Statement of Chairman Martin
before the
Mortgage Financing Conference of the
Senate Banking and Currency Committee
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MORTGAGE FINANCING AND THE MONEY MARKETS IN 1952

During 1952 the defense effort will generate a heavy demand for financing on the part of the Federal Government and on the part of private borrowers. Continued maintenance of economic stability will depend on whether total demands on the credit and capital market can be substantially limited to the supply of genuine savings.

In 1951, the economy's aggregate savings were at a very high level. This entire amount of savings was absorbed in financing private and State and local government capital expansion, including inventory accumulations, plant and equipment outlays, and residential and commercial construction. Even so, total credit and capital demands were so great that the savings supply was supplemented by an expansion of bank credit large enough to threaten resumption of inflationary trends. This situation obtained, moreover, with a Federal cash surplus of about 1 billion dollars.

The President's recent Budget estimates imply that the Federal Government will have a large cash deficit in the present calendar year, involving new borrowing in the market of as much as 10 billion dollars or even more. At the same time, private financing demands for defense purposes and for essential civilian needs are likely to be strong and persistent.

Granted that the nation's savings this year will again be at a high level, these necessary credit and capital demands must have a first call on the available savings supply and will take a much larger share than last year. If resumption of inflationary pressures is to be avoided, such demands should not produce an excessive expansion of money created through growth of bank credit. The primary financial problem confronting public policy at this time is how to keep the total financing demands of the economy in reasonable relation with the savings funds that will be available. The solution of this problem is not easy.

The questions with which you are especially concerned are: (1) whether mortgage financing can obtain from the available pool of funds a sufficient amount to cover the 800,000 new starts which have been suggested as an attainable ceiling for 1952 on the basis of available resources; and (2) whether the distribution of that financing at the current pattern of mortgage interest will be generally consistent with that experienced in the recent past.

It can be estimated conservatively that the turnover of old houses and the financing of the number of 1- to 4-family dwelling unit completions which would result from an 800,000 start year in 1952 would require approximately 13-1/4 billion dollars. About 8.8 billion dollars of this amount would probably be used for the financing of transfers of existing properties and for loans on such properties, and 4.5 billion for new construction. At the same time mortgages outstanding should generate about 9 billion dollars in amortization payments and other retirements, thus requiring a net investment of new funds of about 4-1/4 billion dollars to support an 800,000 start year.

One striking feature of the above estimates is that two-thirds of the mortgage credit extended in 1952 will likely be in connection with existing properties and only one-third for the purpose of financing new construction. If credit extensions in connection with existing properties could be regulated selectively, as has been recommended from time to time, such regulation could help to assure the availability of funds for financing new construction.

Without some restraint on the absorption of funds in the financing of existing properties, it cannot be said with any certainty that funds will be readily available--either for 4 and 4-1/4 per cent financing in defense areas or for 4 per cent G.I. financing generally. On the other hand, in 1951 we did finance over 6-1/2 billion of net extensions of mortgage credit and the 4-1/2 billion projected for 1952 represents a very substantial reduction in that figure. If confidence in the basic soundness of our monetary structure is maintained and people continue to save and place their savings with savings banks, insurance companies, and savings and loan associations, these institutions which are normally large purchasers of mortgages, will have substantial funds to invest. A large part of these savings this year will need to go into Government bonds if we are to attain our anti-inflation objectives. What part of the remainder, which will be keenly sought by various outlets, will flow freely into mortgages at 4 per cent is more than I can predict.

It is important to note, however, that any effort to stimulate that flow through additional FNMA purchases or VA direct loans would increase the Government's prospective cash deficit and increase considerably the already difficult problem of financing the Federal budget.

So far I have limited my remarks to the financing of 1-4 family unit dwellings. There will be some new multi-unit starts and some financing requirement from this quarter. If such starts are in the neighborhood of 50,000, as informed trade sources believe, about $800,000,000 will be required to finance this type structure. It does not appear likely that this substantially reduced program will encounter serious difficulties in obtaining financing through the usual channels.

One important new factor in the market which is very disturbing to us at the Federal Reserve is the tax-exempt bonds which are being issued to finance public housing. Some $328,000,000 of such issues were floated in the last half of 1951--together with $45,000,000 of six-months' notes--and the market anticipates total issues for 1952 in the neighborhood of $750,000,000. Not only do such issues absorb some of the funds that would otherwise supply a market for Government bonds or for mortgages generated by new private construction, but they afford an opportunity for wealthy individuals and corporations to reduce legally their income tax payments in a period when it is essential that tax revenues be as large as possible. The issuance of these bonds at this time has been of special concern to the Federal Reserve since the Voluntary Credit Restraint Program Committee, organized under the Defense Production Act, has been exerting strenuous efforts to keep down the volume of such tax exempt securities otherwise originated.