORG. Our men are unemployed, fixed costs go on. Practically all the timber we buy from the Government on contracts where the price is fixed in the past.

Mr. WIDNALL. Maybe I am not making my point clear.

Mr. NETZORG. Possibly I haven't understood you.

Mr. WIDNALL. How much did your sales in other than the housing field drop off in other years? Did they maintain the same level, or were they dropping off in the same percentage as your sales to the construction industry purely for housing?

Mr. NETZORG. It is my recollection that other markets as well fell off. There was a shortage, for example, in the falling off of service of railroads. There was a great deal of lumber used in flooring of
boxcars, and that sort of thing, and other industries that fell off that used lumber also reduced their orders.

I can't give you a figure, I am very sorry, and I am not sure that such a figure exists, but our indicator is so closely tied to these applications that we just flow right with it.

Not only that, I think our bankruptcies flow right with it. I have a chart here, but I would rather not put it in the record. It is not a happy one.

Mr. Widnall. You had a parallel falling off, or did housing start off first and the others picked up after? If you have something on that it would contribute to the record, because that would show housing really was the key to it.

Mr. Netzorg. I do wish I had those figures, I do not. I will try to get them for the record if they are available. I am not sure that there is any breakdown of that sort. I will try to get it for you, though.

Mr. Widnall. Thank you.

Mrs. Griffiths. I have no questions, but I did enjoy your statement.

Mr. Addonizio. Mr. Miller?

Mr. Miller. I might say that I have the adjoining congressional district to that of my colleague from Oregon, and I can certainly bear out what he has said and what Mr. Netzorg has said with respect to the impact of the dropoff of housing on our economy.

In the First Congressional District's lumber counties, 75 percent direct and another 10 percent indirect result from the lumber industry. I might say in response to the question posed by my colleague from New Jersey, Mr. Widnall, it was only the high level of spending for heavy construction in the public sector that caused the 1957-58 break to be as well contained as it was. Even so, taking off the 60 to 65 percent that we put into the housing markets of San Francisco and Los Angeles worked a great hardship on us. I might say, in addition, an expanding export market at the time kept 1958 from being truly disastrous in our area of southern Oregon and northern California.

Mr. Widnall. To what extent are you getting competition in the timber or lumber field from foreign countries?

Mr. Netzorg. As to the particular types of products that we produce, I think our competition, the only competition that is today of any particular significance, is the Canadian.

Mr. Widnall. Is that in the plywood field?

Mr. Netzorg. Plywood and lumber. We are dealing with Douglas fir that comes from the Cascade Mountains. In effect, the chain starts in the First District of California, extends up through Oregon, Washington, and on into British Columbia so that the timber types are roughly the same, they are producing roughly the same type of products—construction lumber, and that lumber does find its way for a variety of reasons into the United States.

Canadian markets are being contracted, I understand. I don't have figures but I understand they are losing a considerable part of their United Kingdom market, and their products are tending to come into areas such as Detroit and other areas of that sort. So to that extent, I think we are meeting some foreign competition. The balance of the foreign competition I think is not particularly significant.
MR. WIDNALL. Thank you.

MR. MILLER. The key point of Mr. Netzorg’s testimony is that the first signs of general economic distress is the reallocation of credit. In other words, we feel depressions early, before the rest of the country feels them. In fact right now the advice that I get from large lumber manufacturers and timber owners in the area is an extremely uneasy feeling with regard to the next quarter. This is a feeling they didn’t have 2 months ago. Then, they were extremely confident about the market for the next 8 to 10 months.

Would that confirm the thinking that you had in Portland and elsewhere?

MR. NETZORG. Yes, it would, Mr. Miller, and, in addition to that, I would suspect at that time that some of the more thoughtful owners are talking with their employees about making commitments and purchases, and this will result probably in a contraction of retail business before too long, simply hauling in sail, as I say.

MR. ADDONIZIO. Congressman Porter and Mr. Netzorg, may I thank you for your very helpful testimony, and I assure you that the committee will give it very serious consideration.

MR. PORTER. Thank you, Mr. Chairman.

MR. ADDONIZIO. We will now hear from another of our distinguished colleagues, Mr. Rivers, of South Carolina.

STATEMENT OF HON. L. MENDEL RIVERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

MR. RIVERS. Mr. Chairman and members of the committee, I am glad to have this opportunity to speak to you on a very urgent matter—that of providing an adequate supply of decent housing at our military bases. It is true perhaps that the particular program I am speaking of—FHA’s new section 810—is not one of our bigger housing programs and the problem it is designed to meet may not seem to be a national problem. However, it is very serious, in fact, critical, in many places.

I know from my experience on the Armed Forces Committee that good housing is a key factor in morale at Army, Navy, and Air Force bases, and in the many new missile bases now springing up. I know it even more pointedly perhaps from the experience in my own district in South Carolina. Fortunately, this committee recognized the problem last year and the Housing Act of 1959 included a much-needed provision for special FHA mortgage insurance for offbase housing for the families of members of the armed services and essential civilian personnel.

This new program, section 810, can do much to help overcome the problem created when 3,000 or 4,000 new families are suddenly moved into a medium-sized community of around 50,000 families, as is the case in Charleston. However, I am convinced that this program will not get off the ground unless the Congress acts to make mortgage money available.

This is an unusually severe problem right now when the sources of mortgage credit are drying up for all types of loans. However, it goes far beyond current conditions. It has always been true that some time it takes considerable time for FHA money to stimulate
private capital. To meet this problem funds have been provided to the Federal National Mortgage Association to support the Capehart housing program, section 809, and other types of mortgages.

Unless this kind of aid is provided promptly for section 810, I am very much afraid that it will simply sit on the statute books unused. I urge the subcommittee to include in the bill now before it a section which would set up a new special assistance fund in FNMA. I feel that if such a fund of $25 million were made available that we would see prompt action in providing the housing we need at our missile and Armed Forces bases.

Let me say that we will continue to need the onbase housing provided under the Capehart program, and I hope the committee will not just rely on the meager amount which FNMA has remaining for potential aid to that program. I am hopeful that if the committee sees fit to recommend support for section 810, that it will be a separate and independent fund.

Again may I say that the provision of offbase housing for military and essential civilian personnel truly represents an emergency problem in many places. Every day of delay in putting this program into action costs us dearly in morale and adds to the problems of getting and keeping key employees in our national defense program.

Mr. Addonizio. Thank you, Mr. Rivers. Now Mr. Boykin, of Alabama.

STATEMENT OF HON. FRANK W. BOYKIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. Boykin. Mr. Chairman and members of the subcommittee, I know that all of the members of this committee understand and appreciate the critical housing problems which exist at so many military bases around the country. I am sure that you recognize the urgency of providing an effective answer.

Last year the subcommittee made an extensive study of the problem. That study showed the deplorable housing conditions and the cruel shortage that often exists. Of course to some extent this is natural since these bases are often located away from metropolitan areas and are often the only “industry” in the area. As a result, the existing stock of housing is not adequate to meet the need. Your subcommittee recognized that the housing plight of these families is damaging to morale, discourages reenlistment of members of the armed services, and makes it difficult to hire essential civilian employees.

To meet this pressing need the subcommittee developed a special program of FHA mortgage insurance to provide housing for military personnel and essential civilian personnel employed by an installation of the armed services. This program of FHA insurance was included as a new section 810 of the National Housing Act, as amended, in the bill recommended by your subcommittee and enacted by the Congress as the Housing Act of 1959. It is intended to be, and it can be, an effective means for producing the housing needed for both military and essential civilian personnel serving of employed at certain vital installations of the armed services, particularly at the intercontinental ballistic missile bases.
Mr. Chairman, when housing is needed at our missile bases, it is certainly a top priority need. Bad housing conditions at these installation can sap our military strength in spite of the billions of dollars we are spending on defense.

The section 810 program was an important step in meeting this need. However, it is a new program. As is always the case it is difficult to get private lending institutions interested in making such loans. As the subcommittee well knows, this was true in the case of Wherry Act housing and Capehart housing. To make certain that housing would be provided under those programs, the Congress saw to it that mortgage money would be available by providing a special fund under the Federal National Mortgage Association. This same assistance is needed for the new section 810 program. I urge the subcommittee to include in the bill which you are now considering a provision which would establish a special assistance fund within FNMA for section 810. This would be a revolving fund of $25 million available for advance commitments for this program. I feel, and I hope the subcommittee agrees, that it is absolutely necessary that these funds and this specific directive be given to FNMA in order to get this vital program under way.

Mr. Chairman, may I compliment you and the members of the subcommittee for taking the first important step last year by providing FHA mortgage insurance for this much-needed housing. I hope you will see fit to take the next step—one which is essential to make section 810 actually effective—and include in the bill now before you this special assistance fund in the Federal National Mortgage Association.

Mr. Addonizio. Thank you, Mr. Boykin. There are several other Members of Congress that desired to testify before the committee but unfortunately couldn’t be here this afternoon, so without objection they have permission to place their testimony in the record.

The committee will stand in recess until 10 o’clock tomorrow morning, when we will meet in room 1304 of the New House Office Building, the House Public Works Committee.

(Whereupon, at 3:45 p.m., the subcommittee adjourned until 10 a.m., Thursday, January 28, 1960, in room 1304, New House Office Building.)
EMERGENCY HOME OWNERSHIP ACT

THURSDAY, JANUARY 28, 1960

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING OF THE
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to adjournment, in room 1304, New House Office Building, Hon. Albert Rains (chairman of the subcommittee) presiding.

Present: Mr. Rains, Mr. Addonizio, Mrs. Sullivan, Mrs. Griffiths, Mr. Rutherford, and Mr. Widnall.

STATEMENT OF THOMAS B. COOGAN, PRESIDENT, HOUSING SECURITIES, INC., NEW YORK, N.Y.

Mr. Rains. The committee will please be in order.

Our first witnesses this morning is a builders' panel. We have seats set up with their names. Mr. Thomas Coogan, Housing Securities, Inc., of New York; Mr. Herbert Sadkin of Long Island; Mr. William J. Elliott of El Paso, Tex.; Mr. Lewis of Birmingham is stranded because of bad flying weather, I understand; Mr. Leslie Share, Detroit; Mr. Jerome Snyder of Los Angeles; and Mr. James M. Albert of Miami.

Come around, gentlemen. We are glad to have you. It is nice to see all of you gentlemen.

As I understand, and I think it would be the best way to handle it, you each give your statement, and then we will ask questions. That being true, we will start off with Mr. Coogan.

Mr. Coogan. I hope I can be of some help, because I think we need it. I think the need isn't as apparent now, it is being concealed under a lot of figures that at least I, in the housing industry, do not understand.

First, I want to qualify myself by stating that I am giving here my personal opinions and not the opinion of any organization I am connected with. I think this money situation is the key to housing.

I have a few notes here to try and keep my thoughts in order, and the thing that has astonished me is that housing starts have kept at as high a level as they have in spite of the serious difficulties that are facing the housing industry, the problems they have in securing their financing, and the excessive cost that the builder is paying in order to secure his financing.

Money is the key to housing. When we have money available on long terms at reasonable rates, we have a good supply of housing. The minute any of these factors begin to change, housing begins to
slow down. Sometimes the slowing down isn’t apparent. I don’t think I need to explain it, but the average builder buys his land in advance, usually pays for it on time with a series of notes which put him under obligation to the buyer, and usually the amount involved is so great it probably jeopardizes his entire future, and might mean ruin for him if he could not meet them, so regardless of the profit in building houses, many builders today that I have talked with are continuing to make starts simply so they can get their money back, build without any profit, without any real incentive except to be able to meet the notes on taking the land, pay off the land and so avoid bankruptcy or serious financial difficulties.

This tight money is just denying housing to everybody. It is particularly denying it to people who need it most, both in the way of homeownership and rentals. The increasing cost of money continually raises the rentals necessary in rents and carrying charges. It is raising the problem of qualifying the home buyer, and it is placing it beyond his reach.

As a matter of fact, today it is practically in many areas, or I might say most, denying the veteran the right of his entitlement that the Congress gave him years ago. The problems of securing VA financing are so great that many builders are just avoiding doing anything with the Veterans’ Administration housing program.

I believe contrary to the general opinion that seems to be accepted in the country that control of money has nothing to do with interest rates, but I believe interest rates today are the direct result of tight money, and I think most people do.

We now have an inflationary gap the opposite of the one we had in the immediate postwar period, where we had a lot of money and short supply of goods. Now we have an overabundance of goods and everybody wants to buy with not enough money to buy them with on the credit terms proposed, because now practically everything in the United States is being sold on credit.

There has been, I believe, in order to maintain a very high production of consumer goods, there has been an unnecessary overextension of credit at inflationary prices, because people who pay on time don’t seem to care what they pay as long as they pay it off in a year or two. The interest rate is not important, it is not even important to the builder on his short-term borrowing, but it is very important on his long-term mortgage credit.

As a result, there is a constant demand for higher and higher interest rates, and this demand is self-defeating. We have seen this over the period of the last 10 years, a constant demand for higher interest rates, and each time the claim has been made it would solve our problems. Instead it has merely compounded our problems, and I think it is compounding the problems of the Treasury Department, because the greatest competitor the Treasury has to its financing is the insured and guaranteed loans that are on the market in such terrific volume. As a matter of fact, in my business in New York, we attempt to induce investors to sell their Treasury bonds that are only yielding 2½ or 3 or 3½ percent, and switch to insured mortgages which are of almost equal dignity and bear a much higher yield, but I believe each time the interest rate is raised in the mortgage field, it automatically forces another increase in the rate the Treasury has to pay for its financing in order to compete.
We were much better off on every type of housing when we had the lower interest rates.

All the things dependent on long-term credit have been slowing down, though the slowing hasn’t been apparent yet in the statistics, which I can’t account for.

One of the interesting things in this fight for higher and higher yields and higher and higher interest rates is that the FHA and the VA loans have never received a price that represented their true value. It is always disturbing to me to see equipment trust certificates, as happened recently, within the last 30 days, on 400 freight cars put in trust, and they sold 15-year debentures to yield 4 7/8 percent. They were picked up quickly by the investment institutions.

At the same time, investors were demanding better than 6 percent yield on their FHA mortgages. That is, they were buying them at a discount which would yield better than 6 percent. At the same time, American Tel & Tel was able to beat a debenture to yield less than 5 1/4, and at that particular time the investors were asking considerably more than 6 percent yield on their FHA loans.

The unrestricted use of consumer credit at high yields has been diverting funds into the short-term market. Last year it increased by $6 billion, approximately, and this continual fighting over the use of money, a limited supply, and I object to the use of the word “free” economy, because I see nothing free in the monetary system with the Federal Reserve Board sitting on the faucet putting it out for the absolutely necessary existence of the country, and then the minute the period is over, withdrawing it again, as they did over the Christmas period.

There is nothing free about a supply of money that is kept in a completely tight situation.

This is a one-way street, and it is resulting in a very dangerous competition between savings institutions of all types for savings. They are constantly raising their dividend or interest rates to depositors causing the money to flow back and forth in a game of musical chairs, and as a result it is making these institutions demand a higher and higher yield on their investments.

As this goes on, you find that the all-important thing—it isn’t so much where the mortgage is located, or the type of house, or anything else, it is just how much yield will the mortgage bring. It is bringing in—it has reached the point now, I was going to say I thought it would be ridiculous and couldn’t go further but that happened some time ago.

We are back on what I would call complete laissez faire in the fight for money, the law of the jungle. The person that bids the most for the money gets it, and unfortunately in the financial world the least responsible people are the people that will bid the most. The responsible, sound borrower, for housing, for schools, for city improvement, all of the worthwhile capital improvement that add to our national wealth have to back away from the cost today.

On mortgages the rates now on conventional loans are running from 7 to 8 percent for first mortgages. They are asking from a 6.15 to a 6.25 yield on FHA loans. The second mortgages around the country, which are growing like mad, switched to first mortgages, are
bearing 8 to 10 percent for seconds. Even these first mortgages with a 7.5 or 8 percent first mortgage are being discounted. They are called origination fees, and other sorts of terms to avoid the word "discount," but essentially, as far as the builder is concerned, it is still a discount.

On conventional loans, the old statement that they don't have to be discounted is not true. Of course, the interest rate has reached the embarrassing stage where I had a builder talk to me in New York about using conventional loans at the rate of 8 percent, and he wanted to know if after he accumulated them—was going to use his own money—could he sell them. I advised him not to do it. I thought almost every investment institution, certainly the life insurance companies, would be embarrassed to have 8-percent first mortgages in their portfolio, but this is the situation it has reached in the fight for money.

FHA is selling for large discounts, with Fannie Mae being the best market with the exception of a few insurance companies who through their correspondents place loans at advantageous prices, but under such criteria it is only benefiting a limited part of the housing market.

Second mortgages are being discounted at from 30 to 50 percent. We have gone heavily into second mortgages. Contracts for deeds— they are in the same category, and that is a growing thing. It offers some tax advantages to the builder, but it is all placing money at extreme cost to the home buyer, and many people are buying homes today beyond their ability to meet the indebtedness they are incurring.

FHA has developed in the last few years a terrific market in what we call spot loans, with the refinancing of existing houses. This bothers me or worries me. Those loans are selling from anywhere as low as 88 or 89. These are 5 3/4-percent loans on existing housing. This is refinancing old housing, which offers a terrific yield, and is sopping up much of the mortgage money which should be available for new houses. Many builders believe this is necessary to make the trade-in program work. I firmly believe that today the spot loan on refinancing existing housing is again diverting money from the long-term mortgage market into consumer credit. I find many people refinancing the house after the mortgage is paid down to a certain extent, and this I believe is also dangerous.

Talking about interest rates, many years ago it was said we paid 6 percent, there is nothing wrong with a 6-percent mortgage.

In the old days with the 6-percent mortgage, they were 5- or 7-year mortgages bearing 6 percent, and there was no amortization. All the home buyer had to do was pay the interest quarterly, or semiannually, or annually, and when the mortgage matured he would go down and pay $500 or $1,000, and ask for another extension of 3 to 5 years, so that the actual interest charges in the old days of 6 percent were not as great a burden to the buyer as they are today on the monthly amortized mortgage, where every increase of interest rate makes a tremendous difference in the carrying charges.

The attitude generally in the banks today is toward a high price for money. Construction loans are running 2 1/2 points, 6 percent, and in the rental projects and large developments that call for substantial sums of money for short term, they are finding that the interest rate is only one function of the cost of money, there is also points along with it, and the compensating balance has become quite a thing.
I am sure the committee is aware of the fact that it is pretty generally 20 percent, and in some areas, for some customers, it moves up to 30 percent.

An article in the Wall Street Journal a few weeks ago told how somebody is moving in and providing savings, charging people extra money to provide the compensating balance for them, which I think is an illuminating incident in the money market of today.

If the committee doesn’t have it, I would be glad to provide a copy of that for you.

What is happening now is that while they are talking about 6 percent, I would like to go back, the U.S. Treasury from 1950 to 1959 has only paid an average of about 2¾ percent yield on its long-term indebtedness. This current system is something entirely new.

The whole system today is that money is being put ahead of people. What people want is not important. There is sort of a general feeling that inflation has been made a terrific event, although to the best of my knowledge, inflation has gone on since the time history was written, and the rate of inflation, of course, is important.

We in the housing industry, particularly in my own position, is that inflation is an extremely dangerous thing, but the way it is being fought is ineffectual, and it continues in spite of the present policy.

Meanwhile, housing, schools, redevelopment projects, clearing the slums and everything is hanging fire waiting for some effort to finance it. This is most unfortunate, because housing like these other improvements outlasts the original mortgage. It adds to the national assets and provides a tremendous social gain.

I have given to you a lot of criticism, and I would like now to make some recommendations, and I know your complete interest in covering the housing field and its importance to the economy and its importance to the people of the country that they be adequately housed.

In spite of all the bragging we do, every time I go through our larger cities or rural communities, I realize that we are far from adequately housed, and there is no reason for us to brag because we have a few nice developments in the larger areas.

My first recommendation is that the Central Mortgage Bank is extremely necessary to create uniformity in the availability of money.

I had letters recently from places in North Dakota and other States, even in some of our close-in States where they have demand for housing and nobody willing to provide money for FHA or VA loans in those areas. It will cure the problem of State laws. It will provide housing for the minority group, one of the most needed things today. The increase in income has affected these groups tremendously, and most of them are desirous of buying a house. There inability to do so is aggravating the normal pressures.

Also, the Central Mortgage Bank would eliminate the investors’ criteria which has been a very serious factor in providing the money market.

My second recommendation is that I wish your committee would do something about departmental status for housing. Cabinet status, coordinate the multitudes of efforts that are completely uncoordinated, where there is nobody to represent us at the highest level, and as a result we are the low man on the totem pole, you might say, and anything anybody else doesn’t want can be shoveled off into housing.
I would like to see Congress and the administration get into a campaign for savings, for people to save. I would like to see some sort of regulation or supervision of interest rates on dividends and savings to stop this hot money shifting around the country, and while it is shifting this way in the institutions that hold it, they are afraid it retards their interest on long-term debt.

When I say campaign for savings, with a few outstanding exceptions, all the major commercial banks in this country spend all their advertising money on a spending complexion, that everybody should buy. They offer money for travel to Europe, or a new car, for boats, for just use for anything you want it for without question, but nobody in the country is carrying on a campaign for people to conserve this money, to save it, to build some reserve.

I think in this method I would hope that the Federal Reserve Board would change this attitude toward housing in the real estate and mortgage field, and I know, as most people do, that all it takes is not a law or regulation, merely a change in the Federal Reserve Board’s attitude. The loans that the Federal Reserve Board frowns on just aren’t made, they don’t have to write a letter about it, or anything else. They have a definite effect, and it is not being exercised.

I would like to see a review of the results of the loans on existing houses. I think in addition it is tremendously important that we amplify the FHA procedure. Builders bring in great numbers around the country, they are drifting away from FHA, turning to conventional loans, and most of the complaints are because that over the years there has been an accumulation of bureaucracy, redtape, difficulties, and delays. I think it is high time this was recognized, and was returned to its original function of insuring mortgages, and not for stimulating sales of certain manufactured goods and increasing the heating plant, the electrical plant, the roofing, the insulation, and all the things now that FHA requires that makes their construction so costly.

I wish FHA would concentrate on solving housing for people that need it at a price they can afford to pay.

Thank you very much.

Mr. Rains. You have made a very good statement, and we will come back to you later, Mr. Coogan.

The next witness is Mr. Herbert Sadkin of Long Island. You may proceed with your statement.

STATEMENT OF HERBERT SADKIN, PRESIDENT, ALL-STATE PROPERTIES, INC., LONG ISLAND, N.Y.

Mr. Sadkin. As President of All-State Properties a publicly owned company presently building in four States, New York, Maryland, Kentucky, and Florida, I believe I have a somewhat broader view of tight money and its undesirable effects than many other builders who are building in only one area.

Let me say at the outset that we have absolutely no problem in getting mortgage funds. It is only a question of whether we—and ultimately, the homebuyer—can afford to pay the price.

In our own areas, funds are available at a low price of about 3 to 6 points discount from savings banks in New York State, to about 12
points in Kentucky, with Maryland and Florida somewhere in between. An 8-point discount—average of the above—means that there is a hidden cost of $1,200 in every $15,000 house, the cost of the mortgage money—not including the regular interest costs. Thus, at approximately $6 per thousand per month, the total additional discount cost comes to over $2,500 over a 30-year period, or almost 20 percent of the original cost of the house.

Technically, the governmental agencies insuring these mortgages, make no allowance for these discounts in their valuation of housing values. Yet FNMA, a semipublic governmental institution, openly publishes prices from time to time offering to buy mortgages at the above prices, and in some cases at even more prohibitive discounts.

Thus, while on the one hand the Government doesn’t recognize discounts as part of a builder’s cost, FNMA not only endorses this practice, but actually encourages and even goes beyond most lenders in charging prohibitive discounts in the financing of veteran and FHA mortgages. This two-faced practice must be stopped.

Nobody needs to tell the Rains committee about the need for more housing in the U.S.A.; indeed, the downpayment liberalization authorized by Congress last year has not yet been taken advantage of by the FHA.

It seems to me that it is high time that an industry the size of ours and with its importance to the rest of the economy should once and for all be permitted to prosper equally with any other basic industry, and not be used as a pawn or a catalyst for all others. The coffers of the FHA are certainly testimony to the soundness of previous governmental policy in stabilizing the housing industry. To upset such an industry in the name of inflation is a travesty, even if the administration policy, as presently enacted, did the job it was supposed to do.

However, it does just the contrary.

Tight money is supposed to act as a stabilizing influence. Perhaps in short-term credit situations it does. Again it is a process, with respect to short-term credit, of opening and closing faucets.

However, in housing we are dealing with long-term credit. By increasing interest and discount rates, we are creating a higher price for the commodity, namely housing, over a long-term financing period, thus creating an inflationary policy on a long-term basis, and defeating the very purposes for which tight money is intended. In a word, the policy is moneywise and economy foolish.

Getting specific about the bill now before this committee, I would like to single out a couple of provisions that will definitely help this industry.

1. The billion dollar authorization for Fannie Mae should mean homes for more than 75,000 families in the coming year. Providing adequate housing for over a quarter million people should be enough of an incentive to pass this bill, but it means even more: That will give you what some of us call mortgage momentum—it acts as a kind of seed money, a catalytic agent that brings other mortgage money into the market behind it.

2. The lowering of the FHA insurance premium from one-half percent to one-quarter percent is a step in the right direction. Last year, the Community Developers Council of Long Island urged a
one-eighth percent premium, in view of the reserves and profits of the FHA over the past 25 years, and this premium still seems sensible.

However, any lowering of this premium, which means a lowering of the monthly carrying charges on the repayment of a mortgage by the home buyer, would be welcome.

The purposes of the bill under consideration are all pointed in the direction of reducing consumer costs. It would therefore follow that, since we are dealing in long-term financing, a lower carrying charge over a longer period of years would tend to serve in the direction of stabilizing and cutting back an inflationary process rather than the reverse, which is presently occurring.

I realize that there are those who throw up their hands in horror whenever it is suggested that the Federal Government take an active role in helping to provide more homes for more people. They don't seem to realize that the FHA has been doing this—at absolutely no cost to the Government—for a generation, and that there are times when the FHA program falls short of its purpose.

It is at those times, when the building program is undercut by the lack of mortgage money, that the administration and Congress must remember the spirit of the housing acts, and provide remedial legislation and execution to make the Federal housing programs effective. That is what this bill before you helps to do, and it is why a great many builders like myself are for it.

Mr. Rains. Mr. Sadkin, I put my stamp of approval on that statement. It is as good a short one as I ever listened to in my life.

The next witness is Mr. William J. Elliott, of El Paso, Tex.

STATEMENT OF WILLIAM J. ELLIOTT, EL PASO, TEX.

Mr. Elliott. My name is William J. Elliott. I live in El Paso, Tex., where I have been a real estate broker and homebuilder for more than 23 years. I thank the committee for this opportunity to appear before them with reference to H.R. 9371.

I appear in my capacity as a small volume homebuilder. The figures which I have been able to obtain show that there are probably more than 150,000 individuals building homes throughout the United States who devote all or part of their time to this venture. Some of these small builders build no more than 1 and sometimes 4 or 6 or 20 homes per year. I built no homes in some years and in 1959 I started 36. As yet, I have no plans for starts in 1960.

Figures tend to show that 42.8 percent of all builders build less than 50 houses a year, but their dollar volume constitutes 55 percent of the total dollar volume since they usually build more of the higher priced homes. My remarks will be directed to conditions prevailing in the area of west Texas, which comprises Midland, Odessa, Fort Stockton, and El Paso. The conditions prevailing here are generally true throughout the entire Southwest, as I am familiar with this section of the country.

I understand that the administration objects to section 1, the title of this bill, and the use of the word "emergency." I do not understand this. I feel there is an emergency. Also, section 2 of the bill would be a help to a small real estate broker, to permit individuals to make FHA homes.
Section 3, which provides for the reduction of insurance premium to one-quarter of 1 percent, should also be enacted. In this connection, may I say it has always been a mystery to me why, in the operation of the mutual mortgage insurance fund, they declare dividends which Commissioner Zimmerman says amounted to $98.7 million in 15 years. There have been about 100 of these loans I know about paid off through my real estate office. The most recent was where we traded a man a house in August 1959 subject to an FHA-insured loan. We sold the house in September 1959 and arranged conventional financing.

He had made one payment on the FHA note. In January of this year he was notified by the Comptroller there was a refund due him of $126. In every case I have observed the refund always goes to the last man, and the man who has made payments for 10 to 15 years does not get the dividend. If FHA would retain these funds, they could probably lower the insurance premium.

Section 5, which permits FNMA to purchase all mortgages insured and guaranteed, touches a particularly sore spot with me, because in my small operation I carried for about 3 years three mortgages fully guaranteed by the VA and one insured by FHA which FNMA refused to purchase. I do not believe it is within their province to pass again on the mortgage credit in these cases after they have been thoroughly looked into by the insuring office; or, in other words, to second-guess the VA and FHA.

When we submit loans in new subdivisions to FNMA for their approval, we must take pictures of the subdivision from certain locations in the tract. Why should this be? FNMA must certainly be informed of the very stringent subdivision requirements of FHA before they will insure these loans. FNMA is usurping the insuring office's prerogatives.

I support section 7 with reference to 1 percent of FNMA stock subscription. We small builders never see FNMA stock anyway. Most of them I talk with have an arrangement with their mortgage company and that company will buy or sell at 50 cents on the dollar. Since we are always short of money, we sell out at 50 cents on the dollar and get a net check when the loan is closed.

I also support sections 8 and 9 with reference to the price FNMA will pay for special assistance loans.

I agree with a good many others that the Emergency Housing Act of 1958 providing $1 billion of FNMA program 10 money led us out of the depression of 1957 and early 1958. My own experience is that although I personally used this device three times, it proved very successful in bringing out the money in the private market.

For example, in October 1958, which was 4 weeks after all the funds of the special assistance program had been allocated, I got a firm commitment for 1 year on FHA 203(i) low-cost homes at 98. I haven't sold all of these houses yet. Those I now sell, I must close and sell over the counter to FNMA at 95½ net to me, because the commitment at 98 expired at the end of 1 year. Money has certainly dried up in 12 months.

I think that the heart of this bill is the providing of this billion dollars of special assistance money and it is my opinion it will buoy up the private market as it did in 1958-59. Therefore, I strongly support sections 10 and 11 of the bill. For the same reasons, section
12 with regard to 203(i)′s would seem to me to be right and proper for low-income homes.

On section 13 of the bill, I see no reason why the fees charged both borrower and seller should not be fully disclosed. Mr. Zimmerman and Mr. Mason testified that they had these figures available and I see no reason why the press should not publish the same if they deem them in the public interest.

I have been building in El Paso houses under section 203(i). The income of the families who buy range from $3,500 to $5,000 and the effective interest rate is $\frac{63}{4}$ percent. When sales in this price class slowed down early in 1959 I found that builders building higher priced homes seemed to have no difficulty selling them, so I built four houses last year in the $30,000-$45,000 price bracket. I sold these houses before they were finished and arranged a 75 percent loan on the same at $\frac{53}{4}$ percent interest. Any economy which requires that a low-income man pay $\frac{63}{4}$ percent for family housing whereas one who makes in excess of $10,000 can borrow at $\frac{53}{4}$ percent, is wrong, and I hope this committee will find the solution of this problem.

I thank the committee for this opportunity to appear before them.

Mr. RA appraisal. That is a very good statement, that last phrase sounds like the Declaration of Independence, Mr. Elliott, I agree with you thoroughly.

The next witness is Mr. Leslie Share, president of the Hamilton Construction Co., Detroit, Mich.

**STATEMENT OF LESLIE SHARE, PRESIDENT, HAMILTON CONSTRUCTION CO., DETROIT, MICH.**

Mr. SHARE. Good morning, ladies and gentlemen. I am here to talk about the problems in the building industry in Detroit. I will try to confine my statements to that area, since that is the area that we can speak of from personal experience.

Our organization has been in the residential construction business since 1938, and since that time we have expanded our operations to the point where we now are one of the largest production building concerns in the greater Detroit area. Our greatest field of endeavor is in low cost housing.

Detroit has a serious housing problem. The housing problem of Detroit is the problem of the lower income group to achieve adequate housing for their families at a total cost within their ability to buy. Demand for housing for this income group continues great and essentially unsatisfied. We appreciate this opportunity to appear before you and present our analysis of the problem and our observations relative to the Emergency Home Ownership Act, H.R. 9371, now being considered by this committee.

Since 1954, when 43,705 homes were built, the volume of home building in Detroit has declined steadily to a low of 20,125 in 1959. I have attached a chart with this report which shows this startling decline.

Mr. RA appraisal. The chart may be included in the record.

Mr. SHARE. Most Detroit builders anticipate that the 1960 figures will be below those of 1959. In our judgment, this decline is pri-
marily due to our inability to keep adequate housing within the reach of the market in Detroit where the greatest unsatisfied demand exists, that is, the lower cost home. The earnings of this householder have not kept pace with the increase in housing costs. To date, wage increases and longer mortgage amortization terms, heretofore provided by Congress, have been more than offset by higher interest rates, higher mortgage discounts, higher real estate taxes and higher construction costs.

Our experience has clearly taught us that sales in the low cost housing field fluctuate radically in direct relation to the cost of mortgage money, interest rates, and the length of the life of the mortgage. It is true that these factors affect the sales in all price ranges in varying degrees, but in low cost housing, where qualifying the purchaser on the basis of mortgage credit is a most critical obstacle, these mortgage credit factors make an almost unbelievable impact.

Despite the general decline in housing starts in Detroit, there is still a housing shortage in the low cost field. This was clearly demonstrated in 1958 and part of 1959 when the special assistance provisions of the emergency housing act of 1958 were put into effect.

This was further demonstrated when some Detroit builders offered homes to the public under the provisions of section 213 with 40-year mortgages, which mortgages were made possible by special assistance programs sponsored by Congress. These programs aided the low-cost home buyer, and were it not for those special assistance programs, Detroit’s housing starts would have been reduced by several thousand more.

It is clear to us that “the volume of home building in recent years has been more responsive to the availability of reasonable mortgage credit, than it has been to the needs and demands of the people for housing.”

What can be done to alleviate this situation? We feel that the enactment of legislation such as is proposed in H.R. 9371 will be a giant step in the right direction. The provisions under this bill providing for the purchase by FNMA of mortgages at par will do much to stabilize the mortgage market and do much to reduce the discount burden that much be passed on to the home buyer. The provisions restriction the right of FNMA to arbitrarily refuse to purchase a mortgage already insured or guaranteed by FHA or VA will encourage builders to stay in the low-cost housing field. The provisions reducing mortgage insurance premiums, and FNMA, stock purchase requirements would also help reduce the cost of housing.

Further, it is our recommendation that the mortgage amortization period be extended to 40 years, this for the sole purpose of reducing the necessary qualifying income. As an alternate, the mortgage amortization could be extended to 35 years, with reduced payments predicated on a 40-year amortization during the first 5 years of the mortgage.

Once again we want to thank you for this opportunity to present to you our views on the home building industry in Detroit.

Mr. Rains. Thank you, Mr. Share. That was a very good statement.
Mr. Rains. The next member of the panel who will give us his views is Mr. Jerome Snyder of Los Angeles, Calif.

Mr. Snyder.

STATEMENT OF JEROME SNYDER, PRESIDENT, SIGNATURE HOMES, LOS ANGELES, CALIF.

Mr. Snyder. Mr. Chairman and panel, I want to thank you for this opportunity to speak before you. My name is Jerome Snyder. I am president of the Signature Homes, Los Angeles.

For the past 8 or 9 years, we have built 8,000 or 9,000 houses, approximately 90 percent of which have been GI financed.

I would like to confine my remarks to California, and the west coast, because I feel I am more qualified to talk about that area.

As you no doubt have heard, discounts are probably as high there as anywhere in the country. If you will check your logs as to the cost of financing, you will find that there is as much as 8 or 9 points spread in the cost of VA financing in Los Angeles as opposed to, say, Boston, Philadelphia or New York. What this means, take a $15,000 house, and we are building quite a few of those right now, you will have approximately $1,600 in discounts to take out loans, $250 or $300 in interim financing, about $400 in interest charges during construction, and before you are through you have about $2,300 of financing charges on a $15,000 house. This is approximately 15 percent of the cost of the house.
Now, the home buyer is willing to pay for nails, lumber, ranges, ovens, fireplaces, he can see these things, but then he is not willing to pay for financing costs paid for before even a shovel of dirt is turned.

At a meeting of the Homebuilders Association in Los Angeles, attended by heads of the local Veterans' Administration offices, a question was asked how many builders in this room—and I want to say the room was full of the largest builders in southern California—"how many builders in this room are going to build VA in 1960, providing the money market stays as it is?" and no one raised their hand. They just can’t do it.

Now, this has also affected the cost of conventional financing, and right now the norm for interest rates in California is 7.2, 3 to 5 points discount.

In speaking to the president of one of the largest savings and loans in the world, I asked the question, "You have always professed that the reason for discounts on Government mortgages has been to make up for an unrealistic interest rate. Then why are you charging discounts on conventional markets at 7.2?"

The answer is, "We just got in the habit of charging the point," and that is what is happening. It is like cancer, it is spreading. The commercial banks are getting the idea. They see the savings and loans making all this money, and they are getting the idea.

Once commercial banks would lend at a reasonable rate or not at all, but now they want to get on the bandwagon, and it is going to take a bill such as yours, Government legislation, competitive money to correct the situation.

In 1958, with the special assistance program, we saw VA money go from 89 to 98½ in California. It was a help. As soon as the money dried up, it went back down to 91 and 98.

Now, many builders have advocated that possibly VA or FHA should allow the discounts in the valuation, and I am the first to disagree for this reason. If these discounts were allowed, I guarantee it will be 20 points before we are through.

Mr. Rains. I agree with you on that. We are not about to do that.

Mr. Snyder. The savings and loans will get every dime that the traffic will bear. They have had the biggest reinvestment period of their history in California. They have been giving away trinkets, transistor radios, and God knows what else, taking in money at 4½ percent, putting it out at 7.2, and that is good business. If you will examine their stocks and see the growth, I am sure you will agree.

The insurance angle of the VA loan used to be a factor, but now they want yield, and yield only.

I think possibly from the constructor's standpoint, the public has to be educated. The public is under the impression that the building industry has been subsidized by the U.S. Government for years. The average man walking down the street is under the impression that the Government makes the FHA and VA loan, not just guarantees it. There is an educational process that is necessary, and I am sure this bill, when it comes up, and people start yelling it is inflationary—those people are going to think the Government is giving a billion dollars away, not buying mortgages, investing money in mortgages, and I feel that education is quite important.
I feel a provision of the bill should be that Fannie Mae should not be a dumping ground for savings and loans. Savings and loans should not be allowed to sell their portfolios to Fannie Mae and then go back and gouge the public again.

As you can see, I am quite bitter, but I feel I have a right to be. I feel that this billion dollars, if it goes through, should go to areas of high cost where builders can prove that they can't get money at reasonable rates.

I want to thank the committee for this opportunity to appear before you.

Mr. Rains. That is a very pointed statement. You sound like you would make a good man to help present it on the floor of the House; you are quite convincing, and I appreciate your statement and I am sure the committee does.

The last witness on the panel is Mr. James Albert of Miami, Fla.

STATEMENT OF JAMES M. ALBERT, MIAMI, FLA.

Mr. Albert. Good morning, Mr. Chairman and ladies and gentlemen of the committee.

This new decade has been called by many periodicals the "golden sixties." Current conditions in the housing market indicate no gold for the homebuilder, no matter how deep he may dig. The gold appears available to the money lending interests.

The cost of borrowing money for construction of interim financing and the price at which the mortgage is sold to the permanent investor is the most costly that I have met in my years in the volume housing business. A builder friend of mine who has started a group of 30 duplexes for resale informed me that his mortgage financing, arranged through a local institution, in Dade County, Fla., is costing him a 5-percent fee plus the usual expenses such as abstract and title examination, tangible tax, recording fees, documentary stamp tax, survey, and so forth, and for which he will be furnished his construction money at 6.5 percent for a period of 5 months. The interest is charged on the face amount of the loan for the 5-month period, and is deducted in advance out of the first draw. He will only be advanced 90 percent of his loan. My friend explained that other deals were available to him at lesser cost, but he was unable to get a sufficiently large commitment to serve his purpose, and although this deal is obviously expensive, the size of the commitment warranted his paying the cost.

The cost of obtaining construction money on FHA and VA programs where the builder obtained a firm commitment for future delivery of his mortgages through his mortgage banker from a permanent investor ranges from a half to one and a half percent plus 6 to 7 percent interest, and this interest varies from simple interest to Dutch interest—"Dutch interest" is a term applied to the practice of charging interest on the total amount of the construction loan either from the date of the mortgage or from the date of the first draw.

The deal varies with the institution and the credit standing and experience of the borrower. The condition is very serious for the builder who has been unable to sell his houses within the life of this advance commitment from the permanent investor. He finds that his standby commitment, which he was obliged to get to provide funds for the period from the time he closed his mortgage until all the paper-
work was completed and to permit his mortgage banker to deliver the mortgage to the ultimate investor, could well make his building program take on a financially disastrous appearance.

The standby to which I refer may be obtained for a fee of one-half percent for a period of 6 months. His 5⅞ percent, 30-year mortgage will be funded under the standby at somewhere between 90 and 92 percent of par, with an additional provision that should he be unable to find a market for the sale of the mortgages, and thereby leave the mortgages with the standby, his agreement sets forth an additional discount of 2 to 4 percent. This could mean as low as 86 percent less 3 percent for the other fees, or 83 percent for his 5⅞ percent, 30-year FHA mortgage.

The 5⅞ percent VA mortgage standby will provide 87 to 88 percent, subject also to the 2 to 4 percent discount; namely, 83 percent less the other fees, or a net of 80.

It is quite obvious that the standby is affording the builder every incentive to find another home for his mortgages. They will under reasonable circumstances issue an extension of the standby for a quarter of a percent for a period of 3 months, or a half of a percent for a period of 6 months, but this must be negotiated, and there is no assurance that the extension will be available.

The builders have an alternative. They can offer these mortgages for sale to Fannie Mae. The net price, considering the stock purchase requirements and marketing fee is 92 percent for 5⅞, and 96 percent for 5¾ percent mortgages.

However, as you well know, the mortgage that is approved by the FHA or VA is not always acceptable under the credit criteria established by Fannie Mae. This throws the builder at the mercy of the current depressed market. The prevailing market conditions for the builder do not look very golden for the sixties.

We are being confused by the number of housing starts. Statisticians tell us that we built 110 units per 100,000 population in 1950 as against 89 per 100,000 population in 1958. The 110 units per 100,000 population for 1960 should produce 1,600,000 units as compared to the 1,150,000 being prophesied by the Housing Administrator. The 1,600,000 coincides with the several projections that have been made for housing production for the next 10 years. It has been said that this total would be 16 million houses, and is based on need to provide shelter for the expanding population.

There is much discussion about tight money. There is no shortage of money. It is available to you provided you are willing to pay the price.

Thank you for inviting me to appear before your committee and permitting me to tell the story in south Florida. Incidentally, I am speaking as an individual, not as a representative of any organization.

Mr. Rains. Gentlemen, each of you made a very fine presentation, and I think it is a good idea for this committee to get the cross-section reports across the country. When we invited you to come, of course, we had that in mind, that we could find out what the picture was in various areas, and that you would be speaking from your own personal observation and experience about the bill.

Mr. Coogan, I agree with you myself about most of the recommendations you make, and certainly about the situation as you pointed it
out, but I didn’t hear you say in your remarks as to whether or not you support the bill now before us.

Do you support the bill, do you think the bill is all right and needed at this time?

Mr. Coogan. I think it is, Mr. Rains. I am a little bit disturbed at the timing of the bill. The housing starts are remaining so high, but I do feel that this additional money is going to be necessary, particularly as you had proposed in the special assistance fund, because this spending philosophy that is prevailing upon the country, and withdrawing of savings—the savings banks in New York, which are the major investors in FHA and VA mortgages, lost about $200 million in deposits in 1959. They are currently continuing to lose deposits—that is, withdrawals exceed new deposits—and I just don’t know where the money is going to come from to finance 1960 housing without some sort of a stimulus.

People are withdrawing their money to go—to spend it, or to go into these mutual funds, or speculate, or do all sorts of things, but people are no longer saving, so this additional money I think will be extremely necessary.

I would like to put on safeguards to prevent it from being monopolized by the few builders who have large tracts of land. I would like to see the committee devise an equitable way of making sure the fund did the maximum amount of good by being available to everybody.

Mr. Rains. We expect to be able to put safeguards around it to prevent that kind of situation from occurring.

In the light of what has been said, do you think the average family is going to be able to get into the market and pay the price they are apparently going to have to pay to get houses built for them this year?

Mr. Coogan. No. People with the major incomes are unable to buy the housing. We are finding that throughout the country. Going to the model houses, thousands of people flow through the house. A great majority of housing is being built above $15,000, because of many factors involved, including the cost of land, and remember, sir, that the higher the price of the house, the more latitude the builder and the mortgage company have to absorb fees. Anybody attempting to build a low-priced house is normally, even in easy money, operating in a reasonably tight situation where the profit possibilities are small, and where the cost of every item has to be watched very carefully. The thousands of people that go through these model houses just can’t qualify for them.

Our average income does not justify the average price of housing being sold today.

Mr. Rains. Mr. Sadkin, we don’t often hear it said here, even though I believe it, that tight money policies lead to inflation. There seems to be some misguided opinion around Washington, and certainly in some circles, that tight money will stop inflation. I notice you said it led to inflation. Aside from the mere statement, what other facts do you have to convince you that tight money does lead to inflation?

Mr. Sadkin. Well, with respect to housing, where we are dealing with long-range financing, you don’t have the power of opening up
and closing a faucet, in the sense that if you are paying more today, an adjustment next week or next year will take care of an inequity, or if you want to give a shot to the economy you just reduce rates. In housing this can't be done because of the long-range nature of the financing.

The history of housing shows that mortgages are paid off in 8, 10, 11 or 12 years, refinanced. The present interest rates, generally speaking today, approximate the maximum interest rates permissible in most States. There will be no incentive at all on the parts of institutions, banks, to refinance for these people in the event they want to sell their house to a prospective purchaser.

Mr. Rains. In other words, they are stuck with it, at the high interest rate?

Mr. Sadkin. That is exactly right. There is no incentive to refinance. If these people can't sell their housing, and traditionally it is a question of upgrading, you move from one level to the next level, and many of our new sales are predicated on the ability of the home owner to sell his existing house.

With a locked-in interest rate, at the rates we are now talking about, banks show no tendency to refinance at lower interest rates, assuming a lower rate may be in existence 4, 5 or 6 years from today.

Mr. Rains. Isn't it also true that the continual upward trend of interest rates, high discounts, tight money, has an obvious effect, it tends to reduce the number of houses that can be bought in this country, and that creates an additional shortage year after year and that is inflationary?

Mr. Sadkin. Well, peculiarly enough, the average forecast for the coming year is that housing will decrease, the units will decrease by approximately 15 percent. That would seem to be a deflationary type of policy where not as much money is being spent, not as much product is being produced.

Unfortunately, because of the policy and because of discounts as they are constituted today, however, we are probably increasing the cost of the unit by 15 percent, or 16 or 20 percent in certain cases. Obviously the net result will be less units, about just as much dollar volume as before. The answer to that is you are now getting less product for the same amount of money, and if that is not inflationary, I don't know what is.

Mr. Rains. I believe you were the builder that built the typical American home at the U.S. exhibition in Moscow.

Mr. Sadkin. That is correct.

Mr. Rains. Where Mr. Nixon and Mr. Khrushchev had their famous kitchen debate.

Do you think the Russians are catching up with us in housing, merely as a matter of information?

Mr. Sadkin. Well, peculiarly enough, I don't think Russian housing as it exists today is what we would consider adequate for our own standard of living. The end product is a very inferior product, but methodwise they are making tremendous strides, and methodwise they may be something to look at, because of their type of construction, prefabrication processes, and so forth.

Mr. Rains. Of course, that has no bearing on the question before us, but I was interested to know.
I have some other questions, but we have other witnesses here from districts of other Congressmen, so I will pass on to Mr. Addonizio.

Mr. ADDONIZIO. Thank you, Mr. Chairman.

First of all, I would like to say that I think it is important that we highlight the fact that these six gentlemen are here before us this morning coming from different sections of the country. As I look at those nameplates, I notice they come from the southwest, the east coast, the midwest, the south, and the west coast.

One of the big cries against this bill is the fact that it is not needed, and that this condition is only spotty in certain sections of the country, and the bill therefore is not essential. I think it is important to show that here this morning we have individuals from all sections of the country who indicate the crying need for this legislation.

Now, it has been said here by certain witnesses before the committee from time to time that the opposition to this bill does not stem from the fact that housing is needed in this country, but rather stems from the fact that they look upon it as inflationary, and so forth.

I was wondering, and I don't particularly care which one of you gentlemen answer the question, but if you could give us some idea of the need of this bill in the way of showing the fact that the American people really want it, and that there are individuals who still desire to buy homes.

Mr. COOGAN. I think it is needed, because it is a bill that is attracting attention to the need for housing, and not merely to provide housing, per se. All of the trends in housing now are toward higher-priced housing. We have had a steady annual increase in the average cost of the housing sold.

The bill that the committee has worked up turns around again and devotes attention and help in the price class that is not needed in the country, and where the people are now unable to buy houses in that area below $15,000.

There was much complaint in the previous special assistance fund that they couldn't build houses in this area, in many areas of the country they said we can't complete anything for $13,500, but we found even in the so-called highest cost areas builders were able to come up with a volume of houses within the limitation imposed by the Congress, so we believe it is very much needed. This bill is directed toward the actual need for housing.

Mr. RAINS. If you will yield for a moment, of course I realize, and I am sure the committee does, that a billion dollars within itself in the mortgage market is a mere drop in the bucket.

I forget, I believe it was Mr. Sadkin who made the statement that this type of money would create a “mortgage momentum.”

Now, we have been here long enough sitting on this committee that nobody needs to tell us that a billion dollars put in in this way only affects a billion dollars worth of mortgages, because the facts don't add up to that. Isn't it true that the main thing, to use your term, which I think is a good one, this bill would give the general mortgage market a bit of “mortgage momentum” which could amount to much more than a billion dollars in mortgage credit.

Do you agree, Mr. Coogan?

Mr. COOGAN. Definitely.
Mr. Addonizio. It was my intention, of course, to point that out next, Mr. Chairman. You stole my question.

Mr. Rain. I am sorry.

Mr. Addonizio. The reason I wanted to highlight that point was that on yesterday my very distinguished and able colleague from the State of New Jersey, Mr. Widnall, indicated that this billion dollars would only provide for 74,000 homes, and I immediately asked the witness if it was not true that this would bring private money into the market. I was wondering if Mr. Sadkin, who made the statement, would not elaborate a little bit more so that we could inform Mr. Widnall as to exactly what the situation is, or would be, and thereby do away with some of the opposition to this bill, or at least make it a neutral opposition.

Mr. Sadkin. With very few exceptions, the money markets are most available to the big urban areas where the institutions themselves are located. The need for more moderately priced housing, which is the intention of this bill, is not necessarily in these urban areas. These urban areas are generally higher priced housing.

However, an institution that goes into some of these suburban areas these are intended for gets a higher rate for their money. It is a more interesting return to them for their money.

At the point where this bill might take up the slack in certain areas, more money will become available to the builders in the other areas so that if you can't put your money out at 10, you will put it out at 8, 6, or 5, and it will level off at the point where the availability of money, by virtue of the impetus of this bill, will become more available, and there will be competition in the urban areas to put the money out at a reasonable rate.

Mr. Addonizio. And that was certainly true in 1958 when we put a billion dollars into Fannie Mae.

Mr. Sadkin. That is right.

Mr. Addonizio. Mr. Coogan, you mentioned the fact that conventional loans are being discounted also. I think that you are the first witness that has testified in that direction, and I was wondering whether we couldn't pinpoint that a little bit more, because this is an interesting point to me.

Mr. Coogan. Well, this is another game in semantics. They don't call it discount—it is origination fees, or various things, but in essence it is a discount. It is a continually pushing up, as they reach the usury laws of the State. There is a general feeling I think among all banks and institutions, in the East they don't like to go above 6 percent. They don't seem to have inhibitions in the West or in the South, but they achieve the same purpose through additional fees and charges and other requirements that they place on the loan.

If I may, I would like to supplement the need for the billion dollars. One very important thing we have failed to mention—

Mr. Addonizio. So far as the Central Mortgage Bank is concerned—

Mr. Coogan. No, I was thinking of the billion in Fannie Mae. This volatile nature that has developed, where everybody is afraid whether the money will be available or not, has meant a disappearance of the commitment. Most banks will only commit for mortgages
that they can pick up in 120 days, and I think this is going to be a tremendous impediment to housing in 1960.

One of the benefits from your assistance, your billion dollars in Fannie Mae would be the existence of these 1-year commitments issued by Fannie Mae to support the market and provide a base for housing.

I failed to touch on that, and I should have, but the ability to get long-range commitments is going to lie with the insurance companies, and most of the savings banks will withdraw. Savings and loans never have given long-range written commitments, and this is a very important factor that your bill would offer some protection.

Mr. Addonizio. May I also indicate, and I hope that you will agree with me, that putting this billion dollars in Fannie Mae will certainly relieve a lot of the pressures that bring about these high discount rates.

Mr. Coogan. There is no question about it, and as the multiplier factor Mr. Sadkin offers, we tried to figure it out. It provides, instead of the 70,000 houses that actually fits into the even billion dollars, something like 2 to 2½ times that much was actually the result of the billion dollars of special assistance.

Mr. Addonizio. A great many witnesses have also indicated that putting this billion dollars in Fannie Mae is not the answer to the problem, it will not solve this tight money situation, that actually what we should do is raise the interest rates, have the ceiling taken off.

Do you agree with that?

Mr. Coogan. No. This has gone too far already. I think if we had been smart enough—

Mr. Addonizio. They would be back here next year trying to raise it again.

Mr. Coogan. I don’t think there is any limit. The moneylenders are back in the temple.

Mr. Addonizio. Thank you.

Mr. Widnall. Mr. Share, I notice in the distribution of program 10 commitments, purchased mortgage compared to housing starts under the last bill, Michigan had 3.6 percent of the U.S. private starts in 1958, while New Jersey had 3.1. Michigan was second in the amount of Fannie Mae program commitments, with 9.8 percent, and New Jersey had nothing from Fannie Mae.

How do you account for that?

Mr. Share. The Detroit area, Mr. Widnall, has always been tremendously dependent on the FHA and VA programs. There are several factors, one of which is our foreclosure laws, and so forth.

Detroit has always had either the largest or second largest volume of FHA cases, notwithstanding the fact that our total population wouldn’t ordinarily support that volume.

Mr. Widnall. Isn’t it true, then, lenders are reluctant to go in there because of the foreclosure laws?

Mr. Share. That is one reason, but yet when the program 10 under the Emergency Housing Act of 1958 was in effect, it was amazing how many phone calls we had for the first time from mortgage people, for some of the very reasons that were discussed here, such as seed money, that suddenly there was an interest from non-Government-insured sources, or non-Government sources to place their money in Michigan.
I say the foreclosure law is part of it, but it is not the whole answer.

Mr. Widnall. I understood it meant a difference of 1 to 2 points on a mortgage, because of the foreclosure laws, and I wondered what efforts had been made to change the laws to bring them in line with the other States.

Mr. Share. Well, there are several groups of us that are active on committees trying to get the State legislature to change the foreclosure laws so that the period of redemption will be on a sliding scale based on the amount of equity that the purchaser has in his home, but these foreclosure laws have been on the lawbooks for many, many decades, and they are not easily changed.

We are working on that, because we, too, know that financing is the key to building, and anything that stands in the way of favorable or competitive financing we are going to try to meet.

Mr. Widnall. The point I am making is there are things that can be done on the Federal level to help housing, and there are things that can be done on the State level. I think the usury laws in some of the States could be changed. Why in California do they have a 10-percent usury law?

Mr. Snyder. Savings and loans are not subject to usury in the State of California, believe it or not. They are not subject to usury, so even 10 percent isn’t the answer; and 10 percent would be a pretty good deal, when you add up the points on the conventional and the interest.

Mr. Widnall. Is anybody in the State trying to do anything about the usury laws?

Mr. Snyder. Well, I can’t answer that question.

Mr. Widnall. We just had the Governor of your State testifying in favor of this bill and wanting it, and I don’t find that anything is being done to try to correct the situation within the State that could be very helpful to the builders and to the purchasers, it seems to me.

Mr. Snyder. Our local organization has just formed a committee and we are going to take this problem to the State. We feel that the local institutions have abused their privilege. Savings and loans—and I wanted to answer one question here. Mr. Coogan mentioned that savings banks in the East were losing deposits. It is just the opposite in California, they have had their biggest reinvestment period. All their money, commercial banks’ money, have gone over to the savings and loans, giving 1½ percent more, coupons, and God knows what else.

Savings and loans were originally set up to be local institutions. Now they are $700 million organizations. The reason they were not subject to usury is because they were a local institution. Now they are giants, and they have abused the privilege terrifically. Whether or not we can get the State to slap their hands, I don’t know.

Mr. Widnall. Mr. Coogan, you spoke about the withdrawal of savings to the extent of $200 million. Why do you believe people withdraw their savings? Do you have any thinking about that, as to why they withdrew $200 million in savings? These depositors were not corporations; they were people who had savings in the bank, individuals. Why do you suppose they withdrew the $200 million?
Mr. Coogan. Well, it is the competition for dividends. I have a firm belief people pay money regardless of the interest paid.

In the last 2 years, this emphasis on inflation and devaluation of the dollar, and that money wasn't going to be worth so much, has had a terrific psychological advantage, so I think the unfortunate people are drawing out their liquid savings from the institutions, the only institutions in the world where the money is available to them any business day of the year where they can get any or all of it at any time at par—the only really true savings—and they are taking it out and speculating with it. I don't care what they buy—whether they buy bonds, stock, or mutual funds—they find from a reliable source of savings they are switching into a volatile market where they can get badly hurt. This is the psychology of the times; it is compounded with taxes and everything else. People are looking for capital gains, speculative profits. It is the mood of today.

Mr. Widnall. Wasn't that first set in motion by the fact that a lot of people had invested 75 cents on the dollar in savings bonds expecting to get a dollar at the end of 10 years, who ended up receiving 52 cents because of inflation? They found that out the hard way with the Government bonds, and today, when they hear people testifying, like Professor Keyserling, that inflation is a good thing for the country, and other people advocating inflation is a good thing—

Mr. Addonizio. I don't believe Dr. Keyserling said that inflation was good for the country. You might have that interpretation.

Mr. Widnall. I don't see how anybody can interpret what he said any differently, because he was for constant spending without actually talking about return to balancing the budget, whether good times or bad times. I think this makes people fearful of savings, and they get into speculation and look for higher return.

Mr. Coogan. This has been promoted in part, but inflation has always been with us to a minor degree. I am not in favor of inflation. I think we are always going to have some of it, but I think the methods used to fight inflation certainly have not been successful. Why you should keep on giving medicine to a patient that isn't working, that is actually making his condition worse—I think you need a new doctor.

Mr. Widnall. If you had the responsibility, what would you recommend to fight inflation? Do you have any ideas on that?

Mr. Coogan. I think the attitude of the Government and the Federal Reserve Board should be changed. They are allowing unbridled inflation on the consumer side of the market. When you see things such as these overdraft checks, where people can get their credit approved for $3,000, walk out with a checkbook and spend it for what they want. This consumer credit earns from 12 to 20 percent a year. We can't meet that competition in the long-term mortgage market.

We are in a consumer economy. Everybody is trying to spend their money.

Mr. Widnall. You think there should be credit controls, too, to hold inflation?

Mr. Coogan. I think even without legislation or regulation, the mere attitude could change the tendency to just use it up and spend it. This consumer credit is not on consuming money that should go into the long-term field, but it is making the buyers in the housing
industry so loaded with consumer credit that they can’t qualify for a mortgage when they do want to buy a house. They are up to their ears in debt. I bet every builder at the table will agree the big problem is qualifying the indebtedness people are carrying.

Mr. Widnall. So the changeover of the economy is that at one time they used to save before they bought a house; today they expect to have everything when they walk into a house—no downpayment housing and have everything placed in there. You have an icebox, a stove, that actually is going to wear out in 10 years, but you are paying for it over the length of the 30-year mortgage. That to me is one of the wicked things that has happened—paying 30 years for items that must be replaced long before then. The replacement of those items isn’t taken into account, and I suppose someday somebody will offer something where the mortgage can be increased to replace the stove without the interest rate being changed.

Mr. Coogan. There has been only one outstanding exception. One big bank in New York published an ad before Christmas saying “Before you borrow, think it over. You have to pay it back.” It is the first piece of publicity I have seen toward stemming the present trend of spend everything you have as quickly as you get it.

Mr. Widnall. I have one more question, Mr. Elliott. You said that at one time for 3 years you couldn’t get Fannie Mae to buy mortgages of yours. What was the reason given for that?

Mr. Elliott. Well, they didn’t approve the credit pattern of the borrower, evidently. The lending institution had approved the credit, the VA insured the note. I didn’t have a prior commitment from Fannie Mae, so we sent it up over the counter for sale and they turned it down. That is the reason these people aren’t operating under Fannie Mae and pay the half a point to get a commitment.

Mr. Widnall. This was in connection with the credit rating.

Mr. Elliott. Yes, and it wasn’t the special “10” money, either.

Mr. Widnall. Thank you.

Mr. Rains. I have one statement. My friend, Mr. Widnall, made a great deal out of the usury limits in the States. If they are going to continue this hard money policy, every State will have to raise the usury limit instead of lowering it. I am opposed to one as high as 10; I am even opposed to one as high as 7 as my State has, but you are either going to have to do something about the money on FHA-insured loans, or it is going to be threatening the usury limits even in California. That is no answer to this problem, the fact that the State has a certain usury law. It points out more the need to do something about it, as I see it.

Mr. Widnall. Within that State a lot of things can be charged conscionably while in other States they can’t.

Mr. Rains. Well, suppose they lowered it to 6 percent; they would be completely out as Tennessee and Maryland are. That doesn’t answer the problem at all.

Mr. Widnall. Where are the lenders going to put their money if every State is the same?

Mr. Rains. They would put it somewhere where the usury law isn’t in effect, that is where they are putting it now. In my State we
just had a short loan racket, and as I listened to what you say about California, I can't help thinking about the charges that they are facing. I don't think that is any answer at all.

Mrs. Sullivan.

Mrs. SULLIVAN. Mr. Chairman, I think you and the staff should be congratulated on bringing this panel before the committee, because I think they have certainly given graphic descriptions of their experiences throughout the country as to the housing and mortgage practices.

Mr. Elliott, I was most interested in the FHA case that you cited regarding the payment of dividends. In other words, when the average FHA family sells its house, say after 10 or 15 years, they may not even know that they would be entitled to a refund of part of the FHA insurance program that they have been paying over the years. The amount may be as much as $100 or $200.

Theoretically, I suppose, they would charge the purchaser a higher price to cover the future refund, but the truth apparently is that they don't even know about it, and I am concerned about it, and would like to ask the chairman if he would request the subcommittee's staff to study this to see if we can't get the FHA to at least inform the FHA homeowner of the refund that he may get in the future.

Mr. RAINS. Mrs. Sullivan, I think you have touched upon an important point and I will request the staff to look into it and give us some recommendations.

Mrs. SULLIVAN. Thank you, Mr. Chairman.

Mrs. GRIFFITHS. I was particularly impressed by Mr. Snyder's statement that the discount rates have followed the interest rates up, and I would like to ask Mr. Share if that has been true also in Detroit?

Mr. SHARE. Whenever we hear the clamor for higher interest rates to do away with discounts or reduce the discounts, we instinctively put our tongues in our cheeks, because we know temporarily the discount rate will go down when the interest rate goes up, but within a matter of a few short months the discount rate will usually be right back where it was 6 months before at a lower interest rate. That has never been the solution. Interest has gone up progressively, and discounts still stay right up there.

Mrs. GRIFFITHS. Thank you very much.

I, too, would like to express my appreciation for this group of gentlemen coming in here.

I would like to ask you, Mr. Coogan, what statistics do you have that show that when people withdraw money from savings and loan institutions that they place them in the securities market, or do you have any? Is this just surmise, or do you know positively that this is true?

Mr. COOGAN. The banks in several large cities, particularly in New York, have tried to make a study of where their withdrawals were going. They found some of it going directly into the stock market, some into the mutual funds.

At a recent meeting there was a consensus of opinion that probably 30 percent of the withdrawals went into the stock market, either directly or indirectly, that is directly to a brokerage house or through mutual funds. The rest of it they couldn't trace very well.
The campaigning of the California Federal Savings & Loan, where they pay 4.5 percent and advertise extensively in the New York papers—I imagine the committee members have seen it—"Insured deposits paying 4.5 percent," has caused a tremendous movement of money from the East, where they are only paying 3.5, out of the banks in the East to California toward these institutions paying the higher dividend rates.

Just what happens to that other 70 percent, they don't know. The home loan bank I think recently passed a regulation forbidding the use of brokerage houses by the savings and loan institutions, but as a result the western institutions have resorted to direct advertising, and now even to direct mail. One incensed mutual savings banker in New York was quite upset because he had received a direct mail ad from California soliciting.

Mrs. Griffiths. Shouldn't we also pass legislation to prohibit brokerage firms from giving little courses to women on how to invest their savings wisely in the stock market?

Mr. Rains. Mr. Rutherford.

Mr. Rutherford. Thank you, Mr. Chairman.

I want to join the others who have complimented you and the staff for bringing this cross section of builders here. I might say that their statements are refreshing, and are very frank, and avoid the usual Madison Avenue couched prepared statements.

I noticed one thing interesting to me, that each one of you concluded your statement by saying, "This is my individual opinion, and not of any organization I might be associated with."

I am aware of some of your other association memberships that will subsequently testify—and preceding you here—opposing this bill. I think it is interesting and amusing, and I might say this. I know that Mr. Elliott, coming from my district, is vice president of the National Real Estate Board, who will subsequently come before this committee, and we will learn of that position then.

I think it is interesting to the committee to be advised as to what your organizations are, strictly for the record.

Mr. Coogan, would you say, without being partisan, that this administration has advertised a product of inflation rather than to try to control it?

In other words, in their statements and in their attitude, they have actually advertised or created an interest in inflation. They have contributed to inflation rather than attempting to control it.

Mr. Coogan. I think inflation is a very dangerous thing, but, unintentionally, the emphasis placed on it has the opposite effect, people feeling their money isn't going to be worth more in the future spend it today.

Mr. Rutherford. In other words, in their scare, in their talk of inflation, in political and partisan statements, if you don't watch out the old inflation bear will get you, they have created a climate for inflation.

You stated something which I think the committee is familiar with, certainly I am, but I would appreciate it if you would go into greater detail as to the extracurricular activities of the FHA, being a promotional organization for outside product rather than the intent for which it was originally created.
Mr. Coogan. I don't want to dwell on that, but I think this is a natural development in an organization, particularly a Government organization, that develops with the times. I am reluctant to criticize FHA because I think it is the most wonderful Federal institution that has been developed, the ability of the Government and industry to walk hand in hand at no cost to the taxpayer and produce the terrific housing that has been produced in America is a wonderful thing.

In its early days, it was exercised on fundamentals. Recently they have been talking about the quality house, and with their developing requirements, rules and regulations, what we call minimum construction requirements and minimum property requirements, they naturally become the recipients of all the pressures that can be exercised for thicker roofs, larger heating plants, bigger lots regardless of the ability of the homeowner to take care of the land, the electrical requirements.

I can remember when FHA first started we used to build houses with a 15-ampere service, and now I think it takes nearly 100 amperes, and you have to have an outlet within reaching distance no matter where you are sitting.

These things have accumulated, and individually they come a little at a time, and each little improvement seems to be going to make a better house, but suddenly we are found with a bunch of requirements that in my opinion, and in the opinion of many builders, cost more than $500 more to build a house under FHA requirements than to build an equally good house without the requirements imposed by FHA.

Mr. Rutherford. Would you classify these extra requirements as "lace," that the home buyer doesn't need?

Mr. Coogan. One of our problems is they not only do not need it, they cannot afford to buy it after we get it in.

Mr. Rutherford. You stated there was a trend to the construction of higher priced homes. Is this to meet the market, or is this based primarily upon the increased income, or is it a fact that there is no money available for lower income homes, or what?

Mr. Coogan. The big determining factor has been we go in cycles. Immediately after the war there was a real shortage of housing and limitations on the volume of materials we could choose; we could only build small houses.

Mr. Rutherford. The trend is not necessarily because there is no need for lower priced homes?

Mr. Coogan. There is one great pressure, and that is land cost. We are paying so much now for raw land, and the requirement of FHA, the municipalities, and others as to what you have to do to that lot before you put a house on it has gotten up so that you are forced to put a higher price on the house because of much of the land you buy.

The old criteria was that the land cost shouldn't be more than 10 percent of the price of the house. They are now working on 20 percent, and it is edging even higher.

This is one of the great upward pressures, and then the Madison Avenue influence developed a feeling among everybody that if they don't have a bedroom for every child, if they don't have a separate dining room, a family room, and a two-car garage, they are under-
privileged, regardless of their income and their ability to buy. Most of the bankers, and even FNMA as a matter of fact, frown on a two-bedroom house, yet a two-bedroom house is a fine house for a lot of people.

Mr. Rutherford. Usury has been mentioned here, Mr. Snyder. Would you say, with the experience you have had with the savings and loan institutions that have no ceilings, that the interest rate of 10 percent is justified, though in fact they have wantonly disregarded their privilege?

Mr. Snyder. I would like to say at this point there are Federal levels that could control this. The savings and loans go and borrow from the Federal bank at 4 percent and turn around and loan to people like me at 7.2 percent. When you talk about going to the State for the answer, I think we could go to the Capital, right here, for the answer. If they are going to be able to borrow money right here at 4 percent, or whatever it might be, they ought to be regulated as to what they can charge for it.

Mr. Rutherford. It has been stated here that on the west coast they find that discount rates will go up as interest rates increase, is that right?

Mr. Snyder. They have gotten into the habit of getting these fees, these points; they love it, they are not going to give it up unless they are forced to give it up.

Mr. Rutherford. Thank you, Mr. Chairman.

Mr. Addonizio. Before you excuse the witnesses, Mr. Chairman, I would just like to ask Mr. Albert a question; I don't want him to feel as though he has been left out.

As he probably remembers, about 2 years ago this committee was down in the Miami area holding hearings on housing legislation, and at that time we received testimony to the effect that the balloon-type second mortgage was very prevalent in the Miami area.

As you remember also, this committee condemned that practice very strongly, and I believe as a result of that the Florida State Legislature has now passed a law prohibiting this practice.

Mr. Albert. The act doesn't prohibit the practice of the second mortgage with the balloon, it merely requires that you flag any second mortgage with a large rubber stamp so that the buyer or the mortgage borrower under those circumstances is not aware of the existence of this ballooned condition on this mortgage that he is signing.

Mr. Addonizio. In other words, they put the kiss of death on it?

Mr. Albert. I think so, and I think it is largely due to the efforts of this committee at hearings in Miami that this came about through our legislature.

Mr. Addonizio. I am pleased to know that, and I am sure the rest of the committee is, also.

Mr. Rains. Mr. Widnall.

Mr. Widnall. This last discussion was interesting to me, because it is one of the things the State can do at its own level to help a very bad condition, and I hope something happens out your way where it is our understanding you are running into an unwholesome situation with respect to second mortgages, Mr. Snyder.

Mr. Coogan, you spoke of the Central Mortgage Bank and in connection with your proposal the Board of Directors would from time
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to time set the interest rates on FHA and VA mortgages. Would they be set at the competitive level, or what did you have in mind?

Mr. Coogan. They would have to be set at a competitive level based on the cost of money to the Central Mortgage Bank in the flotation of its debentures and notes.

The Central Mortgage Bank shouldn't compete with other mortgage companies. The interest rate on mortgages should be at the lowest level possible, considering the current cost of money, with a small margin for operating.

Mr. Widnall. You would set the interest rates at what would be a competitive level on both FHA and VA mortgages?

Mr. Coogan. That is correct.

Mr. Widnall. I don't recall who made the statement, Mr. Albert or the gentleman from Texas, about being unable to sell all the inventory of homes during the commitment period and then running into difficulties.

Doesn't that occur sometimes because you have overbuilt your market?

Mr. Elliott. Yes, it does, and I like to build in a low-cost market, but the people couldn't qualify that wished to buy these homes.

We have to sell every one of our $8,250 houses from three to five times to get a buyer acceptable to the market.

Mr. Widnall. Sometimes you guess your own market wrong when you run into this difficulty, and then you run into additional discounts months later?

Mr. Albert. I don't feel that that is true. The fact that you have to resell these houses three to five times indicates that the problem has been created whereby the buyer cannot qualify under his present earnings in the light of current costs.

Many times you run into other problems within the life of this short commitment that you are able to get. If you run into a labor strike, or if you have a material shortage in any particular category, or weather problems can arise, there are so many things that can affect you, and you unfortunately don't have a device where you can get an extension of these commitments.

Mr. Widnall. I understand what you are talking about with respect to labor strikes, because that happened in my own area recently where the electricians went out, and there were men with original commitments on homes at a figure they felt was all right with respect to sales, but the whole pattern was disrupted.

Mr. Albert. No one wants to extend it when they can place the money at a more favorable rate.

Mr. Widnall. That wasn't the fault of the lending institutions. The builder made commitments on a basis he felt the houses would sell.

Mr. Albert. It wasn't the fault of the builder, because he couldn't sell those houses, so he was not overbuilding. I am trying to correct that one point you made.

Mr. Widnall. He wasn't complaining about the terms on which the commitment was made originally.

Mr. Snyder. He is complaining, but he didn't have any choice. The builder doesn't want to sign a 6-month commitment, he would like to get a year or a year and a half. They say, "Take it, or leave it," take
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6 months. He has to take it, so just because we do things in this business doesn’t mean we like them.

Mr. Widnall. In the last year, have your commitments been shortened from the pattern that existed before?

Mr. Snyder. Absolutely.

Mr. Widnall. What has been your experience on that?

Mr. Snyder. Our experience was that we had 18 months as a commitment, where now it is from 6 months to a year, 6, 8, 9 months, or a year.

Mr. Albert. It has gone less than that. It used to be a year and a half, as you say, but it is down now to 120 days to a maximum of 6 months. I haven’t heard of any 1-year commitments lately.

Mr. Share. In Detroit it is around 6 months, and very often we will have 4 months during the year where you can’t even dig into the ground, so we are caught short.

Mr. Coogan. In our mortgage brokerage business we find most of the institutions now want 90- to 120-day delivery from the time they issue the commitment. It is very difficult to get anything over a 6-month commitment.

Mr. Widnall. On behalf of the minority, I want to thank you for appearing today. I regret that out-of-State commitments have kept other members away from the hearing. It was not because of lack of interest.

Mr. Rains. I am sorry that Mr. Lewis from Birmingham couldn’t be here, but I do want to include his statement in the record. His plane was fogged in in Atlanta and couldn’t get out.

(The matter referred to follows:)

STATEMENT OF EDWARD LEWIS, OF BIRMINGHAM, ALA.

Homebuilding in Alabama faces a bleak 1960 unless Congress acts soon to provide adequate funds for mortgage money. Advance planning of housing production under the VA and FHA programs by homebuilders has dropped to the lowest level since January 1958. VA applications in the whole State of Alabama has averaged a scant 147 units per month for the past 3 months. This is a mere 23 percent of the average monthly volume of 641 units per month for the preceding 20 months going back to January 1958 or a 77 percent reduction in proposed starts. In that month of January 1958, the worst on record for Alabama, there were applications for appraisal of only 20 units in the entire State of Alabama. Furthermore, FHA applications for commitments for proposed construction in the last 4 months have shown the same downturn and have been less than one-half of the preceding 12-month average. There is a strong parallel between January 1958 and the present situation. In both cases there is an almost complete absence of advance mortgage money commitments available to homebuilders with a resulting curtailment of planned housing starts. Without advance commitments of mortgage money for his customers the builder has nothing to plan with. This situation in Alabama is fast approaching a point of crises for the homebuilding industry. Homebuilders are now operating on mortgage money committed for in the first half of last year. As these commitments expire the builder must cease operations if he cannot obtain new advance commitments. The actual experience of the past 3 months has been that a new advance commitment cannot be obtained at all, although standbys are available at 11 to 14 points. These prices are so high as to make the venture unprofitable to the builders; and the builders, with good business sense, are not going to build houses when the mortgage market outlook can offer no better hope than that.

From personal experience, I can assure you that mortgage money for advance commitments is not just tight, it is unavailable. Two trips to New York in the past 6 weeks have been made on my behalf by my mortgage banker. On the first trip I accompanied him. Savings bank after savings bank received us most cordially, but bank after bank also told us the same story. The “magic 5’s,” the
Government bonds issued at 5 percent interest, had taken enough of their savings accounts as to cause them to be out of investment funds for mortgages.

Just as happened in December 1957 and January 1958, the VA program is dwindling to nothing and the FHA program will be drastically reduced in Alabama unless Congress acts soon to make mortgage funds available, and at a reasonable price. The homebuilding industry cannot make plans on hopes that mortgage money may be just around the corner. We cannot operate on discounts that skim off the profit before we ever see it. Lenders and some economists have been telling us since last September that money should loosen up in a couple of months. Each month, however, the supply and price has progressively tightened. In Birmingham the VA and FHA programs are the biggest factor in the housing market of homes under $20,000. Without these programs we could lose almost half of the total housing starts in 1960, and based on present mortgage conditions this seems to be the course we are following. We have in the Birmingham area a backlogged need for housing. Primarily because the last 6 months of 1959 brought a big drop in sales, largely attributable to the steel strike. During this period there was a big reduction in starts in Birmingham due to this drop in sales. With the pickup in sales in January, our normal operation would be to start construction of a large number of houses to build up our inventory. However, with the shortage of mortgage money and with little or no prospects for mortgage money, we cannot make plans to build the houses we need. Only an early supply of mortgage money can keep homebuilding moving forward in 1960 in Alabama.

The Emergency Home Ownership Act, by providing $1 billion for special assistance, can rescue the FHA and VA programs. This amount will probably be too little by itself, but from past experience it has a stimulating effect on private lenders that multiply its effectiveness. However, the provision limiting the use of funds to mortgages of $13,500 and under will not adequately meet the present problem in Alabama, in my judgment. Usually, in the past, when mortgage money tightened up, it was the lower priced houses which suffered most, while money was still available to some degree for the middle priced and higher priced homes. The situation now is that money is unavailable at a workable price for all VA- and FHA-financed homes. In Alabama, this means the majority of all homes under $20,000. The median sales price of new homes under VA and FHA has been around $14,700. This bill would have a bigger impact on housing if the mortgage limit was increased to $14,500 or even $15,000 and thus be available to a faster market of home buyers.

The provision of the bill to reduce FHA insurance premiums from one-half of 1 percent to one-fourth of 1 percent is a step that needs to be taken. FHA reserves, according to experts, are sufficient to carry it through a major depression. Under the circumstances, it would seem unnecessary to continue to pile up reserves and this proposed reduction in premium would be a much-needed step to reduce the cost of financing a home. Monthly amortization payments on a $14,000 house have increased 10 percent due to the rising interest rates in the last 4 years. This lower premium will help to offset about one-third of that increased interest rate and will make it possible for more people to buy homes.

The provision in the Emergency Home Ownership Act requiring FNMA to work to stabilize the mortgage market is probably the most important legislative proposal for the housing industry that has been made in many years. The fluctuations of mortgage money and the uncertainties builders face from this fluctuation serve to increase the cost of doing business and thus the cost of homes. This added cost is unnecessary and wasteful of the national resources. Furthermore, the fluctuations make it possible for and encourages lenders to make demands for bigger discounts and higher interest charges. The housing industry is caught on a treadmill. We run faster to catch up to higher interest rates, but we find ourselves standing still in the matter of discounts, and even dropping further behind. As one of those who supported the proposals to increase interest rates and let money seek its own competitive level, I must confess to disillusionment. It has not worked and we find ourselves saddled with a mounting discount and interest charges. Higher interest rates have not and apparently cannot create adequate funds for mortgages; nor, have they improved our competitive position for investment funds available. There is just not enough mortgage money to go around without the Federal Government doing something to help provide funds. The competition to obtain money from an inadequate supply has inflated the price of money beyond reason. If the present demand-supply imbalance continues there will be no end to this inflation of housing costs. The provision of the act that requires FNMA to act as a sec-
ondary market can eliminate this imbalance by providing a legitimate market alternative to builders. FNMA has not done this in the past. FNMA has gone along with the market, and has not supported it. FNMA even competes with us in the market by selling some mortgages she holds and thus helping to soak up investment money we need and further depressing the market. FNMA even refuses to accept Government guaranteed and insured loans on occasions as not being good security. This second guessing of the VA and FHA credit departments is unnecessary, expensive and ridiculous duplication and ought to be stopped.

FNMA's 2-percent stock purchase requirement has turned out to be another name for discount. The intent of the Emergency Home Ownership Act to reduce this requirement to 1 percent is good, but if FNMA turns around and raises the discount one-half percent we will be no better off. FNMA must keep the price of mortgages up near par if she is to be effective as a secondary market. If she does, private lenders will be willing to pay a fair price for mortgages. This objective of a stable market could be further implemented if some balance of portfolio between bonds and mortgages were required of insurance institutions.

The last provision of the act, which requires lenders to report discounts charged on mortgages will go a long way toward eliminating the abuses on dis­counts and origination fees. There will be a reluctance to charge unjustified fees when those fees will be scrutinized by the Government agencies involved and made available to Congress. An investigation by this committee into past practices will probably have the same salutary effect.

In conclusion I want to reemphasize that in my area there is no mortgage money available for advance commitments on VA and FHA loans and this has resulted in a decline in proposed construction of 77 percent for VA and over 50 percent for FHA. Almost 50 percent of the homes under $20,000 built in Birmingham are VA or FHA financed. Our present commitments are already expiring and will be exhausted in a few months. Without mortgage money we will have to shut down or many of us will be forced to switch to conventional loans and second mortgages to stay in business. This situation will have terrible consequences to our economy and will be felt by our laborers, material manu­facturers and dealers, retail businessmen, and the families of these people. The only alternative that can prevent this is for Congress to supply FNMA with mortgage funds to keep our industry going until money loosens up again. To do so is not inflationary—it is antideflationary and will help us stabilize the cost of housing. Our labor will make wages, manufacturers and sellers of material will make profits, and the U.S. Treasury will have an increased tax collection.

Mr. Rains, I want to thank you. It has been an interesting experi­ment having you come before us. I think the committee likes it well enough so that we will do it again sometime.

Thank you, very much.

Mr. Coogan. Thank you. We appreciate the opportunity to appear.

Mr. Rutherford. There might be subsequent statements submitted by people from these areas.

Mr. Rains. We will be glad to have them.

Mr. Widnall. I have an article from the Wall Street Journal, of January 28, 1960, I ask permission to insert in the record.

Mr. Rains. That may be included in the record.

(From the Wall Street Journal, Jan. 28, 1960)

REVIEW AND OUTLOOK—THE GOVERNMENT'S PREFAB MARKET

It's become practically axiomatic that when the economy is in a slump, no matter how mild, the politicians will rush to turn on the Federal spending spigots full force. That is a dubious procedure at best, but it is completely indefensible when the economy is booming.

Yet that is what we are already getting, with the congressional session only a couple of weeks old. The most egregious example so far is the housing bill sponsored by Representative Rains. Among other undesirable features it would

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Federal Reserve Bank of St. Louis
give the Federal National Mortgage Association a new fund of $1 billion, no
less, with which to buy at face value mortgages up to $13,500 that are insured
by the Federal Housing Administration or guaranteed by the Veterans’ Adminis­
tration. 

Briefly the thought is that if FNMA can pay face value, instead of less as has
been customary, many more mortgage holders will sell to the agency, thus
making more money available for housing starts. This, it’s hoped, would send
the inflated housing industry on another dizzying upward spurt. 

How come the housing industry needs such a mammoth new injection in these
times? The argument of the bill’s backers and the industry’s lobbyists is that
housing may face a slump this year largely on account of tight money; by a
slump they mean housing starts may decline some 200,000 below 1959’s 1.3-
million-plus. Not much of a slump in any case, but a canvass of actual builders
in the Nation, published in this newspaper the other day, indicates the high
1959 figures may be equaled this year. 

So the “tough times” contention falls pretty flat. But let’s pursue the thing
a bit further. Suppose housing starts do fall below last year’s. Is that a

catastrophe? Must every year’s homebuilding exceed the previous year’s re­
gardless of need? Is it sound public policy to do this at the expense of inflation
for the whole Nation? 

For let there be no doubt that this bill is an exercise in inflation. Federal
Housing Administrator Mason, opposing it, told Members of Congress it would
put an added burden “on the whole financial structure of Government.” It
would mean more Government borrowing. “In turn the issuance of more Gov­
ernment bonds would increase the national debt and add to inflationary pres­
ures.” More specifically, he said, it would inexorably lead to higher construc­
tion costs. 

Moreover, the bill is needless and useless as an antidote to tight money. As
Mr. Mason observed, credit generally may ease if it turns out that the Treasury,
which borrowed so heavily in 1959, borrows less than it repays this year. In
any case, the sensible approach to tight money is not to try to inflate the housing
market still further. It is for Congress to take really corrective action such as
removing the arbitrary interest-rate ceiling on new longer term Government
issues, for one effect of the ceiling is to force the Treasury into short-term
financing where it draws on money sources that are also the main sources of
mortgage credit. 

But the basic trouble is that the Government, through its labyrinth of housing
agencies and programs and its limitless spending, has become a prime mover
and governor of the housing market. We will not be nearing a solution of that
trouble until we rebuild our archaic and ramshackle housing programs from the
ground up. 

When the Government undertakes to prefabricate any market, it may seem
to benefit the sellers for a time. But the customer pays through the nose. And
in the end everybody loses. 

Mrs. Griffiths. Might I insert a letter and data from a builder in
Detroit? 

Mr. Rains. That letter along with the additional information may
be included.

(The letter and data referred to above are as follows:)

IRA HOTCHKISS Co.,


Hon. Martha W. Griffiths,
House of Representatives,
Washington, D.C.

My Dear Mrs. Griffiths: The building industry in Michigan is in a most
perilous and chaotic state. If the facts were known, I believe residential con­
structions has fallen off 50 percent in the Metropolitan Detroit area rather than
10 percent as reported by governmental agencies. 

The Bureau of Credits, Inc., reported that from January 2, to October 20,
1959, some 70 companies engaged in various phases of construction industry filed
petitions in bankruptcy, showing liabilities of over $2,237,750.

The causes of the plight of the industry are—

1. Unemployment.
2. Steel strike.
3. Financing.
All of the aforementioned conditions hit our industry with a resounding blow, and we will not recover too quickly from the shock unless Congress enacts a practical housing bill immediately. I say “at once” because if the bill emerges from Congress by spring, it may be too late for us in Michigan. In Michigan, we only have 8 months of building weather—quite unlike southern California, southern Arizona, and Florida, which permit an all year-round construction climate. A builder requires at least 3 months to build his model homes which are keyed to the new housing bill, secure financing, let contracts for supplies, etc., before he can initiate his building program. The cold weather descends upon us all too soon.

The steel strike is now over, unemployment diminishing and soon the pent up demand for housing will be felt.

Now let us look at financing. The financing of homes is a real dilemma. A discussion on this score could cover pages, so I will promise this subject by saying the program to provide housing for the veteran and workingman is the neglected stepchild of the administration. It is interesting to note the FNMA purchase price schedule for the State of Michigan, which I am enclosing herein. The price of 4¾ percent interest VA loans sank to 91½ discount on May 29, 1959. Congress increased the interest rate to 5¼ percent and on July 2, 1959, the price rose to 95½. After the increase in interest rate, the loans sank to 91½ by October 15, 1959, in a matter of a little over 3 months. The increase in interest rate is only a troubleshooter for the builder, as it only creates a false, temporary delusion.

In 1958, Hotchkiss Construction Co., constructed approximately 500 homes in the Detroit area as a result of special assistance. In 1959, we only constructed 140 homes in Michigan. This was the poorest year we encountered in the past 23 years of building residences in Detroit, Mich.

I recommend:
1. Appropriating $1 billion special assistance to FNMA to purchase VA and FHA loans up to $15,000 at par, without any control by the President as to release of funds. (These commitments to cover a period of 18 months to the builder who is located in winter climatic areas, and not 12 months for all States as enacted in the housing bill in April 1958.)
2. Extend the amortization of FHA and VA loans from 30 to 40 years. The monthly payment on a $13,500, 30-year, FHA loan on principal and interest is $84.43. After the loaning institution adds the real estate taxes and insurance, the payment exceeds $100. How can the workingman qualify for a mortgage? He cannot. An additional 10 years to repay the loan will reduce the monthly payment approximately $8.
3. Put the reduced FHA payments into effect at once as enacted by Congress in the 1959 housing law. For some reason the FHA Commissioner has not seen fit to deem the regulation necessary. On the subject, I am enclosing a very interesting article which appeared in the Miami Herald on December 20, 1959, wherein the real estate editor interviewed Commissioner Julian Zimmerman in Nassau.

Very truly yours,

IRA A. HOTCHKISS, President.

STATE OF MICHIGAN

FNMA purchase price schedule (after deducting 1½ percent to cover marketing fee and loss resulting from sale of FNMA stock. Prices below are net to builder)

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Federal Reserve Bank of St. Louis
You walk into the patio of the Bahamas County Club at Nassau to say hello to a friend from New York and you bump into Federal Housing Administrator Julian Zimmerman and the opportunity for an exclusive interview.

That was the luck of this reporter last week during a housing tour and merchandising conference held in Nassau by South Florida’s Home Builders Association.

The talk with Zimmerman came on a weekend when the Herald delved deeply into the current problems of Miami’s homebuilders. Chief of these is the fierce competition among the big builders that is being fed by the FHA’s section 213 program which offers the buyer terms of 1 percent downpayment and 40 years to pay off the mortgage.

South Florida builders and mortgage men agree the section 213 program can only be used efficiently by the organization with plenty of land and money enough to generate a galloping sales program. That’s why the small builder is hurting today in Miami. He can’t compete.

So we asked Zimmerman why the Government offered the big builder a better financing deal. Why didn’t he lower the FHA’s downpayment requirements on the regular home-sale program and extend those mortgages to 40 years?

Zimmerman’s answer was surprising. He doesn’t see any reason why the small builder can’t use the section 213 program which calls for a minimum start of eight houses.

He doesn’t think Miami’s homebuilders have a good argument when they complain that they lose four out of five sales because the buyer can’t qualify for the 30-year mortgages with higher monthly payments.

Then what about the differences in downpayment requirements under the two sections of the same Government housing program? The small-volume builder of a $15,000 house must find a buyer with about $650.

The FHA’s section 213 program was originally set up to enable persons of similar interests and background (minimum of eight) to form a cooperative to put up a small apartment house or build a group of houses, either single-family, semidetached, or even in a row. But it turned out to be too complicated for persons without knowledge of the building business. Now the project builders have stepped in and are using the program very efficiently.

But the builder big enough to use the section 213 program can offer that same $15,000 house with a downpayment of only $150.

That point seemed to get home to the Commissioner who has been reported as slightly shook up since he discovered the 1959 housing bill contained a gimmick that allowed the section 213 builder to absorb 2 percent of the downpayment.

Zimmerman indicated he’s going to do something about the situation next month to make sure the buyer of an FHA-insured home puts up at least 3 percent.
Talk's about Government housing policy during a weekend on an island in the sun—Herald's Frederic Sherman, left, and FHA's Julian Zimmerman get together in Nassau
SOME BUILDERS PLAY WITH FIRE

Equalizing the downpayment requirements of both FHA programs is urgently needed to head off a scandal that could produce headlines to rival those on the windfall profits in apartment house construction after World War II.

To meet the competition of the 1 percent down deal of section 213, some south Florida builders are paying a portion of the downpayment themselves. On more expensive houses, where the FHA downpayment runs several thousand dollars, some builders have offered to lend the buyer money on a personal note.

Maybe that doesn’t sound horrible, but it is against the law. And in most of the cases, it is unlikely the deal could be made without the mortgage company knowing all about it.

DEMOCRATS WOULD HAVE A PICNIC

The Government got into the housing business 25 years ago to make it possible for low- and middle-income families to buy a house without the threat of a foreclosure hanging over their heads.

If congressional leaders ever get the idea that the FHA program is being abused, there will be an explosion. It was a Republican Congress that shook the political back teeth of a Democratic administration over the windfall profits. The present situation is reversed.

Senator John Sparkman, of Alabama, would like nothing better than to call President Eisenhower’s housing men up to Capitol Hill and try to skin them publicly.

IT’S TOUGH TO EAT YOUR WORDS

If Zimmermann were called by Sparkman’s Senate Housing Subcommittee, it would give the FHA Commissioner a chance to sound off about the heavy discounts on the Government-insured mortgages.

Zimmerman raised the FHA interest rate to 5 3/4 percent after he was assured by mortgage men and savings bank officials that the move would put FHA mortgages at par. Zimmermann said just that when he made the move and now he’s had to eat his words. And he’s sore.

It would be interesting to know what the Commissioner had to say to his fellow guests in Nassau last weekend. The meeting was sponsored by House and Home magazine and the guest list included the new presidents of almost every major association connected with homebuilding; the Savings & Loan League, the mortgage bankers, the realtors, lumber dealers. Purpose of the weekend, an annual event, is to put the presidents on a first-name basis and give their wives a chance to meet.

Mr. Rains. I am very sorry that I have an Alabama delegation meeting at noon. I had wanted to stay to hear the realtors and the insurance company people, but they prefer to go on now rather than come back at 2. My vice chairman and good friend Hugh Addonizio will take over.

Mr. Williamson, you may bring your realtors around. I would like to meet them, at any rate.

Mr. Williamson. I have brought with me this morning Mr. Robert Scott of Elizabeth, N. J.; Mr. Houston Carter, of Mobile, Ala.; Mr. C. C. Cameron of Raleigh, N.C.; and Mr. Don Dixon of Lincoln, Nebr.

Mr. Rains. We are very delighted to have you gentlemen appear here. I am especially proud to see Houston Carter here from Mobile.

I regret I have to leave, but we have a delegation meeting involving Alabama, and I have to go and attend it. Mr. Addonizio will take over at this time.

Mr. Widnall. Mr. Chairman, I would like to welcome Bob Scott from our State of New Jersey. I know what a competent man he is in his field. I am sure he will do his best to be constructive for the committee.

Mr. Scott. Thank you very much, Mr. Widnall, it is a pleasure to be here.
Mr. ADONIZIO. May I also welcome Mr. Scott here this morning. I know that I don’t always agree with everything that you say, but it is a pleasure to see you.

Mr. SCOTT. Thank you very much.

STATEMENT OF ROBERT E. SCOTT, CHAIRMAN OF THE REALTORS’ WASHINGTON COMMITTEE, NATIONAL ASSOCIATION OF REAL ESTATE BOARDS; ACCOMPANIED BY JOHN C. WILLIAMSON, SECRETARY-COUNSEL, REALTORS’ WASHINGTON COMMITTEE

Mr. SCOTT. Mr. Chairman and members of the subcommittee, I am Robert E. Scott of Elizabeth, N.J., where I have been engaged in the real estate brokerage and mortgage banking business for more than 28 years. I appear before you on behalf of the National Association of Real Estate Boards, a federation of 1,347 local real estate boards with a membership of almost 67,000 realtors in every State of the Union.

On behalf of our national association, I appreciate the opportunity of expressing our views with respect to R.R. 9371—the bill which is cited as the “Emergency Home Ownership Act.” The bill proposes certain temporary although fundamental changes in the FHA mortgage insurance system and the FNMA Charter Act which have as their apparent objective a reversal of the predicted downward trend in homebuilding starts.

We share with the chairman the anxiety, which introduction of the bill reflects, that housing starts and the sales of existing homes during 1960 may be less than that of 1959. If this be so, then it is indeed unfortunate as the housing needs of the American people are expanding rather than lessening. However, there is serious question whether such pessimism is well founded in view of the private housing starts in December which were higher than expected and boosted the year’s total to at least 1,310,000, the second highest annual rate on record.

While we do not wholly share this pessimism with respect to starts, we must concede that all is not as it should be to meet the housing needs of our expanding population and to replace the substandard housing which is leaving and should continue to leave our housing inventory. Certainly there has been a sharp downturn in sales of both new and existing housing due to the absence of adequate financing—of course it goes without saying—at a proper price. We will try to develop our thoughts in the ensuing pages of this testimony.

The bill and these hearings are, in some respects, reminiscent of early 1958 when an emergency housing bill sped through the Congress. The objectives of that bill and this are the same. The “heart” of that bill was the $1 billion made available to FNMA to buy the regular FHA’s and VA’s new construction at par. All else was secondary. Indeed, that is the case with this bill—the reactivation of this FNMA program 10 to inject $1 billion of Treasury funds to “shore up” the lagging FHA and VA programs and thereby reverse the predicted downward trend in homebuilding.

Thus the objectives and the central themes of both bills are identical. At that point the similarity ceases. In 1958 we were in the throes of a sharp decline—a recession with a capital R. The GNP had dropped from $442.3 billion in the fourth quarter of 1957 to $432 billion in the
first quarter of 1958, the largest decline for any quarter in the post-World War II period. The industrial production index declined from 149 in October 1957 to 132 in April 1958, and unemployment increased 50 percent, from 5 percent of the civilian labor force in October 1957 to 7.5 percent in January 1958.

FHA and VA applications reflected this downward trend although conventionally financed residential mortgages persisted in their historic trend of moving in a contrary fashion for obvious reasons. The situation is vastly different today. The economic indicators I have cited above all show a heartening upward trend. In many respects the economy is taking off.

At this point I would like to interpose that our mortgage market survey of winter 1959 has this to say about the situation:

Despite more selective lending possibilities, decreased availability of funds in some areas for some lending categories and the steady upward movement in rates, the home mortgage market actually absorbed an unprecedented volume of savings during the year. For the first 9 months of 1959, the dollar volume of home mortgage recordings nonfarm of $20,000 or less exceeded by $3 billion a like period of any other year. The 12-month total will undoubtedly establish a similiar annual record.

I also have a tabulation of the recordings of deeds and mortgages in 14 of our 21 counties of New Jersey for the period 1958 and 1959, and there has been an increase in the recordings of deeds in every single one of these counties by anywhere from 5 to 10 percent, and I note, too, from the Wall Street Journal of Monday, January 25, the headline in the upper right corner, “Buoyant Builders Dispute Glum 1960 Forecasts, See Starts Near Last Year’s Pace.”

H.R. 9371 proposes an emergency and temporary solution to the one sector in our economy—homebuilding—which in the opinion of most of the year-end prognosticators does not show the promise of the other sectors. Actually, confining the problem to the homebuilding sector is wrong because we are concerned in this bill only with a minor, numerically speaking, element of that sector—new construction which would normally be marketable through FHA and VA financing. I will explain as I proceed to discuss the different sections of the bill.

Section 2 authorizes the FHA to approve an individual as a mortgagee instead of limiting such mortgagees to corporate entities showing a net worth in liquid assets of at least $100,000. We endorse this provision provided the origination, processing, closing, and servicing of any such loans are accomplished by FHA-chartered institutions, since it would be obviously difficult, if not impossible, for an individual to understand and properly comply with the FHA regulations in this regard. It is believed that permitting individuals to make FHA-insured mortgages will bring a considerable amount of additional money into the home mortgage field and will permit many sellers to take back fully insured purchase money mortgages and avoid paying the discounts otherwise applicable. As a matter of fact, these loans might later be salable at a premium.

Section 3 would fix for 1 year the FHA mortgage insurance premium at one-quarter of 1 percent. Under existing law the minimum is one-half of 1 percent. We recommend that the statutory minimum premium be reduced to a quarter of 1 percent but that the FHA Commissioner be given the discretionary power to authorize the reduction. The insurance premium should not be reduced for the
sole purpose of lowering the monthly shelter costs to the home owner. The sole determinant should be the actuarial state of the insurance fund.

We also recommend, in addition to reducing the minimum premium to a quarter of 1 percent, that the bill be amended to require the FHA to submit a recommendation to the Congress as to the feasibility of changing over to a single prepaid premium which could be included as part of the mortgage. We believe that this would prove more advantageous to the home owner and certainly could be administered more efficiently and economically than the present system.

With respect to the Federal National Mortgage Association, section 4 of the bill would rewrite the basic objectives of FNMA's secondary market operations from one of supplementary assistance to the private secondary market by providing a degree of liquidity to neutralize fluctuations in the availability of mortgage funds to "aid in the stabilization of the mortgage market."

This is so fundamental a change in FNMA's charter that we believe it should not be handled as an emergency measure. Rather its consideration might more properly come should the subcommittee decide to launch a thorough reevaluation of FNMA and its statutory objectives. FNMA's present approach to the market is not something that stands along in the statute. It is geared to FNMA's capitalization which has produced more than 5,000 private shareholders holding more than $50 million in common stock. It is related also to the reception which FNMA's debentures meet in the private investment market. We cannot tamper with FNMA's role in the secondary mortgage market by requiring it to buy "over the market" and expect the interest of the private shareholders to be unimpaired and the private investment sources of FNMA's borrowings to be unaffected. We reiterate our last year's opposition to this section and urge that it be deleted from the bill.

Section 5 provides that for a period of 1 year following enactment of the bill FNMA would be required to purchase any FHA-insured or VA-guaranteed mortgage offered to it so long as the mortgage is not in default or in imminent danger of default and the title is not defective. Presumably, FNMA would still retain the regulatory authority to qualify mortgages as to time since origination which is presently 4 months, and to fix varying prices so that any marginal or submarginal characteristics attaching to the physical property, neighborhood, or credit of the borrower would be reflected in the price.

In the light of this administrative discretion retained by FNMA we believe the proposed amendment has considerable merit. However, if the amendment is consistent with sound business principles, and we believe it is, the change should not be limited to 1 year, but should be made permanent.

Section 6 provides that for a period of 1 year following enactment of the bill FNMA would be prohibited from selling any mortgage from any of its three portfolios. Approval of this amendment would mean that FNMA would have to rely completely on its borrowing authority for money with which to purchase mortgages. FNMA's increased activity, a likely consequence of this bill, would mean increased reliance upon Treasury capitalization. On the contrary, the legislative history of the FNMA Charter Act is clear that
the Association would conduct its operations on a revolving fund basis.

An examination of FNMA purchases and sales reveals that when mortgage money is tight its purchasing activity soars while its sales decline proportionately. For example, its purchasing activity hit its all-time high in fiscal 1959 of $1,376,272,000, and sales dropped to $87,994,000, or about one-fourth of its sales activity during the previous fiscal year.

We are not clear as to whether the prohibition against selling any mortgage includes a prohibition against an exchange such as that which took place last December, whereby FNMA exchanged approximately $188 million of VA 4-percent mortgages from its management and liquidation portfolio for 23/4-percent Treasury bonds. Considerable opposition developed to this exchange. However, the exchange actually benefited the mortgage market, since it permitted investors to exchange frozen assets for amortizing mortgages which provide rollover, or fresh money available for reinvestment in home mortgages—money which would not have become available until the maturity of the bonds exchanged.

Section 7 fixes at 1 percent, for a period of 1 year, the capital stock subscription required of those who sell mortgages to FNMA's secondary market operation. Presumably, the purpose of this section is to make certain that for 1 year it will cost 1 percent less to do business with FNMA. We seriously doubt that this will contribute to an upsurge in home ownership sufficient to warrant such a curb on FNMA's present authority to fix the capital stock subscription at not more than 2 percent nor less than 1 percent.

In the FNMA Charter Act the Congress laid down a guide line for the Association that in determining the stock subscription it consider "conditions in the mortgage market and the general economy." If the Congress is dissatisfied with the 1 to 2 percent range and this guideline, then these should be changed.

FNMA must accumulate capital in order to expand its borrowing authority without further reliance upon the Treasury. Reduction of the stock subscription by 50 percent reduces its borrowings by that same percentage.

On the subject of borrowing authority, we are concerned that even without enactment of this bill the present limitation on FNMA's borrowing authority of 10 times its capital, capital surplus, general surplus, reserves and undistributed earnings, is too restrictive. We urge that this ratio be increased from 10 to 15 and propose this as an amendment to this housing bill.

Section 8 requires that for a period of 1 year FNMA pay not less than par for mortgages purchased under the special assistance program.

Our association opposes this section, although we want to make it clear that our opposition to the par purchase requirement is not to be construed as opposition to the purchase of any special assistance mortgage at par. However, we do oppose a requirement for support at par, or at any stated price, of all of the nine classes of mortgages which are today eligible for special assistance.

A review of those different mortgages which would be eligible for par support underscores the unreasonableness of the provision.
These mortgages would run the gamut from FHA 203's—if section 11 is approved—which are acceptable to the private market, to section 221 mortgages whose marketability has yet to be established. Between these two we have the military 4 1/2 percent loans which are as acceptable as a Government bond at that same rate, and the section 213 mortgages which have always been financed by private sources in substantial amounts except now and then when the Congress has required that they be purchased at par by FNMA.

To require that all these mortgages be purchased at the same price presupposes that all these mortgages have the same degree of acceptability or unacceptability in the market. This, of course, is not the case.

We believe that FNMA has done an excellent job in establishing prices for special assistance mortgages in the light of the intent of the Congress that these programs accomplish their objectives. I seriously doubt that there is any evidence that these programs have suffered since Congress decided in 1958 to terminate the mandatory par purchase requirement.

Section 9 limits the charges or fees which FNMA may impose to 1 percent of the mortgage instead of the present 1 1/2 percent. We note that while this section amends section 305(b) only to the extent of reducing the fees and charges to 1 percent, it leaves untouched the criterion which FNMA must employ in fixing the amount—with the objective that all costs and expenses of its operation under this section should be within its income derived from such operations and that such operations should be fully self-supporting.

Thus the section, if enacted, would charge FNMA with conducting a self-supporting operation so long as it doesn't charge more than 1 percent purchase and marketing fees. It would seem to us that the question should be what must FNMA charge in order to fulfill the mandate that its operations be self-supporting. The section dilutes the mandate yet leaves the language unchanged. We seriously doubt that the limitation on the fees and charges as proposed would result in increased activity in the special assistance program sufficient to warrant this tampering with the self-supporting principle. We recommend that this section not be approved.

Sections 10 and 11. These two sections reactivate the FNMA program 10 which was added by the Emergency Housing Act of 1958. Reactivation is accomplished by providing an additional $1 billion to purchase FHA title II mortgages or VA-insured mortgages at par, so long as the mortgages do not exceed $13,500 or, in the case of high-cost areas, $14,500.

We do not favor enactment of this proposal because we view this form of remedy for the existing problem of relative scarcity of mortgage money as too drastic, not responsive to the basic cause of the problem, and calculated in the long run to do more harm than good to the housing industry and the national economy.

We have already noted the difference in the economy now as compared with early 1958 when a similar proposal was approved by the Congress.

Differing circumstances in early 1958 and early 1960 suggest inquiry into different objectives. The 1958 act was clearly designed to stimulate new construction in order to put people to work. The 1958 act
was hailed by both parties and the homebuilding industry as helping homebuilding lead us out of the recession.

The present emergency bill must have a different objective in mind. If not to help reverse a recession and put people to work, what is the object? In our opinion, it is to reverse a predicted downward trend in homebuilding which is the result of the inability of the FHA and VA sectors of the market to compete in the capital market with the demands of the Treasury, business, and the consumer who apparently have no inhibitions and no restrictions about paying the market price for the money they need. That is the situation in a nutshell, and this $1 billion of program 10 money isn't going to improve the situation. It would simply inspire a rush on the part of some homebuilders for a share of this money to build housing, most of which we are confident would be built without this type of Federal subsidy anyway.

In evaluating this provision let us look back on what happened in 1958 when $1 billion was made available to purchase FHA's and VA's at par. The 1958 program resulted in contracts executed for mortgages involving 82,996 units, and the $1 billion was expended between April and October of that year with August the peak month when contracts involving 20,459 units were executed. The program was limited to new construction.

To evaluate better the role of this $1 billion, one must compare the activity it generated in new construction with the activity in the existing home market during these same months. During July and August, the peak months for new construction activity brought about by program 10, the applications for insurance on existing homes were 67.1 percent and 65.2 percent of the total FHA applications, the highest 2 months of the year. Thus one must conclude that even in 1958 with the homebuilding industry galvanized into action by program 10, there was still an abundance of FHA and VA mortgage money available for the financing of existing homes.

The key to our opposition to this injection of $1 billion of Treasury funds into the housing industry's bloodstream is that it provides a soothing balm to the industry's difficulties thereby resulting in less attention to and a lessened desire to get at the basic root of the problem.

Examining the problem requires that it be limited to only the FHA sector of the market. Conventionally financed housing remains strong and showed an increase for each quarter of 1959 over the previous quarter. We can't logically extend the problem to VA because the statutory VA interest rate limit is so far below the market as to make it wholly illogical to direct any emergency measure at re-activating this moribund program without first bringing its interest rate in line with the market, or at least on a comparable level with FHA's rate.

The FHA rate has fallen far below the market for reasons which will not be met by supporting its mortgages at par with Treasury money.

There are other steps which the Congress might well consider taking which address themselves to the long-range role of the FHA in the mortgage market.
For one, the Congress should immediately lift or remove the 4¼-percent ceiling on long-term Government bonds so that the Treasury's management of the public debt would have less impact on the mortgage market. We recognize that this is a subject over which this subcommittee has no jurisdiction, yet it is related enough perhaps to prompt the subcommittee to take cognizance of the matter in its report on this bill. Restricting management of the public debt to the short-term market has serious implications for all financial institutions, particularly banks and savings and loan associations. The "tragic fives"—5-percent 4-year 10-month notes of October 15, 1959—resulted in an estimated loss of about $450 million in long-term savings which could have been available for home mortgages. A less restrictive debt-management policy is bound to inure to the benefit of the mortgage market.

I believe that there would be no disagreement with the statement that residential construction in the FHA and VA sectors of the market has been affected by monetary controls more than any other sector of the economy; and, to quote from the December 24, 1959, staff report of the Joint Economic Committee—

a continuing high degree of sensitivity seems likely as long as the ceilings on FHA and VA interest rates remain in effect.

The question then must resolve itself thus: If the Congress is to persist in controlling the FHA and VA interest rates, what changes in monetary policy must be made so that this sector of the market does not bear a disproportionate burden?

Or, in the alternative:

What changes are necessary in the present control of FHA and VA interest rates so that these programs will cease to be more affected by monetary controls than any other sector of the economy?

In seeking solutions to either of these alternatives we should not forget that sometimes the effects of monetary policy may arise from private credit rationing or the disposition of the consumer to put a strain on the money market for items other than housing.

This subcommittee could make a great contribution to the solution of the first question by recommending to the Committee on Banking and Currency the approval of legislation similar to H.R. 2891, 85th Congress, which would establish a bipartisan monetary commission, including members from public and private life, to launch a broad inquiry into the adequacy of our financial institutions to meet the needs of our expanding population and economy.

The second question of what to do about ceilings on FHA and VA interest rates is an old one for this subcommittee. Such controls are regretfully part of the conventional wisdom of our times. However, I do not want to leave the subject without reading this excerpt from the recent staff report of the Joint Economic Committee:

Prior to 1953, housing does not appear to have been influenced very much by general credit controls, for the simple reason that relatively little use was made of such controls. The pronounced impact on housing since 1953 is chiefly due to the existence of a rather peculiar but very simple mechanism. Due to ceilings on the interest rates that may be charged on mortgages insured by the Federal Housing Administration and guaranteed by the Veterans' Administration, a rise in yields on other competitive types of investments, such as corporate and Government securities, has tended to attract the supply of investment funds away from these mortgages. On the other hand, when credit conditions have eased and yields on competitive investments have fallen, the supply of invest-
We submit therefore that pumping $1 billion of Treasury money to support these programs at par is nothing more than a costly coverup of the basic problem and merely postpones the decision as to how long the mechanism of interest rate controls will be permitted to run its anticyclical or contracyclical course in our economy, a course which we believe runs counter to the best interests of the home-buying public.

Section 12 of the bill provides for special assistance at par of section 203(i) mortgages of $8,000 or less on new construction, provided the permitted service charge of a half of 1 percent is not imposed on the borrower. A separate $50 million special assistance fund is made available for this purpose.

We question the wisdom of encouraging lenders to refrain from charging a fee on 203(i) loans which the law permits and the FHA considers reasonable in order to permit the originator to sell these loans to FNMA when the imposition of this usual charge would make the loans acceptable to the secondary market.

Section 13 would require that the originating mortgagee report to the FHA or VA the amount of any fee, charges, or discounts paid by the builder, seller, broker, sponsor, or any other person in connection with or for the purpose of arranging a mortgage.

We endorse this section as a far better approach to the problem of discounts than others which have been advanced in the past. The Realtors of America fully recognize the necessity for charges for interim financing, standby commitments, and discounts sufficient to translate the current submarket VA and FHA interest rates into yields commensurate with the prevailing rates in the respective areas of the country. However, it is believed that full disclosure of discounts might have the effect of inhibiting the charging of discounts in excess of current requirements.

We wish to thank the subcommittee for this opportunity to testify on this measure.

Mr. Chairman, I would like to say that this statement not only embodies the views of the Realtors Washington Committee of the National Association of Real Estate Boards, but my own, and that these views were arrived at after a very thorough section-by-section analysis of the bill by the 100 members present at the meeting on which action was taken. The vote was 99 to 1, the dissenting vote being Mr. Elliott of Texas.

Mr. Addonizio. We have already heard from Mr. Elliott.

Now, Mr. Scott, you indicate that the objectives and the central theme of both bills are identical, and then you go on to point out that that is where the similarity ends.

Then you go on to state that in 1958 we were in a recession, "with a capital R," and I am quoting you, now.

I want to make it clear, certainly I don't want anyone to have any misconception, I don't believe that any member of this committee has indicated, at least while I have been present, and I think I have been at every one of the committee hearings so far, that we are presently in a recession.

I don't believe that Mr. Rains, who introduced this measure, has ever indicated that we are in a recession, but I think that he has said,
and I believe that a great many members of the committee agree with the fact that the signs that we see confronting us today are similar to things that we saw on the horizon in 1957, and we were not smart enough to do anything about it—in 1957—until after the recession had been with us.

We are trying to prevent a recession in this particular instance, and I think that you will have to agree with me that certainly there are things pointing up the fact that such a recession could take place if this bill is not enacted.

Would you care to comment?

Mr. Scott. Mr. Chairman and members of the subcommittee, I have been very much impressed with the improvement in the tone of the money market within the last several days. For example, FNMA was able to go into the marketplace and borrow $100 million at 5.17 over a period of 12 years, when the last offering commanded a price of 5.30 for a period of 9 months. Certainly this is a very substantial improvement in the price of money.

I think the worst is over, personally.

Mr. Addonizio. How do you think the actual number of housing starts will compare in 1960 to 1959?

Mr. Scott. Well, I think the builders are more expert on that, and they seem to think they are going to be about the same, according to the newspapers.

Mr. Addonizio. Not according to the builders I have been listening to. You may not have been attending these hearings, but the builders that have come before us have not indicated that, and certainly if there is a drop of anywhere from 200,000 to 400,000 units which has been indicated to us, I think that will mean serious repercussions, don't you?

Mr. Scott. Well, I am not sufficiently expert, personally, to be able to tell you whether or not that is going to be so, but from the experts to whom I have talked, they don't predict any such reduction.

As a matter of fact, the Realtors Washington Committee comprises a number of homebuilders, and there seems to be considerable optimism on their part that we are going to build in 1960 substantially the same number of homes as in 1959.

Now I think the key to the problem is going to be whether or not there will be a demand in some of those areas where there has been a very substantial amount of building.

Mr. Addonizio. Mr. Scott, on page 3, I believe you approve section 2 of the bill. Now to what extent do you believe that approval of section 2, permitting individuals to hold FHA mortgages, would result in an increase in the availability of mortgage funds?

Mr. Scott. I think it might be considerable. I can conceive that a number of sellers might prefer to take back purchase money, FHA mortgages fully insured by an instrumentality of the U.S. Government, rather than to pay the discount on that same mortgage if it were necessary to sell it elsewhere.

I think, further than that, that money might be attracted, private money which presently goes into other forms of investment might be attracted into this field if the public was made aware of the fact that they can invest, individually, in FHA loans, with the proviso that these mortgages are originated, processed, closed, and serviced by an
FHA mortgagee, because we would be doing a grave disservice to the individual if we permitted the individual to make an FHA mortgage and attempt to service it himself.

There are too many ramifications; the regulations are too involved for the typical individual to be able to cope with them.

Mr. Addonizio. I note also you approve section 5 of the bill, and I take it by that that you are not satisfied with the way FNMA has been conducting its operations.

What objections do you have specifically as to FNMA’s policy?

Mr. Scott. Well, the most serious quarrel we have with FNMA—and, incidentally, we believe FNMA can serve a very useful purpose in the home finance field, not only with respect to new construction but with respect to existing homes which, after all, constitute the major share of our housing inventory—our biggest quarrel with FNMA is the fact that they have not implemented the authority that Congress gave them to issue standby commitments on existing construction.

We feel, further than that, that FNMA has discriminated in the past in its over-the-counter purchases against the existing house. Statistics show that more than 90 percent of all the purchases by FNMA have been of houses less than 10 years old. As a matter of fact, more than 80 percent of them have been brandnew houses.

Now this obviously has discriminated against the realtor who deals essentially in the existing house. We think that FNMA can be tailored to meet the needs of all our people, and not just the home-builders.

Mr. Addonizio. Mr. Scott, on page 11 of your statement, you say in effect that we shouldn’t do anything about housing, that interest rates should be permitted to run their course.

Does this mean we should do nothing to prevent another recession, with all of its attendant evils?

Mr. Scott. Well, Mr. Chairman, we can’t agree that we are in a recession.

Mr. Addonizio. I didn’t say we were in one, I said to prevent one.

Mr. Scott. I can’t see, and our association cannot see why the Federal Government should pump a billion dollars of Federal money into the reactivation of a program that is going to serve such a tiny sector of the market.

For example, in my area the FNMA office in Philadelphia, which services some five, six, or seven States during the last program 10 period, bought exactly 252 mortgages out of the thousands and thousands and thousands of mortgages that originated in that area. During that entire program 10 period New Jersey benefited to the extent of 252 mortgages. It wasn’t of any help whatsoever in the Philadelphia purchase office area.

Now I think the same thing is going to happen again. You are going to have a rush of a certain small group of builders to take advantage of this bonanza, the purchase of loans that would be salable in the secondary market at a price, and they would be unjustly rewarded to the extent that the FNMA buys these at prices above the market.

Mr. Addonizio. May I say that I am led to believe that the bill that was enacted in 1958, even though your Philadelphia office only bought
252 mortgages, and I am told this by the New Jersey builders, that actually what the bill did, after a billion dollars was put into the market, it attracted a lot of private money into the market and therefore it helped them a great deal.

Mr. Scott. I am in the mortgage banking business in New Jersey, and I couldn't agree less. It didn't have one bit of effect in that connection at all.

Mr. Addonizio. That is what makes everything so interesting here in Washington.

Mr. Widnall?

Mr. Widnall. Mr. Scott, what I particularly like about your comment is that it has been so constructive in that you approve of something and you disapprove of something. We have had some very slanted opinions up until now, either wholly against or wholly for, and I think it evidences painstaking work on the part of your own group to try to analyze the bill and come up with constructive suggestions based on your own reaction to the economy as we find it today.

I take it from your testimony that you feel that the majority opinion that the 4¼-percent Government bond interest ceiling should not be lifted, is operating against the interest of the home buying public.

Mr. Scott. I am not convinced that that is the opinion of the majority party. I have talked to some Democrats who feel that is the answer to our problem. Certainly in our opinion, and we have studied it for a long time, we cannot expect to have anything like sanity in the mortgage market until there is sanity in the money market in general.

Now, as long as the Treasury is required by reason of this arbitrary archaic ceiling to go into the short term market, which is a very limited market, it is going to have to borrow at higher and higher rates.

Now, if the Treasury is permitted to go into both the long term and the short term market, which it could do if the ceiling were removed, we would then have, I believe, a reduction in the cost of borrowing by the Treasury which would bring with it a corresponding reduction in the cost of money to everybody else.

Mr. Widnall. Do you have any evidence from any of the people connected with your association that the previous program resulted in new construction in excess of market needs?

Mr. Scott. Yes, we were told that in the various sections of the country that is exactly what happened, that they tailored their starts not to the demand, but to the amount of program 10 money that happened to be available.

In other words, it was there, and they took it.

Mr. Widnall. Do you have any specific examples of that?

Mr. Scott. Perhaps one of the members of my panel would like to answer that.

Mr. Cameron. In North Carolina we had instances——

Mr. Addonizio. Would you identify yourself for the record?

Mr. Cameron. C. C. Cameron, Raleigh, N.C.

We have had instances where builders actually came to mortgagees and obtained Fannie Mae commitment for large quantities of these special assistance 10 program moneys, with no analysis at all of the
consumer market. In other words, they saw an advantage to obtain money at par instead of paying, possibly, 4, 5 or 6 points discount in the private market for VA loans.

Naturally, after paying for the Fannie Mae commitment, the standby fee, they then decided to go ahead and build houses, although the demand wasn't actually there.

We have one instance now, I don't know the exact number, but I think it is 12 houses one builder built and couldn't sell at all. The Fannie Mae commitment expired and the construction mortgagee is now foreclosing the mortgages.

MR. WIDNALL. Do you have any other examples of that?

MR. ADDONIZIO. Were these houses FHA-insured that you are talking about?

MR. CAMERON. By the FHA and VA. The builder has both FHA commitments and VA certificates of value, which was generally true in our area. However, I would say that 95-plus percent of the mortgages turned out to be VA mortgages instead of FHA.

MR. ADDONIZIO. Mrs. Sullivan.

MRS. SULLIVAN. I have one or two questions, please.

MR. Scott, I believe you mentioned that in the Washington area they are expecting a high rate of building for 1960. The Washington area is certainly not a typical example of an area for building low-cost or low-income houses, is it?

MR. Scott. Well, I didn't confine my remarks to the Washington area. The members of our Realtors Washington Committee are drawn from every State in the Union, and it was the consensus of opinion that we would have a very high rate of starts in 1960, if not equal to 1959, very close to it.

MRS. SULLIVAN. It has been mentioned during these hearings that there is quite a bit of building of the higher-priced houses, but there is very little building being done for the low-income people.

Now, couldn't this additional FHA money be sort of an impetus for the building of these lower-priced houses for the lower-income groups of people who want to buy those houses?

MR. Scott. Well, I think that might be true. There aren't very many areas of the country where they can build houses for $13,500. I would say that in the areas where they need it most, they can't build at that price.

MRS. SULLIVAN. One reason they can't build at that price is that the interest rates have gone up so high.

MR. Scott. I am afraid that isn't the answer. In our area we can't build houses that would meet the standards of FHA or VA at $13,500, because primarily the cost of land is prohibitive, and getting higher all the time, and that is something over which this committee has no control.

MRS. SULLIVAN. I recall a few years back that your organization was using a slogan, "No slums by 1960". Whatever happened to that slogan?

MR. Scott. We are still working on it.

MR. ADDONIZIO. I think they projected that date now to 1970.

MRS. SULLIVAN. Thank you.

MR. ADDONIZIO. Mrs. Griffiths.
Mrs. Griffiths. I am new on this Housing Committee, Mr. Scott, and I would be interested in knowing the makeup of this realtors committee. I have always assumed the purpose of the realtor was to sell property. Do you have people on the committee who have other interests than the sale of houses or land?

Mr. Scott. Yes, we do, Mrs. Griffiths. Every member of our Realtors Washington Committee must be a member of a local real estate board and the National Association of Real Estate Boards. In other words, he must be a realtor. But in addition to his being a broker or managing agent, many of our members are homebuilders, mortgage bankers, appraisers, and they are engaged in other facets of the industry. We have the finest cross section of thinking in the field of housing on our Realtors Washington Committee.

Mrs. Griffiths. But would not the interest of a realtor be to sell property, that is his primary interest?

Mr. Scott. Essentially that is correct, yes.

Mrs. Griffiths. Now, the interest of a mortgage banker is to get the highest possible rate of income on lending money, isn't it?

Mr. Scott. Oh, no. I couldn't disagree with you more. The essential operation of a mortgage banker is to provide the financing needs of the area in which he operates. He originates with his own funds, processes the loan through the FHA or VA, or on a conventional loan obtains the credit information, verification of employment, bank deposits and things of that kind, closes the loan and then sells it to what we call the secondary market.

Perhaps he is correspondent for a life insurance company, or several banks, or perhaps savings and loan associations. He sells the mortgage and retains the servicing. In other words, the payments are made to him, he does the bookkeeping, pays the taxes, pays the insurance, and remits the net amount each month to the investor for whom he services that loan.

Now, as a matter of fact, mortgage bankers are in favor of low interest rates, because the lower the rates, generally, the more volume of business that they can do, and they are interested in volume. They do not collect the high interest rates. The high interest rates go to the people who put up the money ultimately, the ultimate investor, the life insurance companies, savings and loan associations, savings departments of commercial banks, and the savings banks.

Mrs. Griffiths. Well, now, we had the president of the mortgage bankers in here yesterday talking, and I specifically asked him, and he specifically answered that he believed that the tight money market was having an adverse effect on the housing market.

Do you agree with that?

Mr. Scott. I certainly do. We have had a tight money market, and we are still in it, but I am encouraged to believe from the headlines recently that the money market is easing. I think the indications are there.

Mr. Addonizio. I would like to quote from the newsletter that the National Association of Real Estate Boards issued as of January 18, 1960, an article saying, "Tight money seen affecting buying plans."

Mr. Williamson. It results in consumer resistance as well as sellers' resistance. There are sellers that don't want to pay the discount.

Mr. Addonizio. I am trying to show that the article indicates that the tight money problem is there and bears on the housing situation.
Mr. Scott. We don’t deny the problem. We have had tight money, we have it right now, and it is possible it will continue with us for some time. We don’t however, agree that it is sufficiently drastic to warrant the very, very severe steps that are programmed here in this bill.

Mrs. Griffiths. You refer on page 10 to the conventional wisdom that controls on FHA and VA interest rates are a part of the conventional wisdom of our times. Would you say it is a part of the conventional wisdom of a mortgage broker that higher interest rates will result in more houses being sold?

Mr. Scott. I would say the reverse is true.

Mrs. Griffiths. Would you say if the Government releases the ceiling on long-term Government bonds that interest rates will come down?

Mr. Scott. Yes; I firmly believe that.

Mrs. Griffiths. That is part of the conventional wisdom?

Mr. Scott. No; I don’t think that is so. This happens to be a matter of simple economics. If you can purchase something only in a limited place, then you are required to pay the price that has to be paid in that place.

If, on the other hand, you can choose from a wider market, the possibility is you can do better in your bargaining.

The difficulty here is that the Government has been driven into the short-term market, which is a very limited market, and has been forced to pay a very, very high rate, 5 percent to borrow money, whereas had the Government been permitted to go into both the short-term and the long-term, or one or the other, it could have done better, and will always do better.

Mrs. Griffiths. I personally am pleased to hear your views. I have asked this question a good many times now, and, personally, I feel your answer is a part of the conventional wisdom of a group within your society.

I would like to turn again to the composition of this board and ask: Isn’t it really true that it is not necessarily the prime interest of every single person on your board simply to sell a large group of houses—this isn’t necessarily the place where every single member is making the money?

Mr. Scott. Well, as I said—

Mrs. Griffiths. There can be other things that make money besides selling houses; isn’t that right?

Mr. Scott. Many of our members have a departmentalized business, they have an insurance department, appraisal department, property management department, sales department, a mortgage banking department, a homebuilding department; they may have a very large organization, or they may have a relatively small one. The typical realtor is a small operation.

Mrs. Griffiths. Now, I want to ask you, in the matter of paying dues, does everybody pay the same, or do you pay on income?

Mr. Scott. No; everybody pays the same. The dues are $15 a year per member.

Mrs. Griffiths. And is the largest number of people involved, in this group you represent, people who really confine their activities to selling houses, buying and selling houses?
Mr. Scott. Yes; definitely.

Mrs. Griffiths. Well, I think that you should either reduce the membership, or you should enlarge its name, because I think the name is confusing. I think your definition of what a realtor is is misleading, because I think some of the people on this board certainly have adverse interests to that poor little man in my district that is selling those houses.

Mr. Scott. Well, we represent that poor little man that is selling houses. That is exactly what we are here in Washington to do. Our committee does not speak for the homebuilders; it doesn't speak for the mortgage bankers or the insurance people; it doesn't speak for the investors, the lenders: it speaks for the typical small town, little realtor who is trying to sell real estate and serve the housing needs of his community.

Mrs. Griffiths. That is what you are presumably here for, and I appreciate your statement, but I feel that part of the thing you have espoused is really against the best interests of that man who is selling those houses. I can't say more than I say now that I think the thing that is hurting the real estate market is the high interest rates, and I think you have offered no solution, and you are opposing the solution that is here offered.

Mr. Williamson. Mrs. Griffiths, let me say this: The National Association of Real Estate Boards has always been for lower interest rates. We would be very happy if the interest rates were 2 percent today, but merely the Treasury turning a crank and creating money is not going to force down interest rates. That is the conventional wisdom of our times.

Mrs. Griffiths. And for about 20 years, the conventional wisdom in Washington showed that we could manage a war and the debt without these high interest rates.

Mr. Williamson. There is no question about it that the war was financed with low interest rates by the Federal Reserve Board supporting the Government bond market at par.

Mrs. Griffiths. The Federal Reserve Board is way off bounds, and they have created this difficulty, so that now you really have a right to ask the Government to exercise controls.

Mr. Winnall. If you will yield—there was price control that went with that, and labor controls.

Mrs. Griffiths. But the thing was still kept under control.

Mr. Addonizio. Mr. Scott, I am going to take you off the spot for a while and direct one or two questions to your associates.

Are you as real estate brokers finding it increasingly difficult to get the sellers to absorb these discounts that we have been here hearing about? I would like to have some comment.

Mr. Carter. I am Houston Carter from Mobile, Ala. I am one of the small real estate brokers that Mrs. Griffiths refers to. I have no interests other than that of the sale of real property and the management of it.

I find it increasingly difficult to get the sellers to absorb these discounts, and it is one reason why we have had a slowing down in the sales market on existing homes.

We find that when we go to list the property for sale, the seller is not aware of the mortgage market conditions. They don't know
what a loan discount is, and when we explain it to them, then they feel that they are being required to give away—that is their expression—to give away a part of the equity that they have worked so hard to build up in their home.

The result is, of course, that many of them refuse to sell, and that has contributed substantially to the slowing down in the sales market for existing homes in the past 90 days.

In some instances, discounts have affected equities in old homes to the point that people who were planning on trading up would not have sufficient equity left in order to trade up. There have been one or two builders who ceased operation in our area because discounts can’t be added to the sales price of their homes, and they must pay it out of their pocket and it makes their operation unprofitable. However, this is a condition that has existed for the past 90 days.

Shortly after the first of the year, we noticed that the mortgage brokers in our area were soliciting business from us, and that there was a tendency to have a reduced loan discount. We feel that within the next few months this crisis will pass, and that 1960 will be as good, if not better, than 1959.

Mr. Dixon. Mr. Chairman, I am Don Dixon of Lincoln, Nebr., with offices in Lincoln and Omaha, Nebr.

I think that the absorption of discounts are not excessive in our area. I do not believe that these discounts exceed what it takes to develop the yield that other investments require. We don’t find it difficult in our area to get the discount, when it is properly explained to the owner, and the owner in that transaction involving an FHA mortgage may pass that on, and the proper person absorbs it, the purchaser.

Mr. Cameron. I have nothing to add to that. I agree with both the gentlemen.

Mr. Azzonizio. Thank you very much, Mr. Scott, and your associates, for being here. We appreciate your testimony.

Mr. Scott. Thank you for the opportunity.

Mr. Azzonizio. At this point in the record I would like permission to insert the article that I spoke about from the newsletter of the National Association of Real Estate Boards, entitled “Tight Money Seen Affecting Buying Plans.”

(The article referred to above is as follows:)

TIGHT MONEY SEEN AFFECTING BUYING PLANS

Awareness of the tight money market and higher interest rates is being reflected in the plans of consumers for buying homes.

This is suggested in the current survey of consumer intentions made by the Survey Research Center of the University of Michigan.

Reporting on findings made of consumer buying plans between October 15 and December 3, the survey said in part:

“Plans (to buy a house) rose substantially from the summer of 1958 to the summer of 1959, but declined (in the latter part of the year). The major reason for this decline is to be found in the tight money situation ***.”

Specifically, 4.7 percent of the consumers contacted in the sample survey said that they probably will buy a home during the next 12 months, and 2.1 percent said they “might” buy during the next 12 months.

When asked their opinions about financing home purchases, 24 percent said that it was “harder.” Asked why they believed this to be so, 13 percent cited “difficulty of getting a loan,” 7 percent “higher interest rates,” and 4 percent “larger downpayments.”
A different picture is presented of consumer intentions for 1961. The proportion of families who say that they will or might buy a house in that year exceeds the measurements made during the past 5 years, the survey says.

Nine percent of the families contacted indicated plans to buy homes in 1961. The survey assigned no reasons for the difference between the short run and longer range intentions of consumers interviewed.

Mr. Addonizio. Our next witness is Dr. James J. O'Leary. Will you come forward?

I see that he has with him our very good friend, Mr. Jewett from the Prudential Insurance Co. of America whose home office is in the city of Newark, N.J., that I have the honor to represent. May I welcome you here, Mr. Jewett.

STATEMENT OF DR. JAMES J. O'LEARY, LIFE INSURANCE ASSOCIATION OF AMERICA

Dr. O'Leary. Mr. Chairman, I am James J. O'Leary, Director of Economic Research, the Life Insurance Association of America, New York City.

As you have indicated, my associate is John Jewett, vice president of Prudential Insurance Co.

This statement is being made in behalf of the American Life Convention and the Life Insurance Association of America. These two associations have a combined membership of 284 life insurance companies which hold 98 percent of the assets of all life insurance companies in the United States. We welcome the opportunity to express our views on H.R. 9371, the Emergency Home Ownership Act.

Mr. Chairman, I appreciate the fact that the hour is getting late, and I am not going to ask you to listen to my entire statement. I am going to summarize it. I would like to have the statement entered in the record in its entirety.

Mr. Addonizio. Without objection it may be included in the record at the end of your statement.

Mr. O'Leary. You have heard in the last few days and this morning a lot of testimony from builders, and we have heard a great deal of bleating from them. We are here to talk about 110 million policyholders of the life insurance companies. These policyholders have over $500 billion of life insurance outstanding. Since 1946, the value of the dollar has fallen more than half. This has had a grievous effect upon life insurance policyholders, pensioners, and others who have to live off fixed income, and we think we have a very important responsibility to appear here today and to testify strongly against H.R. 9371 which, if enacted, we believe would be nothing more than another one of a long series of legislation which in the postwar period has led to this inflationary situation. That is why we are here today.

We think that the effect of inflation on the savings of these 110 million policyholders should be carefully considered. It is about time the policyholders of the country had an opportunity to have their interests presented strongly.

Now, in this bill, as we see it, the basic issue is: Is there an emergency, is there any emergency in the home loan field that requires this type of legislation? We do not believe there is any emergency in the home loan field. If you will turn to page 3, you will see that in the
years 1958–59 the one- to four-family mortgage market had a very healthy increase, or had a very healthy figure in terms of funds available to it. In 1959, there was an increase to $13.3 billion, which was the highest increase on record in terms of net increase in one- to four-family mortgages.

We have taken the trouble to talk with people in the savings and loan business, the life insurance companies, mutual savings banks, and others, and as you will see in the third column in that table, there is a very reasonable expectation that in 1960 there will be as much as $12 billion available for, on a net basis, the financing of residential mortgages.

This is not very much of a drop from the record $13.3 billion, which financed 1,341,000 starts in 1959.

I would be perfectly glad to take time to answer any questions you have on this table, but one of the items that you should notice is the figure for Federal agencies. Fannie Mae and the Veterans’ Administration will have under existing legislation, without any new appropriations, $1.4 billion they can put into the mortgage market this year. We can see no decline in the availability of funds from life insurance companies, very little decline in the availability of funds from savings banks, very little decline in the availability of funds from the savings and loan associations, so we ask where is this emergency in the homeownership field? There is no emergency.

Our belief is that if this new appropriation of a billion dollars of Fannie Mae money, as provided in H.R. 9371, is put into the market, it is not only unnecessary, but it is bound to have an inflationary impact. In December of this year, there were several thousand economists who gathered here in Washington. Almost to a man they expressed the view that the problem of national economy this year is one of how to prevent further inflation. Almost to a man they anticipated a very high and rising level of business activity. These were mainly university economists with no axe to grind. The general view was that by the end of the year the gross national product would rise to an annual rate of about $525 billion, based on an expansion of business and industrial inventories, a rapid expansion in spending by business and industry and other factors.

Therefore, our view is that residential construction will have ample funds to finance a healthy level of activity. I could cite you figures on the forward commitments of life insurance companies which show they have actually been increasing in the last 3 or 4 months and have reached very substantial levels in this area. Our position then in a nutshell is that there is no emergency in terms of available funds. I admit that it may be true that as the year goes on, with corporate expansion somewhat a little higher, there may be somewhat less availability of residential mortgage funds, but this does not require any emergency action.

If this billion dollars of additional funds is put into the market, it is bound, by putting that money into the economy, to stimulate inflationary pressures, and, furthermore, it does something which is very damaging, and that is it hinders the attainment this year of a cash surplus in the Federal budget which is a very important force for easing conditions in the money market.
If you will take a look at table 2, which is on page 5, you will see, if you look down under "uses of capital funds," that in 1958, one of the big users of capital funds in this country was the U.S. Government—$8 billion net addition to U.S. Government debt. In 1959, it was almost the same figure, $7.9 billion. The U.S. Government was a huge drain on the capital market—and notice, even in those large figures the U.S. Government was using substantially less money than the one to four family residential mortgage market.

Talk about a fair share of funds for the residential mortgage market? I can't feel very sorry for the home builders when you look at those figures.

Now, one of the hopeful signs is that in 1960, with a little bit of luck, if we don't get something like this bill we might run a cash surplus of $2 billion in the Federal budget, which could be used to retire debt and provide some ease to the capital markets.

We feel, and I will not take the time to detail individual items in the bill, that this bill should not be enacted on broad economic grounds! because there is no emergency, it would be inflationary in its nature, it would prevent the Federal Government from running a surplus, and retiring debt which would be the principal way to provide some ease to this mortgage market.

Thank you.

Mr. Addonizio. Thank you, Dr. O'Leary.

I certainly get the impression from your remarks that your objections to this bill stem from the fact that you think it is very inflationary. Of course, all of us are concerned about inflation.

Now, I have been told, or I am led to believe, that the way to combat inflation is to have a growing and expanding economy. Don't you think perhaps this might be a step in trying to achieve that objective, and thereby eliminate this inflationary threat that we are hearing so much about, and that perhaps if we did away with some policies of the administration so far as tight money is concerned, there wouldn't be as much inflation?

Dr. O'Leary. Would you please explain to me how you think doing away with the tight money policy would promote greater expansion?

Mr. Addonizio. I am asking you the question. If you are here to question me, that is something else.

Dr. O'Leary. I would like clarification.

Mr. Addonizio. First of all, tight money stifles economic growth. Dr. Keyserling yesterday indicated the same thing. I don't know whether you have had an opportunity to see his testimony, but I am sure if you did you would have been enlightened in that direction.

Dr. O'Leary. Well, there is a broad argument to the effect that if only the Federal Reserve would make credit easier, and if only the Treasury wouldn't be so concerned about budget surpluses we could increase the growth of the economy at a rate of 5 percent, let's say, instead of the 3 percent that currently obtains.

You did not say this, but those same groups are also saying that this is the vital objective of this country, to get growth. We need growth, we need full employment, and, they say, we are willing to pay the price of some inflation if you have got to have it.

Mr. Coogan just about said that this morning.
Now, I ask you the question, Is that the way to get growth? Where does the growth of this country come from? The growth of this country comes from the fact that the people are willing to save something out of their current income, refrain from consuming all the income they receive. Economic growth arises from the fact that these savings become available to finance plant and equipment of business, homes, and other capital goods.

Now, let me ask you, with respect to Mr. Keyserling and the others who were talking about the fact if we have to pay the price of inflation that isn't going to hurt anybody, if we have to pay the price of inflation, who is going to want to save and buy these fixed income obligations of business corporations and home mortgages? There is the reason why you can't get growth if you don't have stability in the value of the dollar, and that is what we are talking about.

Mr. ADDONIZIO. Well, we have certainly been impressed by the fact that you are concerned about inflation, but tell me, are you equally concerned about the fact that we might get into a recession and have a great deal of unemployment, particularly if the number of housing starts for this year drops considerably?

Dr. O'LEARY. Of course, we are impressed by the possibility of a recession. The business cycle is inherent in this economy of ours. I have no doubt that some time in 1961 there may be some downturn in business activity, but the way to combat a recession in 1961 is not to pour a lot of money on top of the boom in 1960, which is what you are talking about doing. You will only make the boom bigger in 1960 and the bust worse in 1961.

Mr. ADDONIZIO. Certainly we are not going to take a negative attitude on this situation, we will try to look at it in the proper perspective.

At the bottom of page 8 of your statement, you mention an unsustainable boom in business.

Could you tell us what aspects of economic conditions now in the making would be unsustainable?

Dr. O'LEARY. I think you could get any group of able and nonpartisan economists here, and you would find that the big majority feel that there are some forces going on in this economy today that make it almost certain that we are going to have a very high level of business activity.

One is that after the steel strike we are going to run to a $5 to $10 billion annual rate of inventory accumulation. All the surveys indicate that corporations are going to expand their plant and equipment spending by at least 10 percent.

The automobile industry is talking about, with a good deal of support in terms of their sales, a total sale of 7 million cars this year.

The consumer durable goods industry is bound to have a good year in terms of the way things are now going.

I could cite others—State and local government spending is at a record level and is still rising, Federal spending, even though we do have a modest surplus in prospect, is still at a very high level. How could you have anything other than a very good year this year?

In my opinion, it is a mistake to talk about an emergency in this situation. The emergency is the emergency of spending too much into what I say is an unsustainable boom. We will spend ourselves into this boom and may get a collapse in the process.
Mr. Addonizio. Thank you very much. I can see it is going to be rather difficult for us to come to some area of agreement, so I will now refer my questioning to Mr. Jewett.

Can you give me some idea of the typical terms of the downpayment, maturity, and interest rates on mortgage loans made by your company?

Mr. Jewett. What was that?

Mr. Addonizio. The downpayment, maturity, and interest.

Mr. Jewett. On a conventional loan, the downpayment is not our concern. Our mortgage doesn't exceed 75 percent of the appraised value of the house. We might not wish to go the whole 75 percent. The downpayment to the seller of the house might not be represented by cash, but by a second mortgage or some other situation. We hope it will be paid in cash, it makes our position that much stronger, but we do not require anything—we make a mortgage.

Mr. Addonizio. Would you care to express an opinion about second mortgages and land sales contracts?

Mr. Jewett. They are both things which in our economy we would be better off without. They sometimes are necessary to promote the sale of a piece of property. If I want to sell my house today for what I think it is worth, the first mortgage I would be able to get on it in that price range would be far from sufficient for the average purchaser, and I might take my own second mortgage back on it.

Mr. Addonizio. Does your company exercise any control over these devices on properties that you hold the first mortgage on?

Mr. Jewett. There is nothing we can do before the mortgage is committed. If we committed to a mortgage of, say $20,000 on a one-family house selling for $30,000, and required there be a $10,000 cash payment, we would be very unpopular.

Mr. Addonizio. Mr. Widnall.

Mr. Widnall. Dr. O'Leary, yesterday we had some very forceful testimony by Professor Keyserling, and at one point he stated that, as I understood it, the insurance companies were taking full-page ads about inflation, and their concern was that they wanted to make more profits, but they didn't tell the consumer that.

Now, I asked him to bring in one of the ads and show it for the record, but he didn't do that.

What is the concern of the insurance companies with respect to inflation? What has been your own experience by way of the purchase of insurance during the past year, the kind of insurance that has been purchased?

Dr. O'Leary. Well, first of all, I have heard that Mr. Keyserling made this statement. It is the sort of statement that is absolutely 100 percent incorrect. The life insurance companies have run these ads in the newspapers because of the fact that they feel a great responsibility in this situation. The homebuilders and other groups can get pretty well organized to come down here, but these very same people who are holders of life insurance policies haven't had very much of a voice, and yet you have these 110 million policyholders where the insurance in force has had serious inroads made in it by the inflation that has occurred. If you were the executive of a life insurance company, you would feel you had a responsibility to alert the public to what inflation is doing to the savers of the coun-
try, and to try to get public support behind fighting inflation, and that is what the life insurance companies have done.

Actually, so far as the profits of the life insurance business are concerned, that is all just drawing a "red herring" across the trail. The big bulk of the life insurance companies are mutual life insurance companies which have no stockholders and whose funds belong to the policyholders. I think it would be helpful to give you figures that would show you what the investment return of life insurance companies is.

In 1947, the life insurance companies averaged a rate of return on investment before Federal taxes of 2.88 percent. Today they are still earning an average rate of less than 4 percent. In other words, their average rate of return on their total investments has gone up about 1 percent, and less after you take account of the increase in Federal taxes.

The reason is that a lot of the investments which life companies acquired in the low interest period were long-term investments. The companies are obliged to hold low-yielding investments for a long period of time. It is true that life companies are earning a better rate of return on new investments. Life insurance companies are receiving about 5.5 percent on the new funds they invest. The important thing to remember is that the investment income, in the case of the big bulk of the companies, certainly in the case of the mutual companies, which represent about two-thirds of the business, is income that belongs to the policyholders and is repaid to them in the form of higher policy dividends, in the form of higher interest payments on settlement options, and it is used to strengthen the reserves they have to back their policies.

Now, in the case of the stock companies, because of the competitive forces that exist between the mutual companies and the stock companies, the stock companies have got to stay in line in terms of those policyholder dividend payments, so all this talk about how the big insurance companies are benefiting from these higher interest rates is wrong. It is the 110 million policyholders who are benefiting. They are getting the benefits of lower net cost in their insurance, and the average life insurance policy is only $3,000. These are small people, and it is completely misrepresenting the fact to indicate that the insurance companies are profiting by higher interest rates.

As a matter of fact, the rate of saving through life insurance has in the last decade been declining, and this is one of the things that gives us great concern. What is the reason why it has been declining? It has been declining for the very reason Mr. Coogan spoke about this morning. With the threat of inflation, people tend to take their funds away from the life insurance companies where the life companies would invest them in home mortgages and other fixed income obligations, and put them in the stock market where they can hedge against inflation. That is one of the reasons we don’t like this bill. We don’t want to see more inflation. That hurts us in our own business, and it hurts the American people. There has been too much of it. That is why we come up and tell the same old story of the evils of inflation, but we feel you can’t tell the story too often. I wish we would tell it more and have it sink in.
Mr. Widnall. Do you find any change in the pattern of purchase of insurance with respect to purchasing annuities, with respect to the investment of widows’ funds, with respect to ordinary life as against term insurance?

Dr. O’Leary. The pattern is this: There is a very strong trend toward term insurance, and group type insurance where they is very little or no savings element involved. The ordinary life that involves saving is tending to be a smaller proportion of outstanding insurance.

Now, in all fairness, a very important reason why this is happening is in the sales practices of the industry, but a contributing factor undoubtedly is the fact that people say to themselves, “why should I buy an insurance policy where my funds are going to be invested at 3.5 or 4 percent when I know there is going to be inflation and I can put it in the stock market and get the appreciation there.” That is what is hitting us. Inflation, and the fear of inflation, destroys the will of people to save and to have their funds invested in fixed income obligations such as bonds and mortgages. That is why all this talk such as Mr. Coogan said, he is willing to pay the price of a little inflation—that may be all right in the short term for the homebuilders, but it is not all right for the general public at large in either the short or long run. We feel there needs to be a balanced look at this whole thing.

Mr. Widnall. As I understand your testimony, you said that you anticipated the gross national product of the country this year would be $525 billion.

Dr. O’Leary. I think the economy will move to an annual rate toward the end of the year of about $525 billion. It will average out for the year as a whole at somewhat less than that. Maybe the average for the year as a whole will be 510 or 515. The pattern will be a rise in the economy through the year, so by the fourth quarter the annual rate of gross national product could well move up to as high as $525 billion.

Mr. Widnall. So that actually you anticipate a rise in our gross national product of about $25 billion over last year?

Dr. O’Leary. That is right. Actually, the increase would be $35-$40 billion.

Mr. Widnall. And that is without pump priming on the Government.

Dr. O’Leary. Yes. This isn’t an isolated opinion. As I indicated here at the Sheraton-Park Hotel from December 26 to 28, there were several thousand economists gathered from all over the country, mostly university professors, not very many of whom had any ax to grind, and this was the consensus of opinion there, and you can just pick up the Washington Post or any other Washington paper and find that that was the consensus.

Now, I will admit that this business of forecasting is not a science, and I always get a little worried when I see such unanimity in view, but these people are informed people who make it their business to study business conditions, and they didn’t see any emergency this year in the economy. As a matter of fact, people not close to the housing business think it is a good thing housing may be going off a little bit this year, because it will accommodate some of the other forces that are surging ahead.
Mr. Widnall. That is all.
(The complete statement of Dr. James J. O'Leary is as follows:)

STATEMENT PRESENTED BY DR. JAMES J. O'LEARY, DIRECTOR OF ECONOMIC RESEARCH, LIFE INSURANCE ASSOCIATION OF AMERICA, IN BEHALF OF THE AMERICAN LIFE CONVENTION AND THE LIFE INSURANCE ASSOCIATION OF AMERICA

I am James J. O'Leary, director of economic research, the Life Insurance Association of America, New York City. This statement is being made in behalf of the American Life Convention and the Life Insurance Association of America. These two associations have a combined membership of 284 life insurance companies which hold 98 percent of the assets of all life insurance companies in the United States. We welcome the opportunity to express our views on H.R. 9371, the Emergency Home Ownership Act.

The vital interest which the life insurance companies have in sound housing and mortgage policy can best be illustrated by the fact that life insurance companies since 1946 have made a total of $46 billion of residential mortgage loans, of which $13.5 billion were FHA mortgages, $10.5 billion VA mortgages, and $22 billion were uninsured mortgages. On the basis of this $46 billion total, if we assume an average mortgage of $10,000, the life insurance business since 1946 has provided the financing for the purchase of 4,600,000 homes by the American people. The funds flowing from these companies into the mortgage market represent the savings of 110 million policyholders, and these savings in turn have contributed much to the enormous growth of homeownership in this country. As managers of these savings, the life insurance companies are vitally concerned with the soundness of the mortgage market, and even more so with the stability of the purchasing power of the dollars represented by life insurance policies. A decline in the value of the dollar penalizes the millions of policyholders because their claims are in fixed dollar amounts. Accordingly, inflation tends to dry up the source of saving through life insurance. We believe that a number of provisions in H.R. 9371 are inimical to a sound home mortgage market and have serious inflationary implications, and our statement will be directed to them.

THE ISSUES RAISED BY H.R. 9371

The title given to H.R. 9371 in section 1 is the Emergency Home Ownership Act, and the purpose of the bill is "to halt the serious slump in residential construction, to increase both on-site and off-site job opportunities, to help achieve an expanding full employment economy, and to broaden homeownership opportunities for the American people." Toward this general purpose, the bill provides for an additional $1 billion for mortgage purchases under FNMA's special assistance program, as well as the creation of a $50 million special assistance fund for the purchase of mortgages insured under section 203(i). It also provides for a number of changes in the operation of FNMA which are aimed at making FNMA funds more readily available and at lower cost to users of FNMA facilities.

The basic issues which are raised by the bill are:
(1) Is there an emergency in homebuilding or in the general national economy which makes another billion dollar injection of FNMA funds in the broad public interest?
(2) Would the changes in FNMA operation, as provided in the bill, jeopardize its sound operation?

We do not believe that this legislation should be enacted because there is not now, or in the foreseeable future, any emergency in homebuilding or in the national economy which would make another billion-dollar injection of FNMA funds in the broad public interest. Rather, present indications are that the volume of residential construction will continue at a healthy level this year without any new appropriation of funds for FNMA. To provide FNMA with large additional funds this year would be harmful to the public interest because it
would be inflationary. Furthermore, we believe that the various changes in FNMA operation, as provided in the bill, would jeopardize its sound operation. The reasons for this general position are set forth in the remainder of this statement.

THE PROSPECTIVE AVAILABILITY OF RESIDENTIAL MORTGAGE FINANCING FROM PRIVATE LENDERS IN 1960

It has been popular in recent months to predict a decline in 1960 in the availability of residential mortgage financing. We believe that this concern has been exaggerated. Table 1 shows the net increase in 1-4 family mortgage debt outstanding in 1958-59 by types of holders.

Table 1.—The net increase in 1-4 family mortgage debt outstanding, 1958-59, by types of investors holding such debt

<table>
<thead>
<tr>
<th>Types of Investors</th>
<th>1958</th>
<th>1959</th>
<th>1960</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-4 family mortgages (total net increase)</td>
<td>10.1</td>
<td>13.3</td>
<td>12.0</td>
</tr>
<tr>
<td>Savings and loan associations</td>
<td>4.9</td>
<td>6.8</td>
<td>6.5</td>
</tr>
<tr>
<td>Life insurance companies</td>
<td>0.9</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Mutual savings banks</td>
<td>1.5</td>
<td>1.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>1.2</td>
<td>1.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Federal agencies</td>
<td>0.4</td>
<td>2.0</td>
<td>1.4</td>
</tr>
<tr>
<td>All other investors</td>
<td>1.6</td>
<td>.6</td>
<td>1.0</td>
</tr>
</tbody>
</table>

\(^1\) Estimated.
\(^2\) Less than $50,000,000.

As will be seen, there was a pronounced increase in residential mortgage financing in 1959, with the net increase amounting to a record $13.3 billion as compared with $10.1 billion in 1958. The figures in the third column of the table represent the best informed estimates of available funds from various sources in 1960. These figures bring together the consensus of experts in the various institutions listed. As is apparent, the $12 billion total expected for 1960 is somewhat below the record high of 1959, but by no means does it represent anything of an emergency nature.

The somewhat lower figure estimated for the savings and loan associations in 1960 is based on the belief that there will be a slowing down of advances by the Home Loan Bank System. The current commitment position, and the rate of new commitments, indicates that the life insurance companies will increase their net holdings of residential mortgages about the same amount this year as last. The modest decline estimated for the mutual savings banks is based on the belief that liquidity needs and a slower growth will reduce somewhat their acquisition of mortgages. The sharply reduced figure in 1960 for the commercial banks is based on the belief that with a growth in commercial and consumer loans this year, commercial bank reserves will remain tight and their activity in the residential mortgage market will be curbed. The item “Federal agencies” refers to the net increase in mortgage holdings by FNMA and by VA through the direct loan program. It is highly significant that on the basis of past legislative authority, these agencies now have the capacity to increase their residential mortgage holdings by $1.4 billion in 1960, which they will undoubtedly do.

Accordingly, considering the fact that the $13.3 billion figure in 1959 was a record total, it is hard to see how a decline to about $12 billion this year would constitute an emergency situation. The money available should easily support a 1.2 million level of housing starts. We believe that the step-up in housing starts in November and December to a seasonally adjusted annual rate of 1,310,000 starts bears out the continued ready availability of residential mortgage financing.

There has been much public discussion of whether housing will get a fair share of the total capital funds this year. Table 2 shows the net sources of capital funds and the uses of these funds in 1958 and 1959.
SoUrC!)S (!ffunds: This is a powerful reason why it is essential to hold down Federal mortgage market received in each of these measures set forth in H.R. 9371. Instead, these measures should not be enacted because they would have a serious inflationary effect, especially on housing itself.

It is interesting to see how large a share of the total funds the residential mortgage market received in each of these 2 years. The third column in the table presents the estimates we have put together after having consulted with a large number of experts in the various fields of the capital market. There is little doubt that corporate bond financing will be higher this year, because of an expansion of plant and equipment spending by business and industry, but the total demand on the capital market probably will not rise more than $1.3 billion because corporations will have large profits to plow back into capital expansion, and they now have large holdings of short-term Government securities which can be used in part for expansion. Although there will be a further rise of consumer credit this year, it will not run quite as high as in 1959. The big feature of the table is the fact that it now appears that this year the Federal Government will actually be repaying $2 billion out of a cash surplus, as compared with a net increase in its debt of $8 billion in 1958 and $7.9 billion in 1959. Thus, this year the Federal Government will actually be repaying $2 billion to the total available funds in the capital markets, whereas in 1958–59 it placed a huge drain of nearly $16 billion on the capital markets. Naturally, this development will contribute much toward reducing the upward pressure on interest rates. This is a powerful reason why it is essential to hold down Federal spending and to preserve a Federal surplus. Coming to the availability of funds for 1 to 4 family mortgages, despite a moderate decline to about $12 billion this year, it is difficult to see how anyone could contend that residential construction is not getting its “fair share” of capital funds.

If an “emergency” exists at the present time in the housing field, it does not grow out of a shortage of financing. In some parts of the country there is evidence that new houses are going unsold. In the face of this, it would be unsound to pour a billion dollars of Government funds into the mortgage market to provide an artificial stimulus to housing.

We conclude, therefore, that there is no “emergency” in the residential field which justifies the measures set forth in H.R. 9371. Instead, these measures should not be enacted because they would have a serious inflationary effect, especially on housing itself.
EMERGENCY HOME OWNERSHIP ACT

STIMULATION OF RESIDENTIAL CONSTRUCTION THIS YEAR WOULD BE INFLATIONARY

Our national economy is now in the midst of a strong upsurge based on the following forces:

(1) A sharp buildup of business and industrial inventories. With the settlement of the steel strike, the annual rate of inventory buildup will undoubtedly rise sharply again to the $10 billion level.

(2) A substantial rise of plant and equipment expenditures by business and industry. All of the surveys point to a 10 percent increase of plant and equipment expenditures this year.

(3) A rising volume of consumer spending especially for automobiles and durable consumer goods. New orders and current sales indicate that 7 million automobiles will probably be sold this year, a record volume.

(4) Federal spending will remain at record peacetime levels.

(5) State and local government spending is moving to a new high from the current annual rate of $45 billion.

(6) The rate of residential construction, although facing possibly a 10 percent decline, will still remain high.

With these forces at play, practically all of the economists and business analysts in the country are convinced that our national economy will move to a very high level of output as the year goes on, with gross national product reaching an annual rate of as much as $525 billion by the fourth quarter. Our economy this year will be characterized by full employment of our resources. Our basic problem will be to prevent a fresh outbreak of rising prices and another round of depreciation in the value of the dollar. This is the nature of the problem which lies ahead of us. It is the threat of further inflation, not the problem of stimulating job opportunities through stimulating housing, as assumed in H.R. 9371.

Under the economic conditions now in the making, the injection of an additional billion dollars of FNMA funds into the residential mortgage market would clearly be inflationary for two main reasons. First, this billion dollars of spending for housing, with the multiplying effect it would have on expenditures for furniture, washing machines, and other durable consumer goods, not to mention State and local government spending, would be an addition to the already swollen demand for all types of goods and services, thus acting to push up prices. Secondly, for the U.S. Treasury to provide FNMA with an additional billion dollars this year would, of course, remove a billion dollars from the projected Federal surplus. Not only would this have an inflationary impact because of the higher Federal spending, but it would seriously hinder the Federal Government from using fiscal policy to combat an unsustainable boom in business. It is widely recognized that in the postwar period one of the basic causes of inflation has been that Federal budget surpluses have not been employed to aid in preventing unsustainable booms.

As is apparent in Table 2, the huge Federal borrowing occasioned by big deficits in 1958 and 1959 was a very important factor behind the rise of interest rates from mid-1958 to the present. This was also true of earlier postwar years. There is much talk today about the “unconscionably” high interest rates on home mortgages. Current rates are the inevitable result of the fact that the overall demand for capital funds has been running ahead of the supply. A big part of this over-demand has been heavy Federal borrowing. Through a Federal surplus this year, and by the repayment of debt, the U.S. Treasury can exert a powerful effect toward easing credit. Under the circumstances, it does not make sense to cut into this surplus by adding a billion dollars to Federal spending through an FNMA appropriation. In the end, FNMA purchases will do nothing to provide any ease in the mortgage market and will ultimately act to aggravate the problem of rising home prices.

Accordingly, we do not believe that the FNMA appropriation provided for in H.R. 9371 is in the public interest. It cannot be justified as needed to meet an “emergency.” It would be inflationary. And instead of easing the capital market, it would actually contribute to higher interest rates.

THE CHANGES IN FNMA OPERATIONS PROVIDED IN H.R. 9371 ARE UNDESIRABLE

There are several changes in FNMA operations provided for in H.R. 9371 which we believe would jeopardize the sound functioning of FNMA. These amendments, discussed below, would all contribute to making FNMA a primary market and a dumping ground, which runs counter to the original legislative
EMERGENCY HOME OWNERSHIP ACT

intent and would not be in the public interest. We do not believe it would be desirable to enact these amendments even on a temporary basis, particularly because they cannot be justified on emergency grounds, as noted earlier.

Section 5 would amend section 302(b) of the National Housing Act to require FNMA, during the year following enactment, to purchase any mortgage which is offered to it regardless of the type of housing covered, so long as title to the property is good and the mortgage is otherwise eligible and not in default. We believe that FNMA should not have its administrative discretion circumscribed in this manner. FNMA should always have administrative discretion to take the quality of construction and the credit worthiness of the borrower into account in the case of mortgages it purchases.

Section 6 would amend section 302(b) of the National Housing Act to prohibit FNMA, during the year following enactment, from selling or otherwise disposing of any mortgage which it may hold. This limitation would be most undesirable, because it would prevent FNMA from functioning effectively as a true secondary market facility. FNMA should at all times have the power to dispose of its mortgage holdings, as well as to purchase mortgages, if it is to retain the advantage of operating on a revolving-fund basis.

Section 7 would amend section 303(b) of the National Housing Act to fix the amount of FNMA stock which a person is required to purchase when selling a mortgage to FNMA, during the year following enactment, at 1 percent of the unpaid principal amount of the mortgage. Under existing law FNMA has administrative discretion to fix this requirement at any point between 2 percent and 1 percent of the unpaid principal amount. FNMA should not be deprived of administrative discretion in this matter. The basic purpose of this stock purchase requirement is to insure that FNMA is not used as a dumping ground and that it be used as a secondary market only after sellers have actively sought private purchasers. We do not believe that this amendment would be sound, because it would contribute, along with other of the amendments, to making FNMA a dumping ground.

Section 8 would amend section 305(b) of the National Housing Act to require that FNMA, in the performance of its special assistance functions, during the year following enactment, shall not pay less than par for any mortgage. This would be totally unwise, because, under present market conditions, FNMA would be compelled to operate as a primary market for mortgages, and it would certainly become a dumping ground. It has been a most desirable thing for the mortgage purchases by FNMA to be close to the going market prices. If it should be required to purchase at par, under present market conditions an additional FNMA appropriation would be speedily used up as FNMA actually operated as a market of primary resort.

Section 9 would amend section 305(b) of the National Housing Act to provide that the maximum charges or fees which FNMA may impose for its commitment and purchase of a mortgage under the special assistance program, during the year following enactment, shall be 1 percent of the unpaid principal amount of the mortgage, with one-fourth being collected at the time of commitment and the remainder at the time of purchase. Under existing law FNMA has full discretion to fix these charges and fees. We believe that FNMA should not have its discretionary authority eliminated in this matter. Market conditions are subject to change, and FNMA should have administrative authority, in matters such as fees and charges, to adjust to changing conditions. Here again, if FNMA sets its fees and charges substantially below those prevailing in the private mortgage market, the effect will be to make FNMA a market of first resort, which was not intended in the basic act.

OTHER SECTIONS OF H.R. 9371

Section 3 would amend section 203(c) of the National Housing Act so as to fix the premium charge for FHA mortgage insurance, during the year following enactment, at one-fourth of 1 percent. Under existing law the FHA Commissioner has discretion to fix this charge at any point between one-half of 1 percent and 1 percent. We do not believe that the insurance premium should be lowered, even for a limited period, by legislative action. The FHA has given careful study, as have private research groups, to the question of the adequacy of FHA insurance reserves, and the FHA authorities should be relied upon to make any recommendations for a reduction in the premium. In the absence of carefully documented evidence of the soundness of this amendment, we do not believe any congressional action in this highly technical matter should be taken.
Section 13 requires the originating mortgagor, under an FHA-insured mortgage or a VA-insured or guaranteed loan, to report to the agency involved the amount of any fees, charges, or discounts paid in connection with such mortgage or loan. We can see no objection to this provision, but the question may be raised of whether this is not a matter of administrative procedure and whether FHA and VA do not already have the authority to request such information.

SUMMARY AND CONCLUSIONS

In summary, H.R. 9371 raises this basic question: Is there any "emergency" which requires the action provided for in the bill, namely, the authorization of an additional $1,050 million for FNMA purchases of mortgages and the provision for several changes in FNMA functioning which would require it to operate as a primary market and dumping ground for mortgages?

We do not believe that an "emergency" exists with respect to the availability of residential mortgage credit which requires the program set forth in H.R. 9371. Rather, present indications are that the volume of residential construction will continue at a healthy level this year without any new appropriation of funds for FNMA. The best informed sources of information expect that the flow of residential mortgage credit from private investors will not be appreciably reduced this year as compared with the record flow in 1959. FNMA and the Veterans' Administration already have $1.4 billion from prior authorizations to make available in the mortgage market this year. Moreover, as the result of the buildup of business inventories, the increase of business and industrial expenditures for plant and equipment, rising consumer spending, and many other factors, most economists and business analysts expect that our national economy will move to very high levels of output in coming months and that it will be difficult to hold back further rises in the general price level.

Accordingly, this is not the time to provide FNMA with a new authorization of a billion dollars. The injection of additional FNMA funds into the mortgage market in large amounts this year would have serious inflationary consequences because it would add this spending to the already great pressures of demand throughout the national economy. Moreover, should FNMA be provided with another billion dollars, Federal spending would be increased by this amount and the possibility of achieving a Federal budget surplus thus reduced. This would be most unfortunate not only from the viewpoint of employing fiscal policy to combat inflation, but it would also reduce the opportunity for the Federal Government to retire some of its outstanding debt this year. Federal debt retirement, through which the Government actually supplies funds to the capital market, could be a powerful means toward easing conditions in the capital market. Thus, a big FNMA appropriation would not only be inflationary, but it would also be self-defeating as a means of easing the mortgage market and capital markets generally.

Finally, many of the provisions of H.R. 9371 would amend the functioning of FNMA toward making it a primary market for mortgages and a dumping ground at artificially high prices and charges. This would cause FNMA to operate unsoundly and counter to the original legislative intent, so that these amendments should not be adopted.

Mr. Addonizio. Thank you very much, gentlemen.

The committee will stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 1:15 p.m., the subcommittee adjourned until 10 a.m., Friday, January 29, 1960.)
EMERGENCY HOME OWNERSHIP ACT

FRIDAY, JANUARY 29, 1960

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON HOUSING OF THE COMMITTEE ON BANKING AND CURRENCY, WASHINGTON, D.C.

The subcommittee met at 10 a.m., pursuant to adjournment, in room 1304, New House Office Building, Hon. Albert Rains, chairman of the subcommittee, presiding.

Present: Mr. Rains, Mr. Addonizio, Mr. Barrett, Mrs. Sullivan, Mrs. Griffiths, and Mr. Bass.

Mr. Rains. The committee will please be in order.

Mr. Carey, we are glad to have you.

STATEMENT OF JAMES B. CAREY, PRESIDENT, INTERNATIONAL UNION OF ELECTRICAL, RADIO, AND MACHINE WORKERS, AFL-CIO, AND INDUSTRIAL UNION DEPARTMENT, CIO

Mr. Carey. My name is James B. Carey. I appear here as secretary-treasurer of the Industrial Union Department, AFL-CIO, which is composed of 68 affiliated unions with 7 million members. I am speaking in behalf of those unions and as president of the International Union of Electrical, Radio, and Machine Workers, AFL-CIO.

I am testifying in support of the Rains housing bill, H.R. 9371.

We of industrial labor believe that this bill is vitally necessary to the people of the United States. This bill is of utmost importance not only to all of those who seek housing, but is crucial to our economic welfare.

I want to make it clear at the outset of my testimony, however, that we do not believe that this bill—by itself—will solve our Nation's housing problem. Passage of this bill, without supplementing legislation, will not permit the housing industry to provide its full share of economic progress for the overall well-being of our country.

In addition to this legislation, America needs a large-scale low-rent public housing program, a program for the middle income groups and the elderly, expanded slum clearance, the encouragement of cooperative and moderate priced rental housing, adequate housing for those in rural areas, protection of home owners against foreclosure in emergency situations, and a policy assuring all of our people equal opportunity to obtain decent housing without regard to race, color, creed, or national origin.
Before I deal with the bill itself, I would like to make some comments with regard to the problems that have made this bill such a necessity.

It is estimated that 1960 will witness a decrease of some 200,000 in the 1.3 million housing starts made in 1959. This drop, I want to make perfectly clear, can in no way be attributed to a lack of desire by the American people for decent housing. On the contrary, our people need more and more dwellings and they are well aware of the present shortage.

A glance at some statistics verifies this need. According to generally accepted figures, the number of new family formations is running about 900,000 per year. This means that 900,000 new families undertake an annual search for shelter.

In addition, between 250,000 and 400,000 housing units are demolished each year, through fire, slum clearance, literal rotting away, and whatnot. From these two sources alone we have a minimum need of 1,350,000 houses annually if we are to maintain the present, inadequate, status quo.

Furthermore, America's landscape is now blotted by some 5 million houses which—by all standards—should have condemnation notices nailed to their front doors. These dwellings are usually found in rural and urban slum areas which have long since passed their usefulness, if they ever had a purpose. They should be replaced.

To replace outworn housing and to take care of future needs, more than 2 million homes must be built each year. We must recognize that if we are to start the 1960's with 1 million houses, we will be starting this new decade with a 50 percent deficit.

Is there a need and desire for housing? There can be only one answer to this question, for the fact is that whenever money has been available, housing starts have run from 1,300,000 to 1,400,000 annually.

A report published in the Business Outlook 1960 of the National Industrial Conference Board declares:

There is no evidence * * * to indicate any slackening in the general desire of American families to improve the quality of their housing, old as well as new. Our studies show that rising incomes, increasing numbers of teenagers, more retired couples, and the beginning of some modest advances in the marriage rate, point to an expanding need for more adequate housing for many years ahead. This can be transformed into effective demand as funds become available and a trade-in mechanism becomes more generally available.

Today, in the face of this desperate need for housing, new houses are simply not being built. These houses are not being built because the builders do not wish to build them. They are not being built because the builders are unable to secure mortgage money at a reasonable rate of interest and, sometimes, because they are unable to secure any money at all.

Responsibility for this lack of adequate funds can be placed squarely on the "tight money" policy of our Government. I would like to talk about this policy for a few minutes.

The more we study "tight money," the more fantastic it becomes. As put forward by the Federal Reserve Board and the administration, this policy has become the primary means of fighting inflation. If money is difficult to obtain, and if the interest rates rise accordingly, the administration asserts, business activity will be discouraged and
America's runaway boom will be nipped in the bud. This, I believe, is a fair definition of the position taken by the "tight money" advocates.

Unfortunately, experience shows us that this thesis has not worked to the Nation's benefit. The recession that started late in 1957 can be directly attributed to this very same "tight money" policy. And, I would point out, that this last recession was preceded by a sharp downturn in housing starts; a downturn caused by the inability of builders to secure necessary mortgage money.

How does a national "tight money" policy operate? In theory, the Federal Reserve Board stands at a pump and manipulates the flow of funds and credit. The FRB is supposed to operate with a delicate touch, making sure that our economic system does not suffer rude shocks from a jerky trigger finger that turns the pump on and off in sporadic spurts.

Yet what has happened? The rate paid by the Government for 91-day bills declined from 3.5 percent in September 1957 to 0.88 percent in June 1958, only to rise to 4.6 percent in December 1959. On 9- to 12-month issues, the Government paid less than 1 percent in June 1958, while it is now paying 5 percent.

Discount rates, which went from 3.5 percent in 1957 to 1.75 percent in early 1958, are today at 4 percent, and another increase is expected soon.

Under no circumstances can the FRB be accused of operating with its theoretical "delicate touch." While we are told by the administration that violent change will disturb our free-enterprise market, this same administration has wholeheartedly supported the abrupt zigs and zags of its tight-money anti-inflation experts.

Even if we were to ignore the effects of the FRB's "pump handling," we would still have to study the end results of this policy. Actually, tight money does not make it more difficult to everyone to obtain funds. It places the main difficulty on those who have the least access to money.

The American Telephone & Telegraph Corp., General Electric, and Westinghouse have, at their fingertips, all the financing they need. They have no need for the money market.

The profits of these corporations are so fantastic and their depreciation charges are so great that they can more than cover their money needs without borrowing a single penny.

In 1958, for example, General Electric spent approximately $105 million for new plant and equipment. This expenditure was not made possible by borrowing from a bank or an insurance company. It came out of the more than $200 million in GE profits after dividends and from depreciation charges.

Neither GE nor Westinghouse has gone to the money market for a number of years. Nor have many of our Nation's other large corporations. Those who must seek money from outside sources are the small business firms that are unable to pile up huge reserves, the person who wants to buy a home, and, in general, the consumer who looks to credit as a means of securing the goods and services advertised as a part of the American way of life.

It is the small businessman and the average consumer who stand at the end of the line when money must be borrowed. It is the giant corporation that bypasses the line and misses the impact of a policy
established to curb excess business activity. Since the homebuilder is a small businessman, housing is one of the industries that must suffer when the source of money is tightened.

The National Industrial Conference Board report already referred to goes on to say:

• • • There is the increasingly disadvantageous position of mortgage investments whenever money gets tight and interest rates advance • • • there is the practice of Congress to ease mortgage terms and to make funds available to support the mortgage market whenever housing starts decline below what seems to be a "politically acceptable minimum," somewhere in the neighborhood of an annual rate of a million housing starts.

To a greater extent perhaps than ever before, the current housing market involves the buying and selling of money as much as dwelling units. The strong interest of many families in obtaining better homes, as well as their own personal financial situation, seems to be rather secondary in determining actual demand, to the sheer availability of mortgage money.

Let's look at this problem even further. Tight money and increased interest rates are defended as a curb against inflation. We know, however, that the raising of interest rates over the past few years has increased the cost of the home by $20 a month. Is this fighting inflation?

We know that the cost of Government has increased by many billions of dollars. We estimate that from the fiscal year 1952 to 1959, the cost of interest to our Government rose from $5.9 to $9.1 billion, for an increase of nearly 60 percent, or over $3 billion a year. Three billion dollars a year can be translated into approximately $60 annually for each family. Is this a means of fighting inflation? On the contrary, this is inflation.

If we were to add to this additional cost the increase in interest assumed by private industry and consumers, I think we might find that the total would approximate $8 to $10 billion a year, or about 2 percent of the gross national product.

I charge that tight money has had an effect directly opposite to curbing inflation. It has spawned inflation. During the last year, the Nation's cost of living rose by 1.5 percent. There is no question in my mind but that much of this increase can be attributed to the very policy adopted by this administration in the misguided belief that inflation can best be halted by clamping down on the little man.

We have prepared a chart showing the trend of housing starts as compared with the Federal Reserve Board Index of Industrial Production from 1950 to the end of 1959. Both are on a seasonally adjusted basis. You will note that starting in 1950, the downturn in housing starts which ended in the middle of 1951 preceded the downturn in industrial production which made a low in the middle of 1952.
Similarly, housing starts reached a new peak between October 1952 and April of 1953, preceding the peak of industrial production in July of 1953. Housing starts reached a bottom in August 1953, preceding the bottom of industrial production that was reached in the beginning of 1954. At the end of 1954, housing starts reached a new peak of 1.44 million and thereupon declined catastrophically for a period of over 2 years to a little over 900,000. This was a drop of about $7 billion in direct activity.

In the face of this situation, industrial production reached a plateau between the end of 1955 and the end of 1957 and turned downward for the 1957-58 recession. The upturn in housing starts began in February 1958, preceding by several months the upturn in industrial production.

We believe that program 10 played an effective role in the rise of 500,000 housing starts to a peak level of 1.4 million achieved at the end of 1958.

The effect of program 10 was not only in the 80,000 homes started by it but in the psychological influence of more abundant funds. It eased the Nation’s housing situation and was partly responsible for the $1,000 drop in the average price in homes.

Now, if you look at what happened in 1959, you can see a new decline in housing starts beginning at the end of 1958, a decline which may well precede and pull down industrial production.

I am convinced that the enormous variations in housing—with high peaks and low valleys—is partly responsible for the recessions that we have been having every 4 years.

We must clearly understand that if in 1960 we have a decline of 200,000 housing units from 1959, it will mean a reduction in direct activity of about $2.8 billion and a loss of perhaps one-half million jobs on and off the site.

With unemployment remaining at 3.5 million, or about 5 percent of the labor force, and expected to increase this winter, it seems evident to me that the policies of this administration and the Federal Reserve Board are leading us directly into a 1961 recession.

It is my belief that we have come forth with too little and acted too late in the past. We should end the situation in which a downturn in housing due to tight money creates a recession. Now is the time to be forewarned of this danger. Today, we have the opportunity to use our vision and understanding to enact legislation that will not only help cure immediate ills, but will serve as strong preventive medicine against future attacks.

I would like to concentrate on three major items:

1. Amendment to section 203(c) to reduce for 1 year the premium charge for mortgage insurance to one-quarter of 1 percent from the one-half of 1 to 1 percent at present.

2. To amend section 305(b) to require that FNMA pay not less than par for mortgages.

3. To amend section 305(g) to provide $1 billion additional for program 10 with the ceiling for houses of $13,500 with the possibility of $14,500 in high cost areas.

By concentrating on these items no one is to get the impression that there is any objection to the others. I merely wish to emphasize these items particularly. Let me also make it clear that we of industrial labor are convinced that, if anything, this bill is terribly inadequate.
With regard to the proposal for amendment of section 203(c), industrial labor supports the proposed reduction in the premium charge for mortgage insurance to one-quarter of 1 percent if it can be done on a sound financial basis.

As with its other arguments, the administration's position on this amendment is not convincing. Its position is that the payment of a half of 1 percent has resulted in the building of a substantial reserve fund which might ultimately be distributed. Furthermore, it argues that this huge fund is necessary to take care of a major depression.

I must say at this point that this is the first time, to my knowledge, that the administration has ever claimed that it is doing anything to take care of a major depression.

Let me make it plain, however, that if we are to plan against a major depression, those who insure with FHA should not be made to bear the burden by payment of extra premiums. We know full well that if a major depression were to start those whose homes are financed conventionally would get virtually equal treatment.

Nor is it enough to tell a homeowner that at the end of 20 years he may get back his extra charges. In all likelihood he needs the money now and an extra one-quarter of 1 percent means a difference of $37.50 a year. As far as I am concerned, these extra charges represent inflation just as if the homeowner were charged this money at the grocery store.

The administration spokesman arguing against the proposal stated that the dividends and profits from this premium fund amounted to 29 percent of the collections. Obviously, from this admission some reduction in charges is possible.

By providing $1 billion for the purchase of mortgages by the Federal National Mortgage Association, this bill will make certain that this amount of money will be available for our housing industry. The $1 billion, however, will supply only 70,000 to 80,000 of the 200,000 drop in starts that is expected. While it may cushion a decline, it is not, by itself, enough to stop such a downturn.

This money, of course, is not an expenditure by the Government. Funds are simply being made available, just as the Federal Reserve Board makes money available when it deems necessary. Experience indicates that all but a very small fraction of the money involved in such mortgages is repaid.

The objections raised against this provision are the same ones that were made in 1958, when a similar bill was pending before the Congress. Representatives of the Housing Administration, as well as Government fiscal experts, came before this committee and declared that the proposed assistance should not be granted. They said that the situation could be righted by free enterprise.

There is a basic fallacy in this position. It is not possible for enterprise to be free in the housing industry, for Government controls the sources of credit. Government cannot exercise this control with one hand while using the other hand to wave forward free enterprise.

A laissez faire Government policy for the housing industry is wrong, even in a social sense. Housing is not like an automobile or a pleasure craft, it is indispensable—one of the three basic necessities of our citizens.
It cannot be treated as a toy to be tossed around in the arena of the so-called competitive system.

The social importance of housing was recognized long ago by our Government in the Public Housing Act and the slum clearance acts, with their funds providing for the rehabilitation of urban areas.

Today the administration spokesmen have been unable to find a single thing wrong with the housing situation, nor a single thing that the Government can do to assist. This is a most amazing situation, perhaps unequalled anywhere in Government or anywhere in the entire world. Everything, we are told, is just dandy.

In 1958, administration spokesmen opposed any extra housing funds because they claimed that these funds would drive out private investment. The administration was wrong. As program 10 was effectively getting underway, housing starts rose from 1,039,000 in May to 1,432,000 at the end of 1958. As program 10 tapered off in mid-1959, private industry was unable to take up the slack. Total starts declined by 60,000 from May until the end of 1959.

The case for complacency and competence on the part of the administration rests on the fact that housing starts in December were on a yearly basis of 1,310,000. We should not forget that December housing starts were below those recorded for 7 other months of the year even though industry said that business was booming. December’s starts were 115,000 below the level of December 1958. Such a rate barely matches family formation plus the tearing down of dwellings. In the light of these figures, it is hard to find any basis for self-congratulation.

The administration’s spokesmen were wrong in 1958 and I am sure they will be just as wrong in 1960.

It all depends, of course, upon what one expects from housing as a standard. In 1958 a spokesman said:

We think that 1,500,000 houses would saturate the market this year. I think 1,100,000 is a very realistic figure.

Obviously, if the administration had that feeling in 1958, it is going to be very complacent if 1960 housing declines to 1,100,000.

The same administration spokesman in 1958 declared:

We have sought to make the volume of housing activity consistent with general economic stability.

But even this hasn’t been done.

While the administration admitted that—

many competent observers feel that the upturn in housing activity in 1954 played a significant role in erasing the general economic decline—

it wants to wait until a general economic decline is underway before doing anything.

So, in 1957 the administration waited until December, until the decline had already gained momentum, before any action was taken. It was not until April 1958, or after some 9 months of decline, that a change for the better occurred.

I say that we should not wait until 9 months or a year of damage has been done, and until millions are unemployed before we take action. We have seen time and time again the order of events in an economic downturn and 1960 is faithfully following the pattern of 1956.
Our Government administrators have another curious theory. They believe that if interest rates rise high enough, then mortgage money will be available. This theory has not turned out to be true. When interest rates rose from 4 to 4½ percent, more money did not become available, and when they rose from 4½ to 5 percent, the money supply did not increase. When they rose from 5 to 5½ percent, we still did not find the funds that we needed.

The reason that this theory fails is similar to the reason why “tight money” has not halted inflation. In simple terms, when people expect prices to rise, they hold on to their merchandise—whether it be money or goods—for the highest price they can get. They gamble on even higher prices, just as the sources of money hope that interest rates will rise to 6, 7, or perhaps 8 percent under our Government's policy.

Unfortunately, there is nothing to stop this process from continuing indefinitely. “Scarce money chases interest rates”—to coin a phrase used by the hard money experts—so that each round of short-term and long-term loans creates a new round of money inflation.

Shocking examples of how the “tight money” merry-go-round affects the home purchaser and the private housing industry are included in a committee staff report issued on “Second Mortgages, Land Sale Contracts, and Other Financing Devices Employed in Conventional Mortgage Lending.”

Here we find an alarming increase in secondary mortgages, land sales, and other schemes which would deprive the owner of his title and lead to his eviction as he became unemployed. We find discounts on the sale of second mortgages up to 50 percent, especially among groups with little economic power. In the District of Columbia, discounts run 30 and 35 percent.

A report from San Francisco declares:

A well-drawn second deed of trust *** and which has seasoned a year or so will yield about 15 percent, with a mortgage broker receiving a fee from the purchaser.

The American Mortgage Co. recommends that notes be written at 10 percent interest and in San Francisco there are public offerings which guarantee the investor 10 percent on his money with the money secured by a deed on a California home.

All this, mind you, is being done in the name of free enterprise. It is called adjusting ourselves to the market.

The committee staff report makes interesting reading, especially when compared with the testimony of last year’s administration spokesman. He said:

We sincerely believe that the mortgage market and homebuyers themselves would be benefited by the improved flow of funds which would result from a repeal of a revision on mortgage discounts.

Today these discounts run up to 8 percent even though they are FHA insured.

He declared further:

I believe from our experience that private funds are available for veterans if the interest rate is competitive.

In understandable English, this verbiage means that if a man is thirsty he is benefited by having the price of water increased even
though it might get beyond his reach. As we all know, a 1 percent increase in interest means an increase of $11.25 a month on a $13,500 house. A 2-percent increase in interest is equivalent to a $22.50-a-month increase in rates.

What would we do if such an increase in rents took place throughout the country? We would actually call it gouging and there would be a hue and cry against it. Furthermore, such an increase would show up in the cost-of-living figures. Yet the administration, which created this situation in the first place, wrings its hands in alarm that inflation is being created.

It is bad enough that this usury exists. But why should the U.S. Government be a party to it either directly or indirectly? And who benefits from it? I say that it is the big corporate investors.

Industrial labor takes the position that one of the basic purposes of government is to serve the common welfare and the common welfare can no better be served than in such indispensable elements as housing. Vast subsidies, for example, are given for highways. We are all for such subsidies, but the subsidies for highways are many, many times those given to housing. As a matter of record, the actual housing and community development help to be provided by our Government in this next year amounts to $430 million, which is only 0.5 percent of our entire Federal budget.

Even these figures are misleading, however, since—as I mentioned before—the bill before this committee does not propose to spend a single penny from the Federal Treasury. This bill simply makes money available that will eventually be repaid.

Now, let us examine some of the economic effects of this upon various industries. I can speak of my own industry, the electrical industry, which I know better than any other.

Practically every house today has a number of electrical appliances built into it. It has a refrigerator, a washing machine, often a dishwasher and a garbage disposal. In addition, there is a considerable amount of wiring and wall plugs—all of which are products made by the electrical industry. I daresay that in a $15,000 house, about $1,500 is accounted for by the products made in our industry. If housing is to be reduced by 200,000 starts, this means that $300 million worth of business is going to be lost—$3 million less is going to be produced; and this amounts to approximately 30,000 jobs in my industry.

The electrical industry is already suffering considerably. After 2 years of recovery we have just about reached the level we had attained in 1957. We are still 61,000 production worker jobs below the level of 1953. In other words, this great dynamic electrical industry still has 61,000 fewer production workers than it had some 7 years ago.

These are the stark and revealing facts of life. We do not expect the situation to improve considerably. With the advent of automation, with the movement of plants to rural areas, and the removal of operations from this country, we are going to face a desperate situation trying to keep our people employed while taking care of the 800,000 young people who enter the labor market each year.
I would like to address myself briefly to the amendment of section 305(b) requiring the FNMA to pay not less than par for mortgages. I know of no reasonable argument against this amendment.

I am convinced that those who oppose this provision do so only because such an amendment would be upsetting to some private investors who apparently are reluctant to forgo the lucrative profits they have been making through exorbitant discount rates and usury practices.

According to Standard & Poor’s report “The Outlook” dated January 25, 1960, the net operating earnings of the leading banks in the country increased by an average of 13 percent in 1959. A similar gain is estimated for 1960 based on current projection of business conditions and interest rates.

In 1958 the average interest received by a leading New York bank was 3.63 percent. In 1959, this rate was 4.44 percent, and it is expected to climb by an equal amount in 1960.

Despite these rates, the administration presents the strange argument that if FNMA purchases mortgages at par it would—

create a situation in which the investment of non-Government funds on such mortgages would be impractical to any large extent. This would result even if the mortgages were of the more desirable types eligible for special assistance.

Furthermore, we are told, investors who are in a position to make either mortgage credit or other types of credit available will not prefer the mortgage field whenever such investments are not reasonably competitive with other types of investments.

In effect, the administration is saying that the Government will not disturb a situation in which 12 percent or 15 percent interest is needed to “encourage investors.” I challenge the administration to predict what would happen if the Government began purchasing at par. It knows, as you and I know, that given such leadership, the public would object to today’s usury, stiffen its back, and refuse to pay excessive rates.

In summary, I want to make it clear that while the Rains bill does not, by any means, come to real grips with the Nation’s present housing crisis, it does represent a desperately needed step in the right direction. As its author has declared, this bill is an “emergency” measure aimed at relieving the “crucial shortage of mortgage funds.”

Industrial labor is convinced that America must find a way to build at least 2 million new units annually. We know that our country still has some 12 million substandard housing units and that, at the 1.3 million unit rate of 1959, it will take us at least 25 years before these substandard units are eliminated.

The American people want decent housing and they are entitled to decent housing. This Congress has a responsibility to provide the means by which this need can be obtained. Failure to pass the Rains bill would be inexcusable. Such congressional inaction will be interpreted by the people as unconditional surrender to the moneylenders.

No one can argue that our Nation does not now face a housing emergency. Such an emergency calls for emergency legislation—legislation as provided in the Rains bill.
I would like, Mr. Chairman, to thank the members of the committee who were present during this testimony.

Mr. Rains. Thank you, Mr. Carey, for a very informative statement.

I would like to include along with your statement in the record the comparisons of the Federal Reserve Board’s revised production index. This is the one you referred to in your testimony, is it not, Mr. Carey?

Mr. Carey. Yes, sir.

Mr. Rains. You touched on a great many things, all of which are vital to the bill. I was much impressed about what you had to say about the number of jobs that failure to pass this bill might cause people to lose. I notice in the Wall Street Journal, which seems to be quite upset about this bill generally, an article headed “Appliance Anxiety—Worried Leaders Cut Prices as Sales Lag, Inventories Pile Up.”

The housing industry, as such, is one of the most vital to great manufacturing industries engaged not only in the manufacture of electrical supplies, but all the thousand other things that go into homes, isn’t that right?

Mr. Carey. Yes, sir, that is true.

Mr. Rains. Have you ever taken the time to translate housing production into the number of jobs each house provides? Do you have any offhand ideas on that?

Did Mr. Shishkin mention it in his testimony? I was ill that day and didn’t get to hear it.

Mr. Carey. I think he presented the figures, though I am not certain. According to the way he estimated it, every thousand housing units would mean 2½ jobs.

Mr. Rains. It is not my intention, and certainly not the committee’s that this is to be anything other than a kind of stopgap bill. We recognize, as you do, that this is not the answer to many basic housing problems by any means, and it is our hope that later in the session, at the proper time, we will be able to bring out an overall omnibus good housing bill. The timing is still uncertain, but we intend to move in such fields as urban renewal, and all the other programs which go to make up a general overall housing bill, and we will appreciate having your organization’s good support, of course.

I have some questions, but I am feeling a little under the weather with the flu this morning, I am going to let Mr. Addonizio proceed.

Mr. Addonizio. First, may I add my word of welcome to you here this morning. Certainly I am very proud of the wonderful record you have made as the leader of a great union, which particularly pleases me, because I know you also come from the great State of New Jersey.

Now, may I say to you that it seems to me that the biggest opposition we get to this bill stems from the thought that this bill is very inflationary.

Do you believe that to be true?

Mr. Carey. Just the opposite, sir. I might say that those who infer that the slowing of economic growth is a means of dealing with inflation should look to see what is happening in the world. The Soviet Union is moving at a tremendous rate in industrial growth, and our
Nation is, by deliberate governmental policy, holding back its growth. It is a dangerous situation. Even Communist China is moving ahead at a tremendous rate. I might say that the Soviet Union seems to get more for what little they possess, in the diplomatic field and every other field. Some of the policies operating in our Government to stifle the growth of our economy such as this “tight money” policy, this scarcity economy approach, are a threat not only to ourselves but to the free people of the world.

It just doesn’t make any sense, and I would hope that those that attack this bill on the ground of inflation, claiming that it brings about inflation, would state their case in meetings of this nature so that they can be properly challenged and answered.

Some of the unions of the labor movement, like the Amalgamated Clothing Workers, they, too, have banks. They have banks in the cities of New York and Chicago. Their officers come before our councils claiming that the outrageous profits their own banks are making are a danger to our Nation, and they speak of it in terms of the impact it has on housing and the growth of our economy.

It might be a good idea if some of the union bankers could testify directly about the fact that their profits are so great that their income is increasing at the expense of the people and the growth of our Nation.

I heard the president of the Amalgamated’s bank so testify in our councils as to their fears of what has been happening with the misguided influence of the present administration on the fiscal affairs of this country.

Mr. Addonizio. Some of these same individuals indicate that the answer to getting more money in the mortgage market is simply to raise the interest rates. I disagree with that very strongly, because I think history shows that what would happen, actually, is that a year from now we would be back here trying to raise interest rates again.

Don’t you think that this cycle will just keep continuing if we raise interest rates now?

Mr. Carey. That is precisely what history shows us. I might say the strength of our Nation was built on the basis that when you produce a lot of units, you can produce them cheaper, and you get a better distribution of things.

Now, this is not a radical philosophy. It is a point of view of Henry Ford. He said that you could give the customer a better product cheaper if you produced in large quantities. But this notion of producing housing units in a small quantity or a scarcity basis is one of the most inflationary things that can be engaged in, one of the most dangerous practices. Madison Avenue comes up with these slogans, and they talk about an increase in interest rates stopping inflation when it does just the opposite. They even go so far as to say that a wage increase might cause inflation. Now, actually if we have the people in a position to buy more products, we can build more and build them cheaper, and prices come down on that basis, not on this reverse notion that the “tight money” people possess.

Mr. Addonizio. Now, something else that they talk about is the fact that this bill was designed to be just a builder’s bill, that it is set up simply to take care of a certain segment of our economy that might be suffering just a little bit.
I have tried to show through these hearings that there is still a great need for housing in this country, and I know your statement did elaborate in that direction a little bit, but I was wondering if you couldn't be just a little more specific as to the great need for housing in this country, today.

Mr. Carey. That is an emergency situation, and it will continue, as I stated in my testimony, for some years to come.

Mr. Rains. If I might interrupt here to put a footnote into the record, if you don't mind. This is a statement that always worries me, Mr. Carey, and nobody can get around it, there is no need trying to avoid it because facts are facts.

In 1925, we were building houses before any of these programs were in existence, at the rate of 110 per 10,000, and today we are building them at the rate of only about 75 per 10,000.

We may differ about how to get enough housing, but the idea that some people put out that we don't need houses, and what we can do is let things drift—such an editorial in the Wall Street Journal was put into the record by Mr. Widnall. It is this kind of thinking which is outmoded in the economy in which we live, the day and age and the country in which we live—somebody used the phrase the other day that "we were going forward by walking backward," and don't you think that about describes it?

Mr. Carey. I do. Certainly it is a proposition of selling America short.

Mr. Rains. Thank you.

Mr. Addonizio. Mr. Carey, one of the witnesses who was here yesterday, Dr. James O'Leary of the Institute of Life Insurance, expressed concern that we are beginning what he called an unsustainable boom, and gave the opinion that business could slump in 1961.

Now, do you agree with this, and would you comment on Dr. O'Leary's statement that the ups and downs of the business cycle are a natural and inevitable aspect of our economic system?

Mr. Carey. We have had these recessions every 4 years now, and apparently one will be hitting us in 1961. These are not God-made; these are manmade propositions. We showed in this chart just how the impact of housing starts reflects upon our industrial economy. I think it is a shocking thing to hear such statements that "a little depression is good to have; it is good for business." The counterpart of those statements is, "What is good for General Motors is good for the country."

Our Nation needs housing; providing this need is one of the tests of democracy. You have other ways of life, like the Soviet Union, warning about its growth in the field of housing and the improvement in housing, the improvement in its cities.

To suggest that this Nation needs a depression, or is benefited by a depression, is ridiculous. How can we favor by destruction of our human resources when we have 800,000 people coming into the labor market each year? These youngsters ought to have at least a chance of having employment in the field in which they have been trained.

It would be frustrating and destructive of their hopes and aspirations. It is true in American industry we are able to produce more goods with less people; that is due to automation. There should be
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an effort made to meet that situation if for no other reason than to
strengthen America by assuring young people of a reasonable oppor-
tunity for employment.

We hear a great deal of talk during the present session of Congress
about these strong labor unions, that they are too powerful, and they
are getting too much. I regret to admit that our union, supposed to be
one of the strongest in the country, has been unable to get a meeting
with the officers of a corporation like General Electric. The only time
I ever saw the president or chairman of the board of General Electric
was at a stockholders' meeting last year.

Such a meeting is not a proper means of communication between the
officers of a union and the officers of a corporation. That corporation
happens to be one of the outstanding ones in advocating this notion
that a little depression is a good thing to have, a little unemployment
is a good thing to have. General Electric moves plants from some of
the northern communities, where the people have their homes, and they
have their school ties and family ties and things. They move their jobs
to remote areas. Plants are now operating in Buenos Aires, Brazil,
Puerto Rico, or some of our Southern States where they pay extremely
low wages in comparison. These things are quite shocking—American
industry moving out of this country into other parts of the world.
You can't buy an American-made sewing machine, with the exception
of one type, that is made in America; that is the Slantomatic of Singer.
The rest of our sewing machines are made in Scotland, Italy, or some
other place.

What is happening in the financial world in this country is detri-
mental to this Nation, and I think this gouging that has been going on
in the field of housing is one of the most shocking things. This bill
would be helpful to give hope and confidence to the people of this
country that our Government is concerned about their welfare and
concerned about their future.

The people who suggest—openly and publicly—that this Nation can
stand a depression, or that a little depression is good, are the people
who have no confidence in America. These are the people that are
afraid and frightened. These are the people who sell our Nation short
by refusing to look at the promise of our future.

Mr. Congressman, I am pleased to have this opportunity at least to
in part hear some of the questions being raised by this committee about
the fallacies in some of the economic statements being made today.
Fallacies being made by people in high public office, who talk as though
we have nothing to fear in the progress of the Soviet Union. One such
person said there is no market for sputniks, what do we care whether
the Soviet Union makes these developments. Even in the field of
automobiles, something we are supposed to be good at, we have some of
the great minds of that industry say that the American public does not
want a small car, and yet through wholly owned establishments—
wholly owned by American producers—these cars are flooding our
market.

Of course, tariffs are not the answer to the automobile question, but
the cost of financing automobiles is so high that it makes up a large
part of the cost. Today, as our production costs go down, finance
charges go skyward. The financing costs of houses, electrical prod-
ucts, and automobiles is a shocking disgrace. I do not think it helps
to attract people to our free enterprise system, or to American capitalism, be they in Latin America, Asia, or Africa.

I think our Government better look at some of the policies it is enunciating and see what these policies are doing to the people. As to your point that this is a builder's piece of legislation, Mr. Congressman, the industrial workers of the United States, represented by the industrial union department—and their views are being stressed in this testimony—are not a part of the building industry. They are the people who are the consumers in large part. The IOD has 68 unions, with 7 million members, and those 7 million members are in 32,500 local unions throughout the United States and Canada. These 7 million people are clamoring for the opportunity of having decent housing. They are the most productive people in the world, bar none, and they think that they ought to have at least a remote chance of getting decent housing at decent prices without being gouged on the financial side of the proposition.

Mr. Addonizio. Mr. Carey, yesterday we had another witness from New Jersey, a Mr. Scott, who I believe is the chairman of the Realtors Washington Committee of the National Association of Real Estate Boards, and he indicated that this bill was not needed because we were not in the same kind of situation that we were in 1958 when we enacted similar legislation.

He said that we are not presently in a recession, and he left the impression that the only reason this bill had been introduced was because perhaps the chairman felt we were in a recession.

I tried to point out very strongly that no one on this committee feels that we are presently in a recession, but that there are certain signs on the horizon that indicate that the situation is very similar to that which we saw in 1957 when we failed to do something about it, and the only reason we are here now is that we are trying to prevent a recession.

I am sure you will agree with what I have just said.

Mr. Carey. I certainly would.

Did you know that the Wall Street Journal today, voicing concern about 1960 business, sees a drop in appliance sales, slackening of auto sales, and a drop in new construction contracts? There is a real concern stated by outstanding economists, there is great danger to our society even in this year of 1960.

Now, it is true, Congressman, that the new recession has been deferred a little bit by this planned stoppage in the steel industry. That stoppage came when the steelmasters advised their clients to buy up steel because they were going to test their strength with the steelworkers' union, and they were going to be an instrument to stop this inflationary trend of people getting increased wages.

The steelmasters brought about a closing of the steel industry. They used the law for their own purposes, the courts and the Taft-Hartley, but they were not able to break the spirit of the steelworkers. They were hoping, actually, to continue their program of getting increased prices, make it appear as though it was due to increased wages.

These industrialists were given a rude awakening. Indeed, the administration actually played such a large role in the steel situation.
by setting up this great fear of inflation that it is hard to see how it can now take great credit in making a contribution to the settlement of that dispute. Well, since the administration caused it, I suppose it in large part knew how to settle it. All it had to do was recognize that it had done everything it possibly could against that union. There wasn’t anything it could do any more, so the employers then looked to a settlement.

There is argument as to whether this was an inflationary settlement or a noninflationary settlement. One thing I know, the industry used the strike to build demand. At the present time there is a lot of activity growing out of this enforced shutdown that took place in the steel industry.

In the electrical industry all the employers knew when the strike was going to start, when it was going to stop. They had various specialized types of steel available. It is a very interesting thing that took place, and if you check the records of Westinghouse or General Electric as I did, I went into the plants and looked at it, you will find that they had just enough steel of the various types and categories to meet their requirements during the steel shutdown.

What happens when the American worker is so productive that he is going to replenish those inventories in electrical appliances, automobiles, and all the other products? America is either going to have to expand our growth, build new houses, build new equipment to supply them, or we are going to have a shocking recession.

I think in the discussion of this bill we get down to some really important fundamental questions as to what is important to the American people, and in this legislation I think you deal with the real question of what causes recessions, what steps should be taken to prevent them, what causes inflation and what steps should be taken to prevent inflation.

Certainly, sir, we should encourage economic growth and more production. We must do these things so that we can sustain the high cost of defending this way of life.

Today, we expend over $40 billion a year for defense. Defense spending also creates a great deal of other activity economically. We are in difficulty because of the silly notions that are projected by some people who testify before committees of Congress with a lot of nonsense. Whey they say we need a little recession, or recession is beneficial, or high interest rates are an effective way of dealing with inflation, they are suggesting very unsound remedies for our problems.

Mr. Addonizio. Thank you, Mr. Carey. The hour is getting late and we have several other witnesses. I want to thank you very much for your testimony.

Mr. Rains. Mrs. Sullivan.

Mrs. Sullivan. Thank you, Mr. Chairman.

Mr. Carey, many of us here in Congress appreciate the testimony and the continuing interest shown by you and your associates accompanying you today, and other leaders in various segments of our people who come before us pleading the cause of the so-called little people, the workingmen and workingwomen of this country. You always give out and present well-thought ideas and suggestions, and I congratulate you.
Mr. Carey, even though the spokesman for the administration and the Federal Reserve Board are very evasive in their public statements, don't you feel that they are fully conscious that housing is one of the main victims of tight money, and are perfectly satisfied to see homebuilding drop off?

Mr. Carey. I think they closely follow this program of scarcity. Of course, some of our leading figures in the administration haven't had a housing problem in their adult life, they have always had public housing. Some of them haven't had problems of education, they have always had that well supplied to them. Some of them have practiced the nearest thing to socialized medicine that we know, they have had it all their adult life. They have no relation to the feeling or the concern or problems of the common people.

Mrs. Sullivan. They have never been close enough.

Mr. Carey. Some of them don't even have the problem of household help, they have had it properly supplied to them by our Government. It is unfortunate that we have a growing feeling on the part of the working people that our Government is not responsive to their needs. When working people hear these expressions being made, some of them being made just a few nights ago by officials of our Government engaging in political campaign raising activity, they have every right to feel neglected and ignored. It is good there are some of us that do speak out for the little people, because they have little other means to have their voices heard.

The interest of the people that work for a living would not be heard at all unless we took advantage of the opportunity given to us by bodies such as this committee.

Of course, the bankers have testimony, too, and they present it.

Mr. Rains. They are coming next. We hear everybody.

Mr. Carey. I wonder what happened to your Republican associates on your left.

Mr. Rains. They have a very good excuse this morning. Mr. Widnall sent a message up to me that he has a special meeting about an airport in his district. Mr. Derwinski is out of town, and so is Mr. McDonough. Unfortunately they could not be here this morning.

Mr. Carey. I speak to this question, because as Mrs. Sullivan stated, we come to present testimony, you may not agree with us, but at least we should have the chance to be heard.

This is not the first occurrence. I testified yesterday, and there was not a single member of the Republican Party present at the testimony yesterday in the Senate.

I know about the flu epidemic, and I know about other obligations, but certainly, sir, when will I get a chance to meet at least one member?

Mr. Rains. I hope you get that chance.

Mr. Carey. Thank you very much, sir.

Mrs. Griffiths. I have enjoyed your testimony, Mr. Carey. I would like to ask you about this article in the Wall Street Journal yesterday which stated that appliance sales were down.

Now, I am sure that I read not less than 4 weeks ago that appliance sales were going to hit a new high this year, that they were going to be up, and now I find that even in December, the orders were cut back.

The thing that interests me is why did that first information get out?
Mr. Carey. Sometimes they put out figures that appliance production is going to hit a new high. That doesn't necessarily mean that employment in the industry is going to hit a new high, because in our industry we are now making automatic equipment with automatic equipment, and we can produce these things at tremendous speed using less people.

Our industry's production schedule is based on anticipated sales. Like other industries, one of the most important costs involved in electrical appliances is the cost of financing, and psychologically as well as actually I have never found an employer that is going to manufacture anything he doesn't think he is going to sell. If there is not a market for the product, and there is not an easy method of financing the product that is convenient to the consumer, it is going to cut into his ability not only to sell, but his ability to produce. This cutback gets right down to the work force where it is represented in the form of notices of layoffs.

Now, I might say this: The people want more appliances; they need and desire better kitchens; they need better homes. We believe that if the people need better homes it is good for our country for them to have them, then all possible steps should be taken in order to provide them.

Our people want to live better—that is the way it is—and they are willing to work in order to live better, but the shocking thing is that because of some fiscal policies that have been proven time and time again to be unsound, lo and behold, the people are denied the things they want. People are denied the opportunity of producing the things they want, and then our needs are not reconciled and we have these silly depressions.

Mrs. Griffiths. Thank you very much.

Mr. Rains. Mr. Barrett.

Mr. Barrett. Mr. Chairman, I just want to tell Mr. Carey that I was unable to get here on time this morning because of very heavy airplane traffic. We were stacked up over the airport for 45 minutes.

There were many questions I would have liked to ask you, but, of course, I know you think exactly as I do, and I have the same desire to accomplish the things for the average American family that you do. Therefore, I feel certain I can support your views completely. As you know, we listen to many witnesses and are greatly interested in those who testify in behalf of the working people. That is our problem. We follow that trend in our legislative activities to see if we can't get better working conditions. I certainly would have loved to be here earlier this morning to hear your full statement.

Mr. Rains. Thank you, Mr. Carey. We appreciate your testimony.

Our next witness is Mr. Cowles Andrus, speaking for the American Bankers Association. Come around, Mr. Andrus.

I am sure that this committee can never be charged with not hearing all sides of the question. We are interested in doing that, and for that reason we are delighted to have you here immediately following the testimony of Mr. Carey.

You may proceed, Mr. Andrus.

Mr. Andrus. One advantage in the overbalance this morning is that I won't be subjected, like the Wimbledon fans, to the necessity of glancing left and right.
Mr. Andrus. My name is Cowles Andrus. I am president of the New Jersey Bank & Trust Co., Passaic, N.J. I am also chairman of the Committee on Real Estate Mortgages of the American Bankers Association. It is in this latter capacity that I appear today to present the views of the association on the proposed housing legislation.

Over 98 percent of all commercial banks and about 50 percent of all mutual savings banks are members of the American Bankers Association. These banks are heavily engaged in residential mortgage lending, and the funds they make available for residential construction constitute a major source of mortgage credit. At the end of September 1959, the commercial banks and mutual savings banks of the United States had more than $42 billion invested in residential mortgage loans, of which the commercial banks held $20 billion and the mutual savings banks held $22 billion. FHA-insured and VA-guaranteed mortgage loans held by the commercial banks and mutual savings banks represent about one-half of all the Government underwritten mortgage credit held by private lending institutions.

The mortgage debt is today the largest single private debt in the United States and forms an important part of the operations of this Nation’s banks. The banks are, therefore, most concerned with and interested in legislation affecting mortgage finance and home building. Although the banks are anxious and eager to help supply the funds needed for meeting housing demand, their assets represent to a large extent deposits belonging to millions of people, and they are, therefore, obliged to follow practices that are consistent with sound banking and general economic stability.

The stated objective of H.R. 9371 introduced by Congressman Rains is:

- to halt the serious slump in residential construction;
- to increase both on-site and off-site job opportunities;
- to help achieve an expanding full employment economy; and
- to broaden homeownership opportunities for the American people.

The bill would add $1 billion to FNMA’s special assistance program and, in addition, create a special assistance fund of $50 million for the purchase of section 203(i) mortgages. Other provisions of the bill would affect matters currently within the discretionary powers of FNMA management. These provisions appear to be intended to make FNMA funds more readily available and at a lower cost than they would be if they were left to the discretion of FNMA.

The central questions of concern to us in regard to this bill are:

Does an emergency exist in fact which would make the enactment of this bill desirable, and are the specific measures recommended in the bill consistent with the sound operations of FNMA and in the public interest?

Before attempting to answer those questions, I shall undertake briefly to describe the mortgage outlook for 1960. There are many mortgage outlooks for 1960, but we hope this is a composite of responsible prognostications.
Present indications are that housing starts will decline somewhat during 1960. The most common prediction at present is that housing starts will decline from about 1,375,000 in 1959 to 1,200,000 in 1960. During 1959 the net increase in residential mortgages amounted to $14 billion. The most informed opinion at present predicts a net increase of about $12.5 billion in residential mortgages during 1960. The expected decline of about $1.5 billion between 1959 and 1960 is due to several factors. Commercial banks will experience a decline because their free reserves will remain fairly tight and their operations in the field of mortgage finance will be somewhat restricted. There will be a modest decline in the net increase of residential mortgages in the savings bank industry as a result of an expected slowing down in the rate of growth. The banks and perhaps the savings and loan associations are likely to experience a moderate decline in savings. The reason for this lies in the mounting competition of Government securities such as the "magic fives," an increase in demand for consumer durable goods, and increased competition from mutual funds. In spite of this, however, the drop in the net increase of mortgage funds should be no more than 10 percent or $1.5 billion.

FNMA and the VA now have a capacity of $1.4 billion which they can add to the mortgage market in 1960. This consists partly of the potential increase in FNMA holdings and partly through VA direct lending programs. There is little doubt that these agencies will make use of their powers to put funds into the mortgage market.

During the last 10 years housing starts exceeded an average annual rate of 1,200,000. Like every other industry, residential construction experienced fluctuations, but in no year during this 10-year period were starts below 1 million, and in 1959 they reached an estimated 1,375,000. Mild fluctuations are commonly considered adjustments to which a market economy is subject. Adjustments serve to make corrections in prices and output according to the real factors of supply and demand.

The fact that housing starts are not likely to fall below the 10-year average of 1,200,000 during 1960 leads us to believe that no emergency exists at present which would justify the passage of H.R. 9371.

In fact, we believe that if the Government were to intervene at present in the manner prescribed in this bill it would tend to overprotect the housing industry, which would lead to inefficiencies and rising costs and, in the long run, to less housing.

Section 3 amends section 203(c) of the National Housing Act by fixing for 1 year the premium for FHA mortgage insurance at one-fourth of 1 percent. At present, the FHA Commissioner may use his discretionary powers to fix this charge within the range of one-half to 1 percent. The question of adequate FHA reserves is involved and this is a matter of actuarial practices which should not be interfered with even by temporary legislation. It is a matter of discretion and knowledge and should be left to the FHA Administrator. We would see no objection, however, to changing the range by reducing the minimum to one-fourth percent.

Then, if the facts suggest the appropriateness of reducing it, we would certainly have no objection to that.

Section 5 of the bill would amend section 302(b) of the National Housing Act compelling FNMA to purchase all mortgages offered
when the year following the passage of this bill so long as the mortg-
gage is not in default and is otherwise eligible.

We have no objection to this provision of the bill providing the
market mechanism is permitted to operate freely in a way that will
let the true assessment of a mortgage purchased be reflected in the
price that is paid for it.

Section 6 amends section 302(b) of the National Housing Act and
prevents FNMA from disposing of any of the mortgages which it may
hold. Although this is intended as a stimulant to mortgage credit,
it would in fact be undesirable because it would interfere with
FNMA's administrative judgment in matters of secondary market
operations. It is, we believe, unwise to make the law a substitute
for administrative determination. We, therefore, oppose this
 provision.

Section 7 amends section 303(b) of the National Housing Act by
fixing for 1 year purchases of FNMA stock at 1 percent of the unpaid
principal of the mortgages sold to FNMA. At present the range is
from 1 to 2 percent, and the actual rate within this range is left to
administrative discretion.

Such stock purchases have a twofold purpose: to transfer the
ownership of the common stock to private enterprise and to discourage
the practice of using FNMA as a dumping ground. Since conditions
change from time to time, the determination of the stock-to-mortgage
ratio should be left to the discretion of FNMA management, which
should be permitted to retain the present necessary flexibility.

I think you might gather, and I would mean that you should, that
the banks of the country as a whole feel that the governmental agen-
cies, the administration, has proven they have been doing a good job
in the exercise of the discretion that has been accorded them in the
ranges permitted within the different laws.

Section 8 amends section 305(b) of the National Housing Act by
requiring FNMA under its special assistance functions to pay not less
than par for any mortgage it purchases. This, of course, makes
FNMA a primary mortgage market for FHA and VA loans and
would unduly stimulate offerings to it. It is also significant that the
billion dollar additional purchasing authority of FNMA proposed in
this bill, coupled with the par purchase provision, would necessitate
equivalent sales of Government obligations by the Treasury, which
would accentuate the Treasury's competition for available mortgage
funds in the private sector of the market and would also make it more
difficult for FNMA to market its own obligations needed to provide
funds for its secondary market operations. We, therefore, oppose
this provision.

Section 9 amends section 305(b) of the National Housing Act by
fixing the maximum charge FNMA may impose on commitments
and purchases under the special assistance program at 1 percent.
Presently, FNMA has the power to fix such charges and fees, and we
believe that changes in market conditions make it highly desirable
that FNMA continue to exercise its discretionary power on such mat-
ters. This is vital if FNMA is to serve as a secondary market and not
as a lender of first resort.

In summary, we cannot support the special assistance program for
FHA-insured and VA-guaranteed mortgages provided by the bill,
because we believe it would have undesirable effects on the housing
industry and, on the economy in general and because we believe that no emergency exists at present. We oppose some of the other measures contained in the bill because we think it undesirable to replace administrative discretionary powers by rigid laws. This would tend to make the market mechanism ineffective.

We appreciate having been afforded the opportunity to present the views of the association with respect to this measure.

Mr. Rains. I want to thank you for presenting your testimony to the committee, Mr. Andrus. I have a few questions I would like to ask.

First of all, I notice you say that it is your judgment—and that seems to be the judgment generally of most people who have appeared—that there will be some decline in housing starts next year. It is a mere matter of opinion as to how much, but Mr. Mason really went out on a limb and said that he expected the mortgage money market would ease, and that he didn’t have that feeling at all that the mortgage market was going to get tighter.

I judge you think the reasons for it would be the increased tightening of money, regardless of what caused it, whether by corporate borrowing, or whatever caused it, and, as a result, that there will be some decline in housing starts, is that your idea?

Mr. Andrus. I would feel there is no indication there is going to be any substantial easing of money, and therefore the present tight money market for mortgage funds will obtain, so that we might look for that. On the other hand, I think that part of the decline has been because of the general uncertainty of the people as a whole about the steel strike, whether it was to be resumed some January 26 or not, and many builders, because people were uneasy about their own employment. Had that been resumed there was a general feeling that employment in other lines would be affected, and people were somewhat disturbed about the prospect of engaging in the purchase of a home, and I think that is something that takes a little while to be caught up with, so that the first quarter of this year we probably are going to have fewer housing starts than would have been the case otherwise.

Mr. Rains. Regardless of what caused it, builders of all types tell us they don’t have their building plans for this year set up, and that the lack of mortgage funds has been one of the prime reasons they have been unable to set up their building schedules.

I should like to emphasize for the record here that in introducing this bill it never entered my mind that we are in a recession generally—I know better than that. I am not much of an economist, but I know better than that. The idea I point out is that we can well get into an emergency from the housing standpoint, and charged as we are with writing housing legislation that will help to meet the needs of the people, I think we would be derelict in our duty if we just sat still and pulled a blinder over our eyes and said we think everything is going to be fine, because, as a matter of fact, money is going to be hard to get for homes this year, especially in the lower price field.

Mr. Andrus. I think the mortgage money markets will be tight. I don’t know about the lower priced homes, though.

Mr. Rains. That is where it seems to hit. According to all the testimony we have had, they seem to be the ones that are affected first.
The statement you make on page 4, the first paragraph, seems to be a complete variance with what everybody has testified, including even the administration.

You say, if the Government were to intervene at present with this bill it would tend to overprotect the housing industry, which would lead to inefficiency and rising cost and, in the long run, to less housing. All testimony that we have had from all sides indicates that in 1958, as a result of the Fannie Mae operations at that time, the price of houses came down $1,000 a unit.

Where do you get the facts to support the idea this might cause housing costs to go up in the light of what happened on the other occasion?

Mr. ANDRUS. We are not speaking just about 1960, Mr. Chairman. We are speaking in terms and say in the long run we think that would be the case. We think perhaps some of today’s higher cost is by reason of the continued emergency financing in the past.

In most other lines of operation, if you get priced out of the market, as was the case with automobiles, for instance, and as I think—I am expressing a personal opinion—I think as perhaps has been the case in residential housing construction, there is a tendency, then, to correct matters downward a bit, and people resume buying, but every time that it seems as though we are about to receive a correction of that kind in housing, then there is some artificial respiration and we start off anew with increased costs from a higher plateau, so that we think there have not been the same corrections in this field there have been in other production fields.

Mr. RAiNS. It is hard for me to understand how scarcity can bring down costs—in other words, if we are going to have fewer houses, and I don’t think the bill will fail to get more houses, I don’t believe anybody doubts that—how you can expect higher cost when you have more production. That violates every rule of economics. The things that are high are the things that are scarce.

Mr. ANDRUS. We would be glad to review this further.

Mr. RAiNS. I wish you would look into that statement, because it does not fit in with much of the testimony we have heard earlier. I would appreciate your looking into it further and giving us some information on it.

Mr. ANDRUS. I might let Dr. Flexner comment on it.

Dr. FLEXNER. May I say first I am sorry you are not feeling well.

Mr. RAiNS. I have had a rough week.

Dr. FLEXNER. I would say in 1958, first of all the drop that you refer to of $1,000 was not so much a drop in housing cost but a drop in the sales price of homes many of which were already built, because the general economy was already in a recession.

Now, this is not the same now in that we are not in a recession, and are not likely to be in a recession, and if this bill were passed now, for example, and became law, an expenditure of $1 billion would push against the general price level and therefore also increase the price of housing.

If this bill were introduced in a recessionary period when prices were already generally—or the pressure were generally taken off prices again, then our statement would not be correct, but if it were introduced now with the tremendous boom expected in 1960—and I think
there will be a boom—it would raise the cost of housing; 1958 was not the same situation at all.

Mr. Rains. Well, of course, I realize this is a mere matter of opinion as to whether we will have a boom this year, or whether we will have a recession next year. I am not a prognosticator of either, but I will ask you if you think we will move into a boom this year and then a recession later in 1961.

Dr. Flexner. My own views are we probably will, yes, and this is one of the main reasons I think it would be a mistake to enact this legislation now. When I listened to Mr. Carey, I agreed with much of what he said, but not with the reasons he gave for it. I think no one believes in unemployment. I believe everyone believes in more housing, but the kind of thing that Mr. Carey suggested would only be possible if you planned the entire economy. If the economy were relatively free, then you can’t achieve these objectives as well.

Now, I think that a relatively free economy has enormous advantage over a fully planned economy, and therefore we have to accept some of these unfortunate things. But in answer to your question, Congressman Rains, I would say that although I expect a downturn—I have to use the word “recession,” but rather a downturn in 1961, if this bill were passed now, it would accentuate the boom in 1960 and aggravate the downturn in 1961, because this is the way the market mechanism operates. The greater the maladjustment during an inflationary period, the greater the adjustment during the recession. This is a fact of life, it is an unfortunate effect. I believe very strongly in full employment, and I believe very strongly in housing.

Mr. Rains. Doctor, that is not the way the last bill worked.

Dr. Flexner. The last bill was enacted during a recession.

Mr. Rains. But the last bill’s results or effects, and the housing starts of 1959, which are pointed to with pride today by the administration and some of those who say everything is all right, were the direct result of the action we took in April of 1958, because you know how long it takes to get houses in the pipeline, how long it takes to get them started.

Today a lot of credit for the housing picture in 1959 is due to the step we took in 1958, so if you act not at all this year—

Dr. Flexner. But the recession of 1958 started in the early fall or in fact in the summer of 1957.

Mr. Rains. But we didn’t act until 1958, and this did not get into the pipeline until late in the year 1958, so actually the bill passed in 1958 in my judgment had more to do with housing starts in 1959 than it did in 1958.

Dr. Flexner. The only thing is if it were enacted in the next few months and became a reality by the summer of 1960, you would accentuate the boom in the latter part of 1960 and aggravate the recession in 1961. If the timing were better, if you waited to see what happened, there would be more justification.

Mr. Rains. Of course, we have time to wait and see if a lot of these prognostications are right, you know, but I have the feeling as I said to Mr. Mason that everything is not exactly right in the housing industry business generally if you listen to the people engaged in it at the grassroots really talk about it.
I could ask you more questions, but there is one statement I want to put in the record. I am greatly pleased to see the American bankers put more emphasis on mortgage lending for homes. I have always had the feeling that the bankers ought to move into mortgage credit on homes whether or not they have in years gone by, and I want to compliment you and your organization for your interest in mortgage lending. It is a good sign. I see no reason why bankers shouldn't be as interested in mortgages as anybody else, and I like to see you put the emphasis on it.

Mr. Andrus. We appreciate your recognition of what is a fact, that we are making a concentrated drive to get more banks interested in lending more on mortgages.

Mr. Rains. I will be glad to see you be the leader in mortgage lending.

Mr. Barrett.

Mr. Barrett. No questions.

Mr. Bass. Might I ask Mr. Andrus one or two questions?

You stated earlier that you felt the tight money situation would perhaps continue for awhile.

Mr. Andrus. I would think so, for the reason—you see, I am dated, I am apparently among the few old men, because I still think that we should have more thrift and accumulate more savings, and the fundamental source of funds for mortgages should be time money, thrift money, and there isn’t the same disposition to build thrift accounts as there has been in the past.

Mr. Bass. Well, now, in that connection, do you think that the failure of the Congress to remove this 4¼-percent long-term debt ceiling has had any effect on this tight money situation?

Mr. Andrus. Yes, we believe that that shouldn’t exist. I would point out in the mortgage field that there is a little misunderstanding about the cost as it relates to housing from this increase in interest rate.

No. 1, accompanying it has been a continuing increase in the length of the mortgage. It used to be mortgages were 10 years, then 20, then 25 and now 30, and by the time you figure your higher interest rate but extend the term, your monthly payment isn’t increased appreciably, and, further, in listening to testimony this morning, the monthly cost was restated as being “X” dollars, which would be true for the first month only incident to an increase in the interest rate, it would be true for the first month only, and the inference is that it would be continuing throughout the life of the mortgage, but as the mortgage is amortized, this monthly payment is reduced, and in the life of the mortgage that increase that might have been reported as $20 would be, on the average, $10, because most mortgages are paid out in about 12 years instead of 20 or 25.

Mr. Bass. You might be interested to know, Mr. Andrus, that I am a trustee of one of our big mutual savings banks in New Hampshire, and when the Government issued these magic 5’s, we experienced a great decrease in our deposits. We feel that one of the big reasons why we have been compelled to turn down a great deal of mortgage applications is because of the fact that many of our depositors are withdrawing their savings and investing in this 5 percent short-term money, and that therefore the banks just don’t have that money to lend.
Mr. Andrus. That is correct.

Mr. Bass. At that point, Mr. Chairman, I would like to insert in the record, if I may, an editorial in the New York Times of January 23, entitled "Whose Tight Money?"

Mr. Rains. It may be included in the record.

(The editorial referred to is as follows:)

[From the New York Times, Jan. 23, 1960]

**Whose Tight Money?**

By passing up the obvious political advantage of tying the largest prospective budget surplus since he entered the White House to promises of tax reduction the President has not only presented the opposition with a challenge; he has, it will seem to many, placed the latter squarely on the spot.

In particular, one is inclined to conclude, he would seem to have backed into a very tight corner, indeed, those members of the spending-minded wing of the opposition. The members of this group were conspicuously active in voting the appropriation that added up to the budget deficit of $12.4 billion of last year, thus contributing the most important single source of upward pressure on the Nation's money and capital markets.

Calmly ignoring the unchallenged, if to them inconvenient, fact that interest rates are the price of money as determined by the law of demand and supply, they kept up a constant attack on the "tight" money policies of the Federal Reserve and then, for fear that in taking action to remove the anachronistic "ceiling" on long-term Treasury interest rates, they might be identified with the foes of easy money, they quietly departed for home, leaving the Secretary of the Treasury to handle the refinancing of the debt to which they had contributed so handsomely, without access to the potential market for Government bonds with maturities longer than 5 years.

Federal borrowing totaled about $8 billion in 1959. Should the President's budget proposals be carried out in fiscal 1961 the Federal Government would not only not be a seeker of funds, but by reducing its debt in the amount of $4.2 billion would be a provider of net savings for use in the capital and money markets. Can its more vocal critics afford to do less than support the administration in making its budget plans effective?

Mr. Bass. Mr. Andrus, do you feel that if there is a surplus in the Federal budget for this year, this will have a tendency to ease the tight money situation?

Mr. Andrus. I think it would.

Mr. Bass. I would like at this point, Mr. Chairman, to insert in the record an article in the January 20 issue of the New York Times by Edwin L. Dale, entitled "Big Surplus Due To Ease Lending."

Mr. Rains. It may be included.

(The article referred to is as follows:)

[From the New York Times, Jan. 20, 1960]

**Big Surplus Due To Ease Lending—Officials Estimate $10 Billion Extra Will Be Available At Reduced Rates**

(By Edwin L. Dale, special to the New York Times)

**WASHINGTON, January 19.—**Planning to buy a house this year, or borrow money for any other purpose?

Then what is happening in the Federal budget, as projected yesterday by President Eisenhower, has special meaning for you.

The emergence of a $4.200 million surplus, desired in principle by both parties, will have a helpful effect on the availability and cost of borrowed money this year.

Government officials were working out the impact in dollar terms today, and were surprised by what they found. The change between 1959 and 1960 calendar years is "staggering," according to one official.
Last year the Government was a borrower to the extent of more than $8 billion. This year it will be a net repayer of debt by as much as $2 billion. Thus, about $10 billion extra will be available for other borrowers, other things being equal.

MAJOR EFFECT SEEN

Other things will not be equal, but the change is regarded as big enough to have a major effect, no matter what happens, to credit supply and demand.

The meaning of this can be described by an analogy. Suppose the steel industry is operating at capacity and unable to meet all demands of customers. Then, suddenly, the automobile industry shifts to all-plastic cars. Those who want steel for construction, or appliances or freight cars would immediately find the pinch easing.

The Government sucked $8 billion from a limited supply of lendable funds in 1959. This year it will add up to as much as $2 billion to the supply. The result, in the view of officials, is bound to be easier supply conditions for money.

This does not mean that interest rates will necessarily decline this year from their present high levels. They might, but nobody can be certain. A large demand for credit is in prospect, and some sources of supply that existed last year may be reduced or nonexistent this year.

It is certain, money market observers say, that interest rates will be lower and credit more available.

MOST BENEFITS DUE IN 1960

The change in the credit supply-demand picture does not come about solely because of the surplus projected by the President, although that is important.

It reflects the results of 3 fiscal years, the shift from a $12,400 million deficit in 1959 to a balance in 1960 and a surplus in 1961. It just happens that the 1960 calendar year will see most of the benefit—in terms of Federal operations in the money market—of the change covering the 3 fiscal years.

The change this year will occur almost regardless of what Congress does with the President's recommendations on spending and revenues. If Congress fails to go along with the President, the effect will be felt next year.

Thus, there is every reason for the prospective mortgage borrower, or small businessman needing credit for inventories, to feel better about the tight-money situation.

Money will evidently be more available this year than seemed likely a few months ago.

Mr. Rains. Mr. Andrus, maybe people get the wrong impression of me as chairman of this committee—I hope to cut the budget as much as anybody else, maybe more than those that do a lot of talking about it, but I don't like for the impression to go out that if we just collect as much taxes as we spend money here in the Federal Government and just match the budget that that will solve the inflationary problem. You don't mean to say that, do you?

Mr. Andrus. No.

Mr. Rains. That is just one of the many facets involved.

Mr. Andrus. Yes.

Mr. Rains. Thank you very much. We appreciate you gentlemen coming.

Mr. Andrus. Thank you.

Mr. Rains. Our next and last witness is Mr. Wallace J. Campbell, director of the Washington office of the Cooperative League of the United States of America.

Come around, Wally. We are glad to have you, and I would like to say for the benefit of the members, first of all, I am awfully sorry I was unable to attend the dinner given in your honor, and we are sorry to see you leave us here in Washington.
Wally is to become director of public affairs for the Nationwide Insurance Co. I am sure it is a great promotion, and we are glad to see that happen to you; it couldn't happen to a better fellow. At the same time, we hate to see you leave Washington, and we hope in your new duties you will come back to see us occasionally. We wish you the very finest.

Mr. Campbell. Thank you, Mr. Chairman. I appreciate those sentiments more deeply than I can say.

I would like to point out that the Nationwide organization is interested in housing and in quite a number of other things that are of concern to this committee and to your full committee. One of my responsibilities will be to come back here quite often and meet with you.

Mr. Rains. We will look forward to your coming. You may proceed with your statement.

STATEMENT OF WALLACE J. CAMPBELL, DIRECTOR, WASHINGTON OFFICE, COOPERATIVE LEAGUE OF UNITED STATES OF AMERICA

Mr. Campbell. It is a privilege to present to this committee the views of the Cooperative League of the United States of America on the Emergency Home Ownership Act, H.R. 9371, introduced by your chairman, Congressman Albert Rains. The Cooperative League is happy to support that legislation, for we feel that it is greatly needed at the present time (1) by the American consumers, (2) by the housing industry, and (3) by the economy as a whole.

For the record, the Cooperative League is a national federation of consumer, purchasing, and service cooperatives owned by 13 million family members throughout the United States. These people are members of cooperatives organized to serve the consumer interest in the fields of farm supplies, petroleum, credit, electric energy, insurance, consumer goods, medical care, housing, and other fields. These 13 million members constitute the largest organized group of consumers in the United States.

This bill that is before you is not a builder's bill. If it were identified properly, it is more nearly a consumer's bill than it is for the builders or the financing industry, or anybody else.

The Cooperative League, of course, is interested in the need for more and better housing for all consumers. We have consistently spoken out in support of legislation to meet these general needs. We have also had a specific interest in the development of the cooperative housing program under the Federal Housing Administration. We are pleased to report that 60,000 families have secured homes under this program. The families who are buying their homes under this plan include nearly a quarter of a million people. If they all lived in one area, they would make a good-sized American city.

While we have the opportunity, we would like to commend the Federal Housing Administration on its accomplishments during its first 25 years of operation. FHA has made it possible for millions of Americans to buy their own homes who might not otherwise have been able to become homeowners. The work of FHA in encouraging and facilitating homeownership has had a real impact on America.
We are proud to say that the cooperative housing section of FHA, referred to by the technicians as section 213, makes it possible for families to become owners, buying better housing at lower costs than under any other program in FHA.

The Cooperative League is pleased to support the Emergency Home Ownership Act. We feel that legislation of this kind is essential and should be adopted as quickly as possible to meet the current and very insistent need for housing.

Unfortunately my fellow economist who just testified here I am sure made a mistake in judgment and a mistake in fact. Actually the timing of this legislation is such that it would have an impact in 1961, primarily. If anything happens as a result of this bill it will be an increase in housing and in jobs and in the economy at the end of this year and throughout 1961. If the administration—and if economists such as Mr. Flexner—are interested in doing something to prevent a depression in 1961, this is one of the prime ways of doing it. I wish he would face those facts.

Also, I wish the bankers would face the facts. Knowing what the administration and other financial witnesses have said about the reduction in cost and selling price of housing, they should admit the facts frankly and openly instead of resorting to dodges. I am sorry I get heated about this question.

Mr. Barrett. Might I ask at this point, would you be able to give any reasons why the price of the houses came down a thousand dollars?

Mr. Campbell. Yes, it is quite simple. First there was an increase in production of houses which meant that houses could be produced more cheaply.

Second, there was a reduction in the financing cost of the housing, because the billion dollars was made available through FNMA at interest costs lower than the current work at cost and costs of discounts were eliminated because FNMA was directed to purchase the mortgages at par. The full impact was to reduce the cost of housing not only of homes financed under the bill, itself, but by competitive factors in the other parts of the industry, too.

The financing and building of new homes is lagging behind the rest of the American economy. In years of general prosperity, more people should be acquiring their homes than ever before, and yet our record of home construction is totally inadequate. In 1950 there were nearly 15 million homes in the United States which the Bureau of the Census classified as “substandard.” This is a nice technical word for bad housing, cold water flats, outside toilets, dilapidated housing which should have been replaced by decent housing many, many years ago.

The people who talk in glowing terms about record housing production when we build a million and a small fraction of new homes in any given year are not measuring home construction in terms of housing needs, they are measuring our production only in dollars and cents figures which are no measure of the current need. We are not making any serious impact in rolling back the backlog of inadequate housing at a time when we have the manpower, the production facility, the income, and the need. It is a pitiful shame that we are letting a high interest rate and tight money policy throttle one section of the
economy and prevent consumers from securing the decent housing they need.

As all of the experts will tell you, the great need of today is for housing for middle income families. We appear to be getting more nearly adequate production for the well to do. It is particularly because of this need that we are happy to see that Congressman Rains has introduced legislation providing for a billion dollars in financing for homes under $13,500 per unit. It is in this bracket that we have the greatest need. It is also in this bracket where the high interest rate and tight money policy is making it most difficult to build.

The Rains bill would deliver an important blow against the abuses which have grown out of the tight money policy. It is bad enough for consumers to have to pay 5¼ or 5¾ percent interest in their housing mortgages. That is plenty; it is more than plenty.

When you add to this one-half percent for mortgage insurance plus fees which are charged by the lender, by FHA and by the Federal National Mortgage Association, the costs really are out of line. What is unconscionable, however, is the policy of discounting mortgages insured by the Federal Government of the United States. This is a contradiction in terms and is a practice which should be stopped.

FHA mortgages are selling at 95 and 96 in the better mortgage markets and 92 and 93 in areas where the money supply is shortest. The veteran who has to pay 10 or 11 points for his mortgage is really getting no value from the legislation which was set up to give him a real break in the creation and growth of a family, after he has contributed the best years of his life to Uncle Sam.

Let's put this in terms the consumer can understand. A discount of 10 points means that if a man is getting a $10,000 mortgage, insured or guaranteed by the Federal Government, that we are really insuring or guaranteeing a man a right to borrow $10,000 but to get only $9,000. He must repay the full $10,000. And he must pay interest for 25 or 30 or 40 years on a thousand dollars that he never got in the first place. It isn't as dramatic when you pay only 2, 3, 4, or 5 points, but the policy of paying interest on money you never get still applies.

This, I think, is of tremendous importance, Mr. Chairman.

If the Federal Government must put its stamp of approval on this practice, perhaps we should think seriously of making direct loans to the consumers, instead of just insuring them, at any time when the mortgage market discounts a federally insured mortgage.

I think this is a fundamental principle of very great importance, and I would state it again—if the Federal Government must put its stamp of approval on this practice, perhaps we should think seriously of making direct loans to the consumers, instead of just insuring them, at any time when the mortgage market discounts a federally insured mortgage.

If the Congress will adopt the Rains bill as written with a provision for par purchase of FHA and VA insured and guaranteed mortgages, at least a billion dollars’ worth of housing can be built without these unconscionable discounts. Perhaps if a billion dollars of such money becomes available in the housing field, it may also ease the pressure of tight money which is having a disadvantageous effect on consumers in other fields as well. In other words, this could be an important
blow against the tight money, high interest situation which has such a strong grip on the economy today.

Before turning to more specific points, we would just like to underline two or three points made by Mr. Leon Keyserling testifying on behalf of the National Housing Conference of which the Cooperative League of the U.S.A. is a member. He pointed out the need for 1.7 million new nonfarm housing starts in 1960 and about 2 million in each year thereafter through 1964, contrasted with less than 1.4 million homes built in 1959. Mr. Keyserling estimates that the 15 million substandard housing units, reported by the Bureau of the Census in 1950, has been reduced only to 12.5 million substandard units as of 1958, in spite of several years of what we have been told was record home construction.

The AFL-CIO in its testimony has repeatedly testified that there is a need for at least 2 million new homes per year. Mr. Boris Shishkin, in his testimony just this week, underlined this need by saying that if we were to maintain a rate of 1.3 million starts per year, this would be a million starts, or about 45 percent, less than the minimum required to meet the Nation's total housing requirements.

The testimony on the prospects for home construction in 1960 are somewhat confusing. Our friends, Mr. Mason, Mr. Zimmerman and Mr. Baughman, have testified that there is no need for the emergency home ownership bill introduced by Congressman Rains. Yet the Wall Street Journal of January 15, 1960, reports that Housing Administrator Mason and other Government housing officials have forecast a drop in private housing starts in 1960 to 1.2 million and even 1.1 million. The AFL-CIO points out that housing starts last month were 10 percent below December 1958, but the combined FHA applications and VA appraisal requests were 23 percent less than the level of a year ago. This is the point at which the housing starts start—this is the indication of what may happen in the housing field. This, according to the AFL-CIO officials, could mean a substantial drop in housing starts in the months ahead.

The Cooperative League is particularly happy that the Rains bill in section 10 amends section 305 (g) of the National Housing Act to make it clear that mortgages on cooperative housing insured by FHA under section 213 are eligible for purchase by FNMA under its program 10 special assistance operations. The Emergency Housing Act of 1958 did not spell out the fact that the Congress meant to include cooperatives in the Housing Act of that year. Unfortunately, FNMA decided that since cooperative housing had not been named specifically in the legislation that section 213 co-ops were not eligible. This we felt was an error in interpretation of the intent of the Congress. We are happy that this is spelled out in this bill so that there can be no mistake. This provision is particularly important in the light of the fact that housing built under section 213 is better housing, built under continuous FHA inspection, at lower cost to the consumer than any other housing built under FHA.

Section 3 of the Rains bill would reduce the premium charge for mortgage insurance to one-fourth of 1 percent for a 1-year period beginning on the date of enactment of H.R. 9371. The effect of this step would be to cut by one-fourth of 1 percent the effective interest rate to the consumer. Mr. Alfred Stalford, president of Institutional
Mortgage Co., who testified before this committee this week, said that this change alone would cut the cost of an FHA mortgage by $2.80 per month, thereby opening another small, but important, bracket of consumers eligible to purchase homes insured by FHA. The FHA is in such fine shape that this move should be feasible and practical. We note, however, that the Rains bill would apply this reduction only to mortgages insured under section 203. We would urge that this be extended to section 213 cooperative housing as well.

Mr. Rains. If I may interrupt you there, Mr. Campbell, as you say, the record of repayment has been so good I don't see any reason why it shouldn't be made to apply to section 213 as well, and we will consider that carefully when we get into executive session.

Mr. Campbell. That will be fine. We thank you very much.

Section 8 of the bill would require that FNMA shall not pay less than par for any mortgage purchased under the Emergency Home Ownership Act. We made extended reference to this earlier and wish to reemphasize the importance of this provision in removing the discounts on these housing mortgages. We also wish to commend Congressman Rains for providing in section 9 that the maximum charges or fees which FNMA may impose shall be 1 percent of the unpaid principal amount of the mortgage, with one-fourth being collected at the time of commitment, and the remainder at the time of purchase.

In section 11, specific provision is made for increasing the amount of the mortgage eligible for purchase under this section by not more than $1,000 in high-cost areas. We are happy to indicate our support of this provision as well.

We would like now to bring to the attention of the committee three specific points affecting cooperative housing under this bill.

First: In spite of 10 years of successful operation of the cooperative housing section of FHA, it is still the practice of FHA in many of its offices to accept a cooperative project only if that project is feasible as a profit making rental project. It is fantastic that this still hangs on. The whole approach of housing is different for home ownership in contrast with building for speculation and rental for profit. An attempt to force the cooperative home ownership pattern to conform with the rental-for-profit pattern has brought some serious difficulties.

The development and operation of a project as a cooperative makes it possible to reduce the monthly carrying charges by at least 20 percent. Thus, if the monthly charge on an apartment would be $100 in a rental project, it would be only $80 for the same apartment in a cooperative project. This is due to savings as a cooperative including its nonprofit operations; lower vacancy and collection losses under more stable ownership-occupancy; and level amortization which appropriately applies where there is better care and maintenance of the property by cooperative owners.

Consequently, there are communities where there will be a market for a cooperative project because it will serve families of more moderate incomes. Yet, in the same community, there may not be a market for the same project at the higher charges required by rental operation for profit. Nevertheless, where investor sponsors propose to build a project for sale to a cooperative, we find the FHA offices are frequently determining the feasibility of such a project on the basis of
whether there is a market for it as a rental project rather than as a cooperative.

This kind of an approach defeats the purpose of the statute. It makes it impossible to build a cooperative project in a community where there is a need for housing at lower monthly costs and where there is no market for rental housing at a higher monthly cost. Since the project is being undertaken with a statutory requirement for sale to a cooperative by the investor within 2 years after project completion this is the only purpose and market which should be considered in processing the project. The test of the feasibility of the project should be the monthly charges under cooperative operation. Any other approach is completely unworkable and frustrates the objectives of the legislation.

To clarify the purpose and intent of the present law and to make it possible for cooperatives to be built in areas where there is a need for housing at lower monthly charges, we recommend the adoption of the following amendment:

Section 213(b) (2) of the National Housing Act is hereby amended by adding the following at the end thereof:

"And provided further, That, in the case of a mortgagor of the character described in paragraph 3 of subsection (a), the sole test of the feasibility of the project shall be its continued use as a cooperative."

Another somewhat technical point which needs clarification affects what is called the investor sponsor type of cooperative. At the present time, FHA certifies to FNMA cooperative projects which are eligible for advance commitment for mortgage purchasing. Usually the time lag between the inception of a project and its processing in FHA and final certification to FNMA is many months. This is not identical with the period specified between the completion of the project and its conversion to cooperative ownership. With your permission, I would like to spell this out in some detail.

Mr. RAiNS. I will tell you what I think about that, Mr. Campbell. I think they are both very important, but I really believe they ought to be considered in connection with the general housing bill instead of in connection with this particular bill.

We intend to take them up at that time, but we would be glad to have you go over the statement, or conclude, either one you want to do.

What you are driving up to is the amendment at the bottom of page 9, isn't that right?

Mr. CAMPBELL. That is right.

Mr. RAiNS. That will get our attention later.

Mr. CAMPBELL. Another problem has arisen in the operation of the cooperative housing program which we feel could be taken care of by administrative action if the chairman of your committee would intercede with the FHA indicating the intent of the Congress on what are called "high-cost determinations."

We know that this committee is concerned about the decline in the volume of housing construction and its threat to the health of our economy. There are many housing projects which are ready to go into construction if the FHA would carry out the provisions of the Housing Act of 1959 by recognizing the need for adjusting the mortgage limits in geographical areas where high cost levels prevail. In recognition of the fact that some areas have higher costs, Congress
increased the allowable mortgage limits for such areas. However, both in the FHA insuring offices and in the central office, we are informed that there are many projects which are being held up and delayed due to a failure to recognize the cost levels that prevail in such geographical areas. Furthermore, an effort is made to reduce the standards of housing in such areas rather than make a high-cost area determination. Certainly, we do not want FHA to reduce standards or cheapen the character of housing, rather than carry out the congressional intent of allowing housing of proper standards to be built by recognizing that certain geographical areas require higher costs. Due to these uncertainties, many builders are hesitating and holding back in their undertaking of additional cooperative projects, or filing of additional FHA applications.

Mr. Rains. If I might interrupt, would it be possible for you to furnish us the areas, I don't care about individual projects, but could you furnish us the areas in which units of that kind are being held up because of the failure to make that decision?

Mr. Campbell. We can do that. What we are suggesting in this paper is that if you would ask FHA for a list of the projects on which decisions have not been made in the areas, you would get a more complete list than we would. We can provide you a few.

Mr. Rains. We will ask the staff to get that information for us.

Mr. Campbell. Thank you very much.

In conclusion, we would like to reiterate what has been said over and over again before this committee during its week of hearings. The country is in desperate need for more housing, both to meet the present current need and also to cut into the backlog of millions of units of substandard housing.

Mr. Barrett. Is it your understanding that Mr. Mason and the agency do not get the same statistics as you people do on the need of housing?

Mr. Campbell. At the moment, as far as I know, the HHFA, and this is a long-standing policy, does not keep any figures on housing need. This may sound appalling to you, but there are no figures maintained by the HHFA on the need for housing in the United States.

This meets the chairman’s understanding, doesn’t it?

Mr. Rains. Yes. I made an inquiry earlier in the session of one of the staff members. Somewhere back in the policy act of 1949, I thought there was a provision which required the House and Home Finance Agency to make known to the Congress of the United States each year the housing needs of the country.

I still have a feeling that somewhere locked up back there in the original act there is such a requirement, and I will say to you if there is not, I know of no good reason why one shouldn’t be put in, for Congress needs that kind of information.

Mr. Campbell. That is right, it is a very important factor, and I am glad you raised that point, Mr. Barrett.

Mr. Rains. You may proceed.

Mr. Campbell. The Emergency Home Ownership Act now before you is not an inflationary measure. Actually it is designed to reduce the pressure of inflation by making adequate financing available at a reasonable cost to the consumer.

Apparently, spokesmen for the administration have overlooked the fundamental point that a prime cost of housing is the cost of
money. The high cost of money has increased the cost of housing and is in itself inflationary. Steps which would reduce the cost of money to the consumer could reduce the cost of housing and would, therefore, be anti-inflationary in nature.

The Rains bill would strike a hard blow against the scandalously high discounts which are being charged by lenders in connection with FHA and VA loans.

The Rains bill would stimulate housing construction at a time when it is badly needed at the cost of not one nickel to the Federal Government. This is not a subsidy in any sense whatsoever.

It is for these reasons that we unhesitatingly place the support of our organization for passage of the Emergency Home Ownership Act of 1960.

Housing is not a WPA public works program. It is concerned with the everyday living of people in desperate need of decent housing. Housing programs should not be put “on the shelf” when there is a measure of prosperity and taken “of the shelf” to make work in a depression. The time has come to think and act about housing in terms of its effect on people, and not as a “countercyclical force” or “counteravailing measure” in a rigidly controlled economy. A free economy should include the right to live in decent accommodations. None of us in this room will have to sleep tonight in slums, inadequate, or substandard housing. But there are 10 million families just as good and just as much loved as our own families who will have to sleep in these accommodations tonight.

Mr. Rains. Thank you, Mr. Campbell, for a very fine statement. You have made a lot of suggestions that will receive the careful attention of the committee, and in the main they sound good to me.

I want to ask you a general philosophical question. I have been on this committee 16 years, and I would just like to ask you why it is that always we have so much trouble getting action after we write a law on cooperative housing. Do you think there is still opposition to cooperative housing, as such, in the agencies, or just what is the reason for failure to get it really moving?

Mr. Campbell. Well, the first problem is failure to understand on the part of many of the people. This is particularly true in the field offices of FHA which are so busy and so understaffed, that it is easier for them to do just the ordinary 203 program. So they don’t want to tackle anything new when FHA is understaffed, and anything new is an added burden.

The second is that there are still a few places in FHA where people are hostile to cooperative housing, even though this is completely in tune with establishing homeownership. In cities of the United States, in the hearts of the cities where you have to have multifamily housing, the only way you can have home ownership for the residents of such multifamily housing is through cooperative ownership. Yet for some reason there are people in FHA who do not understand it.

We have, on the other side, had a great deal of sympathetic and warm support by many of the officials of FHA and HHFA. But there is this timelag, this resistance. There is also the failure of the Administration and the Congress to provide FHA with enough money to do a job all across the board. The result is that it is easier for them to slough off something that is new or unknown and sweep this under the rug.
Mr. Rains. Mr. Barrett?

Mr. Barrett. I would like to ask just one question, Mr. Chairman. What would you consider to be the peril point in unoccupied homes to the construction trade?

Mr. Campbell. I don't know that there is one, actually. Do you mean at what point would we have overproduction?

Mr. Barrett. What percentage of unoccupied homes would be considered as a peril point to the construction trade?

Mr. Campbell. I think this would vary from area to area, and would also vary on the concentration in an area. Let me give you a specific illustration.

In Brooklyn, there were two projects built, side by side, last year. One was a 207 rental project. One, on the same street, within a couple of blocks, was a cooperative project built under 213. The 207 project stayed partly empty for many, many months. The cooperative housing project was sold in advance of completion, and was fully occupied at all times. This is because, with almost identical housing, the cost to the consumer is almost 20 percent less in the cooperative than it is renting it under 207. So part of the problem of a peril point in having too much housing depends on the ability of people to purchase or rent the housing that is available. I think there is no simple answer you can give on where there is a peril point in housing construction.

Mr. Barrett. One of our witnesses the other day indicated about 5 percent was the danger point, and I was trying to get some level to see were the peril point might actually be.

Mr. Campbell. The FHA assumes there will be 7 percent vacancy in rental projects. This is looked upon as normal, and is included in the cost of the project for calculating profits.

Mr. Rains. Are there any questions, Mrs. Sullivan?

Mrs. Sullivan. None, Mr. Chairman, except to thank Mr. Campbell for his very fine statement.

Mr. Rains. Good luck to you, Wally. Without objection, the following statements, letters, and telegrams submitted to the subcommittee are inserted in the record at this point:

Statement of the National Retail Lumber Dealers Association on the Emergency Home Ownership Bill H.R. 9371

Mr. Chairman and members of the committee, my name is John H. Else and I am legislative counsel for the National Retail Lumber Dealers Association and its State and regional associations.

The chairman of the subcommittee is the author of H.R. 9371 referred to as the Emergency Home Ownership Act and the following comments are directed to that bill.

It is the purpose of the bill to halt the serious slump in residential construction, to increase both onsite and offsite job opportunities, to help achieve an expanding full economy, and to broaden homeownership opportunities for the American people.

I do not believe that the current economic situation generally and more particularly in the area of construction will justify the subcommittee in finding that an emergency exists.

Nineteen hundred and fifty-nine was one of the best years for the production of new homes in our history. There were approximately 1,341,000 private houses started last year.

If, for the purpose of argument, 1960 produces 10 to 15 percent fewer homes than 1959, it would still be a good year for homebuilding.
True, money for home mortgages might not be as plentiful in 1960 as in 1959, but we still believe that the effect on homebuilding will not be as disastrous as many would have this subcommittee believe.

I do not believe the subcommittee will find that any substantial amount of unemployment exists in the construction industry.

Consequently, I think the subcommittee must examine the provisions of H.R. 9371 in light of these existing conditions in the industry which certainly cannot be said to be so bad as to warrant emergency legislation.

There are a number of provisions in H.R. 9371 which have to do with insurance premiums of FHA and charges made by FNMA. We are not in a position to comment on these provisions because we do not know how these changes would affect those two agencies and their programs. We feel, however, that the insurance reserve fund and the insurance premium should remain actuarily sound.

Section 5 of the bill would amend section 302(b) of the National Housing Act to require FNMA, for 1 year, to purchase any mortgage which is offered to it regardless of the type of housing covered. We do not believe that this provision should be adopted because this agency should retain the privilege and the right to select its mortgages on a sound business basis. The dangers inherent in this provision are that it might develop that FNMA would be nothing more or less than a dumping ground for the less desirable mortgages taken by lending institutions.

Section 6 of the bill would prohibit FNMA for 1 year from selling any of its mortgages. We fail to see where this would offer any stimulus to home construction or home financing and certainly it would place FNMA in a straitjacket in its operations, to the detriment of the stockholders of FNMA.

Section 7 would lower the stock-purchase requirement of those doing business with FNMA from 2 to 1 percent. Although we do not know how this would currently affect FNMA, it is obvious that this would postpone the time when this agency would be taken over by private stockholders as contemplated in an earlier act of Congress.

Section 11 of the bill would provide an additional $1 billion for the program operations of FNMA. This program is a special assistance program of FNMA requiring the purchase of mortgages of under $13,500 ($14,500 in high-cost areas) at par.

We are vigorously opposed to this proposal because it provides an artificial stimulus to home financing which is unnecessary. It requires FNMA to pay a price for mortgages above the market price, and it is nothing more or less than a subsidy amounting to the difference between the price at par and at market price for such mortgages. Furthermore, we believe that this would ultimately increase the cost of housing as similar provisions did in 1958. This provision would require the Treasury to borrow more money which, in itself, is inflationary.

Another section of the bill would provide a revolving fund in FNMA to buy 203(i) mortgages provided the lenders have not charged the permissible service charge of one-half percent.

It is our view that this limitation is unwise and would discourage the financing of smaller homes.

We feel confident that none of the so-called emergency provisions in H.R. 9371 are necessary and that the home buyers will find an adequate supply of money with which to finance the purchase of new homes in 1960.

In conclusion, we respectfully urge this subcommittee to reject H.R. 9371 or at least postpone any action on this bill until it is definitely determined that an emergency does exist and that such measure is necessary to assure an adequate supply of new homes and an ample supply of money for the financing of such homes.


STATEMENT OF JOHN R. HOLDEN, LEGISLATIVE DIRECTOR, AMVETS, ON H.R. 9371, FEBRUARY 1, 1960

Mr. Chairman and members of the committee, we of AMVETS appreciate this opportunity to present our views in support of H.R. 9371, a bill to amend the National Housing Act.

Because of our deep interest in assuring for the veterans of the Nation an adequate housing program, we are particularly interested in the provisions of section 11 of the bill. This section would provide an additional $1 billion for
FNMA's special assistance functions for the purchase of FHA and VA mortgages on lower priced homes.

The ever-increasing shortage of mortgage financing for GI homes makes it essential that drastic steps be taken to alleviate the situation. Certainly, the present tight money policy has created havoc in the home construction industry and in related fields that are dependent upon a healthy housing industry for their continued economic well-being.

Even more important, however, is the effect of the lack of mortgage capital upon the thousands of veterans seeking to purchase homes. The Congress, in its wisdom, has established July 25, 1960, as the date when the VA home loan program for World War II veterans will terminate.

Despite the fact that the statutory termination of the program is several months in the future, it has already expired prematurely for the thousands of World War II veterans now seeking to buy a home before the July 25 deadline. Korean conflict veterans, of course, with a deadline several years hence, may be able to defer home buying plans until a more favorable climate prevails. This decline in the Korean veterans program, aside from interfering with their home buying plans, may lend added validity to arguments for an extension of that program when the deadline nears. One of the most forceful arguments used to justify an extension of the World War II program was that several periods of inactivity in mortgage credit availability had in fact shortened the period when GI loans could be obtained. Unless the present trend is quickly reversed, the same situation will prevail.

In reviewing the experience following the enactment of the Emergency Mortgage Credit Act of 1958 when a similar fund was made available, it is noted that approximately three-fourths of the fund was used to purchase Veterans' Administration mortgages. This in itself is indicative that the enactment of section 11 of H.R. 9371 should provide a stimulus to the VA home loan program.

It is most unfortunate that we must resort to artificial devices of this nature to halt the slump in residential construction. The necessity for stimulating the flow of mortgage financing into the GI loan market, however, transcends in importance, all other considerations. AMVETS, therefore, request and urge that any legislation reported by this committee include provisions similar to those contained in section 11 of H.R. 9371.

STATEMENT OF ROBERT M. MORGAN, VICE PRESIDENT AND TREASURER, THE BOSTON 5 CENT SAVINGS BANK, MASSACHUSETTS, AND CHAIRMAN, COMMITTEE ON MORTGAGE INVESTMENTS, NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS, CONCERNING H.R. 9371, THE EMERGENCY HOME OWNERSHIP ACT

I appreciate this opportunity to place on the record on behalf of the National Association of Mutual Savings Banks our position on H.R. 9371, the Emergency Home Ownership Act. Our industry is composed of 518 mutual savings banks located in 17 States and the Virgin Islands. The main purpose of the Nation's mutual savings banks is to encourage thrift and in the pursuit of this purpose assets have grown to $39 billion at the end of 1959. About 64 percent of these assets are invested in mortgages and most of the remainder in U.S. Government obligations and corporate securities. Asset composition is changed in response to market conditions so as to gain the highest rate of return consistent with safety for our depositors who hold more than 22 million accounts. There are no stockholders in mutual savings banks and earnings are distributed entirely to these depositors after payment of operating expenses, taxes, and provision for essential reserves.

The $25 billion in mortgages held by savings banks are secured mainly by homes located throughout the Nation. During the past several years mutual savings banks have placed a larger net flow of funds in FHA-insured and VA-guaranteed mortgages than has any other type of financial institution. We, therefore, have a fundamental interest in all Federal legislation affecting the financing of homes.

We realize that H.R. 9371 is intended to moderate the effects of tight money on home building by channeling funds directly into home financing. While the Nation needs more and better housing it is also in need of many other things—schools, highways, defense, etc.—and it is essential, therefore, that this legislative proposal be measured against the Nation's overall needs and the availability of funds to meet these needs. Housing credit policy cannot be made in
an economic vacuum nor can the housing sector be singled out for special treatment and constant stimulation without affecting the integrity of our currency. Perhaps the most important feature of H.R. 9371, included in section 11, provides an additional $1 billion for the FNMA program 10 special assistance operation for the purchase of mortgages on new construction. This $1 billion would come directly from the U.S. Treasury and would have to be borrowed by the Government in the capital markets. Even through the mortgage funds provided by FNMA would probably all be repaid ultimately, the initial impact of the legislation would be to compound the already difficult situation faced by the Treasury in trying to manage the huge Federal debt. Under current market conditions and statutory restrictions limiting Federal borrowing to the short-term area, additional upward pressures would be placed on short-term interest rates, raising the costs of borrowing to businesses, home buyers, and consumers generally.

Furthermore, to minimize inflationary pressures, the Treasury would probably try to raise funds from savings-type institutions, rather than from commercial banks. To the extent that a large part of the $1 billion would come from institutions such as mutual savings banks, savings and loan associations, and life insurance companies, funds available for home mortgages would be reduced. There is a real question, then, whether on balance any additional funds would be made available for home financing, and if so, whether whatever small amount may thus be added is worth the harm done to the national economy by placing additional strains on it under current economic conditions.

The fundamental fact is that only through an increased flow of real savings can needed funds for home building be provided on a sound basis. Yet savings would be discouraged, not encouraged, by any inflationary trend furthered in raising the $1 billion fund called for by this bill.

In attempting to legislate out of existence credit stringency and rising interest rates there is a tendency to forget that interest is the cost of money and, like other costs, is affected by supply and demand forces at work in the market place. Mutual savings banks, like other thrift institutions, must maintain a spread between the costs of operation and gross income from investments if they are to remain in business. Depositors must be paid an attractive return on their savings, when weighed in the balance with alternative uses of funds, in order to induce them to continue their savings program and to encourage new savers to deposit funds. Since opportunities for higher earnings on money invested elsewhere than in thrift institutions tend to cause depositors to withdraw savings and potential depositors to make other disposition of potential savings, thrift institutions must meet this challenge by increasing the rate of interest paid to depositors or share account holders. This narrows the spread between income and outgo, compelling the thrift institution to invest assets at higher rates of return in order to restore a working margin within the spread.

Thus, on reflection, it becomes obvious that rates of interest at which thrift institutions lend funds are shaped by market forces and the basic law of supply and demand rather than by some whim or fiat of the lending institution, as some would have you believe. For if the lending institution were to seek to lend money at a rate in excess of that for which the potential borrower could obtain the money from a competitive lending source, the lending institution would find few, if any, borrowers at such a rate.

We believe that a realistic approach to obtaining more funds for home financing would be the establishment of flexible interest rates on FHA and VA mortgages, so that they too could move with the market. Past attempts to dictate interest rate ceilings on FHA and VA mortgages by statute have resulted in periodic drying up of the market for such mortgage loans. The market for VA mortgages is currently in this position.

Notwithstanding a reduced inflow of savings in 1959, mutual savings banks have maintained their volume of mortgage lending at close to the high 1958 volume. They will continue to invest in home mortgages in 1960 if such investment will return a competitive rate of earnings from which to pay interest on savings accounts.

The National Association of Mutual Savings Banks has heretofore supported the role of FNMA in providing a secondary market facility for home mortgages. It would continue to support legislative or administrative actions which will permit FNMA to complete the status of mutual private ownership upon which it was embarrased by the Housing Act of 1954. H.R. 9371 would retard that process by expanding the use of direct Federal funds by FNMA to carry out its so-called
special assistance functions. Section 301 of the National Housing Act declared it to be the purpose of title III of that act dealing with FNMA to provide that its operations be financed by private capital to the maximum extent feasible, and to authorize FNMA to provide special assistance when and to the extent that the President determines that it is in the public interest for the financing of (1) selected types of home mortgages pending establishment of their marketability originated under special housing programs designed to provide housing for segments of the national population unable to obtain adequate housing under established home financing programs, and (2) home mortgages generally as a means of retarding a decline in mortgage lending and homebuilding activities materially threatening the stability of a high-level national economy. We submit that neither of these reasons for special assistance programs appears to be present at this time to such an extent as to warrant the Congress to follow the legislative path proposed by H.R. 9371 in taking from the Federal Treasury an additional $1 billion for the FNMA special assistance program to be used to purchase mortgages on new construction.

For the same reasons, the National Association of Mutual Savings Banks opposes that provision of H.R. 9371 that would add another $50 million for purchase of section 203(1) mortgages on new construction. This provision seems to be designed to discourage use of the special service charge, not exceeding one-half of 1 percent of the outstanding balance of a section 203(1) mortgage, now permitted by FHA in view of the administrative cost of handling loans of $8,000 or less. It is doubted whether the presumed privilege of sale to FNMA of such a mortgage will suffice to overcome the economic fact that servicing such mortgages is more costly than servicing mortgages having a greater outstanding balance.

Certain other provisions of H.R. 9371 run counter to the normally wise course of leaving administrative matters to be worked out flexibly by the executive branch within broad guidelines laid down by the legislative branch. They tend to change FNMA to the status of an automatic computing machine with minimal discretion in the carrying out of its statutory purposes. Little stability is imparted to the economy when by legislative fiat a mortgage dollar is afforded a higher value for purposes of sale to FNMA than it possesses elsewhere in the marketplace. There appears to be too great a tendency to criticize the marketplace merely because it does not coincide with other economic values arbitrarily set by statute. For the foregoing reasons, we would recommend against a mandatory floor of par in purchases by FNMA under its special assistance functions, particularly since the statute under which it operates directs it to establish purchase prices for other mortgages within the range of market prices for the particular class of mortgages involved.

Yet another provision of H.R. 9371 would bar FNMA from selling any mortgage from its portfolio for the period of 1 year. This seems particularly ill advised. No one can foresee the changes likely to occur in mortgage and capital markets in the course of a year. Changes took place with amazing rapidity between 1957 and 1958 and FNMA turned from being a heavy seller of mortgages to a heavy purchaser of mortgages. Why limit FNMA's opportunity to sell mortgages out of portfolio if credit conditions change and thereby restrict its secondary market operations. Moreover, the provision requiring FNMA to purchase at par mortgages under its special assistance program with an expanded $1 billion authorization, coupled with freezing of all FNMA sales, will result in a complete breakdown of secondary market operations. This provision hardly seems consistent, finally, with still another provision of H.R. 9371 that would add to the purposes of FNMA by declaring that the association should aid in stabilization of the mortgage market.

With respect to the provision in section 3 amending the National Housing Act by reducing insurance premium under the regular FHA residential housing program from one-half of 1 percent to one-fourth of 1 percent we do not feel that such a change is best made by congressional action. Rather we would favor legislation granting to FHA the authority to reduce the rate if actuarial study indicates such action to be feasible. The whole question of adequacy of current premium charges, including the desirability of a single premium payment rather than monthly payments over the life of the loan, has been studied by experts. These studies should serve as the basis for any changes to be made in the FHA premium rate. In any case we urge that the proposed legislation take the form of authorizing FHA to lower the premium rate rather than to do so directly.
We regard as unwise section 2 which would permit FHA to insure mortgage loans made by individuals. It would be difficult indeed to enforce effectively FHA lending and building standards if such widespread authority were granted. The current provision permitting individuals the privilege of participating in FHA insured loans appears adequate as a basis for broadening sources of funds available to this market. Furthermore, the volume of FHA lending has increased tremendously in the past 2 years.

We support clarification of the National Housing Act regarding the eligibility for purchase by FNMA under its special assistance function of mortgages on cooperative housing insured under section 213, since we understand the Congress intended by earlier legislation that such mortgages be included within the special assistance program. We urge, however, that the administration of this program be carefully observed to assure that mortgages included in this provision truly conform to the principles and spirit of the section 213 program.

Another provision of H.R. 9371 would require the mortgagee originating FHA and VA mortgage loans to report to the appropriate agency the amount of any fees, charges or discounts paid in connection with such loans. Our mutual savings banks have no objection to the spirit of this provision insofar as it applies to payments made to the mortgagee. As a matter of fact, all such fees, charges or discounts are a matter of record in the mutual savings bank involved, available to the appropriate supervisory authorities. Our savings banks prefer to make these facts available to appropriate authorities upon request, rather than have thrust upon them the expensive and time-consuming burden of compiling additional reports.

Mutual savings bank operations are now and always have been subject to close scrutiny by State supervisory authorities and Federal bank examiners in those instances where their activity brings them within the jurisdiction of Federal supervisory authorities. Rather than embark upon still more costly paperwork, the mutual savings banks would prefer to spare those who borrow its funds from any added cost on that account, while still making available upon request the type of information sought to be disclosed by this provision. The foregoing applies to funds paid to the savings bank as mortgagee. The savings bank, however, could not assume responsibility for disclosing fees, charges or discounts paid to others than the savings bank in connection with a mortgage loan, for it would have no sure means of compelling disclosure of such information.

We appreciate the good intentions of the sponsors of this legislation in their concern that an adequate number of new housing units be made possible from the standpoint of financing. We can speak with authority only for the mutual savings banking industry. Within that segment of the economy, it is the desire and intention of savings banks to continue their high rate of investment in home mortgages, and if this can be done within the limits of the trust relationship to depositors that is imposed by State law upon the policymaking trustees of mutual savings banks. However, if the return available to investors from such mortgages is depressed by legislative dictates below the level available from other investments consistent with the safety standards demanded of mutual savings banks, it becomes the duty of trustees to consider shifting investments from the home mortgage field to these other areas of investment. To this extent, then, legislation such as H.R. 9371 tends to defeat its own purpose by resulting in a decrease of home financing from private sources to an unknown extent that well may surpass the direct Federal aid proposed to be given the housing field by H.R. 9371.

It is agreed that the exact number of new homes needed in this country to carry out the purpose of the National Housing Act is a matter of conjecture. However, we see no evidence of merit in an assumption that each passing year must see more housing construction than the preceding year. Moreover, the Federal Government's contributions to the field of home finance should be weighed against its responsibilities in the many other fields of government.

In our opinion, well-rounded national economic progress will result in production of the homes needed in the United States if the normal operation of private financing is not unduly hampered by well-meaning but misdirected legislative proposals. We gladly offer the services of our association to cooperate in an effort to make available for home financing the maximum share of mutual savings bank assets consistent with the savings bank's obligations to its depositors. With due respect, however, we suggest that this share is more likely to be increased by restoration of flexibility to FHA and VA mortgage interest rates so that these mortgages can absorb their competitive share of the home financing
market. This we advocate rather than the proposal to set aside an additional $1 billion of U.S. Treasury funds for purchase of mortgages by FNMA in the secondary market. As indicated above, other ideas in H.R. 9371 meet with our approval and should be adopted with the amendments suggested.

Thank you for the opportunity of presenting these views.

**STATEMENT OF U.S. SAVINGS & LOAN LEAGUE TO HOUSING SUBCOMMITTEE, RE H.R. 9371, EMERGENCY HOUSING BILL, JANUARY 28, 1960**

The U.S. Savings & Loan League appreciates this opportunity to present its views with regard to H.R. 9371, the emergency housing bill.

Over the years, the Housing Subcommittee and its distinguished chairman have developed much sound and helpful legislation. We are particularly appreciative to the subcommittee for the constructive consideration it has always given to legislation affecting the savings and loan business.

The pending bill provides for a number of special Federal aids to housing, centered around $1 billion of mortgage purchase authority for the Federal National Mortgage Association. These aids are of an emergency type, apparently proposed in the belief that a serious slump in home construction is imminent and that general economic conditions necessitate substantial emergency measures. We believe there is much evidence at hand which counters this basic assumption. Undoubtedly some of this has emerged since the legislation being considered now was put together.

In 1959, 1,341,000 housing units were started; only fractionally below the all-time record. Even if housing starts were to fall 10 percent, or 20 percent in 1960, the resulting starts of well over 1 million would still constitute good housing production in relation to the relatively low new family formations expected. It is true that housing starts began to show a decline in the fall of 1959, but this decline was substantially reversed in December, the latest month of record. Thus, we feel that it is improbable that there will be any serious decline in homebuilding in the immediate future.

At least one leading real estate economist believes that it would be desirable to slow down the rate of construction in 1960. James Downs of Chicago, in the National Market Letter of January 1960, said: “In our opinion a decrease in mortgage lending and new housing construction in 1960 will act to strengthen real estate markets and to forestall a more serious setback of the type which always heretofore beset real estate and real estate men.”

The situation is entirely different than it was in 1958 when an emergency housing bill was passed. At that time, not only was housing slumping, but there was major unemployment, general recession, and an unquestionable decline in economic indexes. Today, however, our general economic picture is very strong. Employment is at high level, virtually all economic indexes are at peaks, and our economy does not need (and perhaps could not absorb) additional stimulation from the housing industry.

The U.S. League believes that conditions in the housing market and in the general economy today do not warrant the emergency measures proposed in the bill.

During the hearings before the subcommittee there has been discussion of interest rates generally, and interest rates and charges by savings and loan associations. The following comments are offered for the benefit of the subcommittee’s thinking.

In the case of mutual institutions, such as savings and loan associations, it should be understood that the institution itself operates on a spread between the dividends paid to the savers and interest received from the borrowers. The institution’s income is the same as long as the spread remains constant, whether the rates involved are 2 percent dividends and 4 percent interest, or 4 percent and 6 percent. Thus, the association does not gain by periods of high interest rates because these higher rates are passed directly on to the savers.

In a period of rising money rates, a financial institution has a choice. It can raise its rates paid to savers so as to continue to attract new savings and continue to have money to lend; or it can hold fast to the low rate to savers, take in little or no new money, and throttle down its lending operations. Of course, if it does increase its rate to savers it must also increase its charges to borrowers. We submit that it is better for the economy, for the borrowers and for the homebuilders, to continue to attract new savings and continue to have money to lend, even at higher rates, that it is to simply slow down lending operations.

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The above is demonstrated by the most recent savings and lending figures. Savings and loan associations, having increased their dividends, were able in the last month of record (October) to increase savings by some $400 million. In that same month savings associations loaned 16 percent more than they had in the corresponding month of 1958. On the other hand, mutual savings banks and commercial banks raised their savings rates very little (in some cases these institutions were already paying the maximum allowable rate), and both groups suffered a net loss in savings in October. In turn, both commercial banks and mutual savings banks made fewer home loans than they had in the previous year.

It should also be noted that when the rate paid the savers increased, all of the savers—old and new—received the higher rate. When mortgage rates are increased, the increase is applied only to new borrowers. For instance, when a $100 million savings institution raises its rate from 3½ to 4 percent, the cost of the increase in dividends is $500,000. But since a $100 million institution only loans about $25 million in a given year, a one-half of 1 percent raise on the new loans will yield only $125,000. Thus, rises in the money levels actually squeeze an association’s operating margin. Many associations still hold large portfolios of 4 and 4½ percent GI loans on which no increased yield can be obtained.

Also, it is obvious that one of the competitive compulsants toward high dividend and interest rates is the increase in the general market rates and the rate paid on Government securities. The rate paid on Government securities has increased much more sharply than have mortgage rates, and has exerted a strong upward pull on all other rates.

Notwithstanding the many pressures toward higher rates, we are convinced that the great majority of savings and loan associations are doing everything possible to provide home loans at reasonable and economical rates. We pledge to continue to offer to the public the most favorable lending terms possible in the light of all of the factors involved.

STATEMENT BY BERNARD WEITZER, NATIONAL LEGISLATIVE DIRECTOR JEWISH WAR VETERANS OF THE UNITED STATES OF AMERICA BEFORE SUBCOMMITTEE ON HOUSING OF THE COMMITTEE ON BANKING AND CURRENCY, FEBRUARY 3, 1960, H.R. 9371

Once again, it is my pleasure, on behalf of the Jewish War Veterans of the United States of America, to express appreciation for this opportunity to present to your committee, our views on H.R. 9371 introduced by your chairman to meet the immediate urgency of the housing situation. The provision of $1 billion for FNMA to purchase VA or FHA guaranteed mortgages at par will assure the building of some 80,000 housing units in the lower cost brackets which would otherwise not be built. The 80,000 families who will thus secure housing will have their needs satisfied. They will not be competing with others for the lesser supply of housing to which the opponents of this bill are apparently complacently resigned. The inflationary forces which are stimulated when the market demand exceeds the available supply will be quelled.

The affirmed intention of the high-interest tight-money market advocates is that their policy will curb too rapid expansion and the ruinous inflation-deflation cycle which presumably is the toll of such expansion. The practical effects of this program makes home construction a major target.

Your committee has heard plenty to indicate that the VA-FHA mortgage market is a shambles. Discount rates ranging from 2 to 3 to 10 percent or more are commonplace and service fees in addition are not unheard of. The rule seems to be “all the traffic will bear.” Such practices obviously do not promote the fulfillment of the objectives of the Housing Act of 1949, “A decent home and a suitable living environment for every American family.”

This objective clearly indicates the intent of Congress to help American families and American people lead happier, more useful lives. The Housing Act of 1949 and many of the amendments thereto are not concerned primarily with the effects of housing on the American economy. Yet, even the opponents of this legislation will not deny that the legislation has tremendously contributed to our economic well-being.

H.R. 9371 will continue the movement toward the objectives of the Housing Act of 1949 and will aid the growth of our national economy on a sound basis. However, I am confident you realize that there is much housing legislation which

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should be enacted before this session of Congress adjourns. I shall not go into details for I recognize the need of focusing every effort at this particular time on getting the House to pass H.R. 9371 and sending it to the Senate for prompt action. The immediate availability of the billion dollars provided for in this bill will make the difference between a creditable housing record for 1960 and the sorry picture which the current situation indicates.

UNITED ASSOCIATION OF JOUVENMEN & APPRENTICES OF THE PLUMBING & PIPE FITTING INDUSTRY OF THE UNITED STATES AND CANADA,

Hon. Albert Rains,
Housing Subcommittee, House Committee on Banking and Currency, House of Representatives, Washington, D.C.

DEAR CONGRESSMAN RAINS: I am taking this opportunity to urge you and the members of the Housing Subcommittee of the House Banking and Currency Committee to act favorably upon H.R. 9371, known as the Emergency Home Ownership Act, as a stopgap measure to meet an emergency situation.

As you are no doubt aware, recent activities and future estimates in the housing field universally show a strong downward trend both in the recent past and the probable future. Housing starts last month were 10 percent below December 1958 and the combined FHA applications and VA appraisal requests were 23 percent less than the level of a year ago. These figures appear to substantiate a drop in housing starts during the months ahead.

One very important reason for this very discouraging decrease in housing is the tight-money policies now being followed by the present administration. High discounts plus high interest rates keep increasing numbers of potential homeowners away from the housing market. Interest rates on FHA-insured mortgages are 6¼ percent. Discounts on FHA-insured housing under so-called section 203 range from 2 to 7 points, thus adding as much as 1 percent to the 6¼-percent effective interest rate now being charged.

Testimony before your committee shows very definitely that these high interest and discount rates have substantially discouraged home buyers from buying homes. A resulting decline in housing starts, estimated to approach 200,000, would probably result in as much as 400,000 additional unemployed people during a period of disturbing unemployment. This could well mean the advent of a new recession.

The provisions of the Emergency Home Ownership Act would do much to change this situation. Making available an additional $1 billion for purchasing of mortgages by FNMA at not less than par and at reduced charges would stimulate a substantial volume of moderate-priced housing without unreasonable discounts and charges. At the same time it is probable that these provisions will bring a decrease in the price of the new homes built. Other provisions, insuring the purchase of mortgages on cooperative housing by FNMA, reducing the mortgage insurance premiums on FHA-insured sales housing, lowering interest rates, requiring reports on fees, charges or discounts and enabling individuals to make FHA-mortgage insured loans would, in my opinion, do much to provide the needed stimulus to the housing market and make approval of H.R. 9371 a first and vital step by Congress fulfilling its housing responsibilities in 1960.

At the same time I must emphasize that H.R. 9371 is solely a stopgap measure. On a long-range basis we badly need a comprehensive housing program which would include—

1. A large-scale, low-rent public housing program to provide decent homes for low-income families.
2. An effective middle-income housing program.
3. A fully adequate program of housing for the elderly.
4. A Federal policy to assure every family an equal opportunity to obtain decent homes without regard to race, color, creed, or national origin.
5. A greatly expanded slum clearance and urban redevelopment program.
6. Effective encouragement to metropolitan planning.
7. Other measures, including encouragement for cooperative and moderate-priced rental housing; adequate housing for family farmers and farmworkers; requirement of payment of the prevailing wage in any housing...
construction involving Federal financial assistance; and protection of home-owners against foreclosure in emergency situations.

I would appreciate your kindness in including this letter as part of the hearings of your subcommittee on H.R. 9371 as voicing the views of the United Association made in behalf of more than 250,000 journeymen and apprentices in the plumbing and pipe fitting industry.

With kindest regards, I am

Yours very truly,

PETER T. SCHOEMANN,
General President.

AMERICAN VETERANS COMMITTEE,

Hon. Albert Rains,
Chairman, Subcommittee on Housing,
House of Representatives, Washington, D.C.

Dear Mr. Chairman: Due to unforeseen circumstances, it has not been possible for the American Veterans Committee to submit a statement on H.R. 9371.

However, I should like you to know that the bill has the enthusiastic endorsement of AVC and I hope that we may be so recorded in the transcript of the hearings.

Sincerely yours,

Irvin Lechliter, Executive Director.

STATE OF NEW YORK,
DEPARTMENT OF AUDIT AND CONTROL,

The Honorable Albert Rains,
Chairman, Subcommittee on Housing, House Banking and Currency Committee,
House of Representatives, Washington, D.C.

Dear Congressman Rains: I understand that your committee is holding hearings on the housing bill which would make more money available for home mortgage financing.

An increase in the supply of funds for the housing industry is of utmost importance during this prolonged period of high interest rates. The bill which you are sponsoring would authorize the Federal National Mortgage Association to purchase at face value $1 billion of mortgages that are insured by the Federal Housing Administration or backed by the Veterans' Administration. This would stimulate the building industry and increase the supply of funds available for new homes.

The present high interest rates and lack of funds for mortgage investments, and the discounts prevailing on mortgages in the private market, are slowing down home construction in many areas. This has led to the prediction by the National Association of Home Builders that 1960 housing starts will decline by 200,000 units from the figure for 1959.

The proposal set forth in your bill to provide a $1 billion fund for the purchase of Government-insured or guaranteed mortgages appears to be a sound approach to achieve the necessary freeing of funds for residential housing construction in 1960, and should go far to help sustain the output of residential housing and to prevent the leveling off that is now occurring. Without such a positive program, it is likely that we will find ourselves in increasing difficulties arising out of the administration's high interest rate policy.

In my opinion, this could well be one of the most significant legislative proposals of this session of Congress.

Very respectfully yours,

Arthur Levitt,
State Comptroller.
ALBERT RAINS,
Chairman, Subcommittee on Housing, Banking and Currency Committee, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to a request from a staff member of your subcommittee for the views of the Veterans of Foreign Wars with respect to H.R. 9371, the Emergency Home Ownership Act, which is presently before your subcommittee for consideration and hearings.

The legislative efforts of the Veterans of Foreign Wars are controlled by the resolutions adopted at our most recent annual convention. Generally, the Veterans of Foreign Wars confines its position with respect to home loans to the Veterans' Readjustment Acts for veterans of World War II and the Korean conflict. At our last annual convention, which was held in Los Angeles, Calif., August 30–September 4, 1959, several resolutions were adopted concerning the GI loan program, two of which it is noted may be pertinent to some of the provisions of H.R. 9371. A summary of these two resolutions is as follows:

“Recommending legislation as follows:

1. Resurvey by the Veterans' Administration of home loan closing costs, including the flat 1 percent service charge, to insure that such individual and total costs are not in excess of those normally charged on conventional loans in the respective areas.

2. Opposition to any increase in the present 5.25 percent interest rate for either VA direct or guaranteed loans.”

Most impartial observers agree that the GI loan program has greatly diminished because of the lack of mortgage financing. While the VA direct loan program has helped in the rural and small town areas, there has been a growing decline of guaranteed GI loans in the metropolitan areas. Since this bill would, among other things, pump some additional mortgage money into the GI loan program and thereby eventually make financing available for some veterans, the VFW, to that extent, endorses this feature of the bill.

Of course, the committee has taken note of the fact, I am sure, that the GI home loan program for World War II veterans expires July 25, 1960. However, the Korean GI home loan program will not terminate until 1965 and for these veterans there are many who have reached the station in life where they now are able to buy their own home. Unfortunately, even though they meet all the requirements and the Government is willing to guarantee a loan, there are insufficient GI homes available for the great majority of applicants and interested veterans.

While the VFW does not have a specific mandate for this year concerning discount charges and other types of fees, our organization has long opposed any unreasonable discounts as a condition precedent to obtaining a GI guaranteed loan. With this in mind, it is pleasing to note that section 13 of this bill requires that a report be made to the agency concerning the amount of any fees, charges or discounts paid in connection with any mortgage or loan under the VA-insured program. It would seem fair to hope that such a requirement would tend to discourage excessive discounts or “undercover payments” which it is alleged are taking place in many localities.

In conclusion, therefore, the VFW endorses the provisions of this bill to the extent that those moneys which will be utilized to add new life to the GI guaranteed loan program will help qualified veterans obtain a new home under the GI home loan program. For those sections of the bill which deal with FHA provisions and related matters, the VFW has no position excepting section 13. Any attempt to exercise some control over the high discount situation is in harmony with longstanding VFW mandates.

It will be deeply appreciated if this letter will be made a part of the hearing records.

Sincerely yours,

FRANCIS W. STOVER,
Director, National Legislative Service.
EMERGENCY HOME OWNERSHIP ACT

NATIONAL LEAGUE OF INSURED SAVINGS ASSOCIATIONS,

Hon. Albert Rains,
Chairman, Subcommittee on Housing, House Banking and Currency Committee,
Washington, D.C.

DEAR MR. RAINE: After careful consideration, the executive committee of the National League of Insured Savings Associations unanimously opposes H.R. 9371, the Emergency Home Ownership Act, on which your committee is now holding hearings.

It is our belief that the bill, particularly those provisions enlarging existing and creating new special assistance programs and the par purchase requirements, is an exceptionally drastic legislative step. The enactment of this measure would be a decided step toward converting FNMA from a secondary financing operation to a primary one.

We do not believe the legislation can be justified upon either economic grounds or in terms of housing needs. Unlike 1958, when program 10 was adopted, the economy is booming. At the beginning of the 1958 recession, housing starts ran at a seasonally adjusted annual rate of 900,000 units. During 1959 total starts numbered 1,376,900, the second-best housing year in history. As Congress begins consideration of the Emergency Home Ownership Act, starts are at a seasonally adjusted rate of 1,310,000 units.

We sincerely believe that a sounder housing program could be obtained if Congress considered overall housing policy at one time instead of enacting piecemeal legislation.

We respectfully request that this letter be made a part of the hearings on the Emergency Home Ownership Act.

Sincerely yours,

Oscar R. Kreutz, President.

EL PASO, TEX., January 26, 1960.

Mr. John E. Barriere,
Staff Director, Subcommittee on Housing, Congress of the United States,
House of Representatives, Washington, D.C.

DEAR MR. BARRIERE: Thank you for your letter of January 12, with reference to the hearing to be held on Congressman Rains' housing bill, being H.R. 9371. You suggested that I might submit a written statement of my opinion for the record, which I would like to do and it is as follows:

The building program in our community has been slowed down very materially and thereby reduced job opportunities, which slowdown has been caused principally by the high discounts that have to be paid on GI and FHA loans. The increased interest rates have made it more difficult for buyers to qualify for home loans and the discounts on mortgages have not decreased.

The passage of Mr. Rains' bill, which would supply additional funds to FNMA for the purchase of both VA and FHA mortgages at par, would, as you can readily see, greatly stimulate the homebuilding program and would, therefore, halt any serious slump in residential construction.

Yours very truly,

Joe C. Yarbrough.

PASADENA, CALIF., February 2, 1960.

Hon. Albert Rains,
House of Representatives, House Office Building,
Washington, D.C.: Jerome Snyder on January 28, 1960, made a statement before the Housing Subcommittee of which you are chairman. We disagree with Mr. Snyder and since we wish to register the fact respectfully request your inclusion of this telegram in the record of the hearing.

The remarks of Mr. Snyder are at variance with the true facts relative to home lending by savings and loans associations in California.

Neill Davis,
Executive Vice President, California Savings & Loan League.

HON. CHAIRMAN RAINS: Unable to appear in person before your committee. Would like to go on record with the following statements in lieu of my absence, which I seriously regret is for business reasons. Nash Phillips-Copus Co. are project builders or mass builders of homes in the Southwest area of the United States; namely Midland, Lubbock, Austin, and Odessa, Tex. Fifteen years and thousands of homes is the background of this company. For business reasons we have chosen to remain semiquiet in the publicity of the homebuilding industry. We are definitely representative of what the Nation calls a large builder.

Mr. Chairman, I am definitely concerned and worried with the picture I see of the economy and the homebuilding industry. The two must be mentioned together because both are part of the whole. People do not invest in the future in a poor economic climate. I see the momentum of a great industry being slowed at too rapid a speed in the Southwest. I see too many bankruptcies and builder fallouts occurring in the past 60-90 days. My investigation and personal experience shows a decided trend of the sound and experienced operator wanting to sell out and wait awhile.

I see builder profit margins constantly shrinking as they pay more and more for the use of money and pay more discount for the placement of their permanent loans. A very serious situation—any business must build reserves to weather the downtrend in normal economic cycles which has been the history of our economy in even so-called good times which are actually cycles of sound expansion and economic growth.

Your bill, as I see it, is offering stopgap economic help or special assistance to an industry that is an integral part of the overall economic health of the Nation. I commend to you and your committee on the timeliness of your stand and the action you are taking. You are correct in your alertness to the situation.

The cost to the taxpayer of the $1 billion of special assistance money, in my opinion, is a drop in the bucket compared to the ultimate cost if the economy is allowed to go into shock. The $12 billion cost of the 1958 recession is fresh on our minds as definite proof for the last statement.

If we don't recognize the symptoms we are seeing and take remedial corrective action quickly, I feel the cost of the 1959 recession will be staggering in deficit financing and a further erosion of dollar value. It is true there are certainly more than money problems confronting the home industry, but the money problem is the greatest and most immediate and is the most important cause of downturn in our area. Your bill recognizes the emergency nature of the money problem.

While other problems are important, I feel that the efforts of the building industry in conjunction with the congressional housing committees will make marked progress toward their solution in this and the next legislative sessions.

Sincerely,

NASH PHILLIPS.

This brings the hearing to an end and I want to express my appreciation to the members for their patience, their understanding, and their usual fine knowledge of the bill.

There will be an executive session next week, the flu willing. We will announce the date a little later.

(Whereupon, at 12:16 p.m., the subcommittee adjourned.)