For release on delivery

Statement of

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before the

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The vital social importance of accommodating the needs of the public for good housing is unquestionable. A decade has already passed since the Congress underlined this fact by declaring that "the general welfare and security of the Nation and the health and living standards of its people require . . . the realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family . . ."

A basic question, however, raised by S. 57, the "Housing Act of 1959," is this: How far and how fast we can move toward that objective and at the same time meet without undue strain the many other pressing demands upon our economy?

We have already made considerable housing progress in the postwar years. Since 1950, well over 11 million dwelling units have been placed under construction. This is an impressive achievement --a total exceeding the inventory of all housing in existence at the turn of the century.

Progress has been recorded, too, in conserving and improving the older habitable portions of our housing stock which comprise an important share of our national wealth and in which the majority of our households live. As a result of the construction of millions of new dwellings and marked improvements to existing ones, our housing supply today consists of more units than ever before. The average quality of these homes is the highest in history.

Despite the fact that we have moved closer in recent years to the goal of decent housing for everyone, the number of persons quartered in inadequate accommodations is still a matter of serious concern. Here again, the question arises: To what extent can we accelerate our progress further in the present period of broad economic expansion and mounting inflationary pressures and expectations?

Unfortunately, the rapid growth and improvement of the housing supply in the postwar period has been accompanied by a sharp rise in costs. For the entire period since World War II, prices of building materials, as well as prices of homes, have risen more than general wholesale prices or prices of all consumer goods and services. The relative inflation of building materials prices and of residential construction costs has intensified over the past year.

This inflationary advance in housing costs and prices, coupled with a liberalization in lending terms, has been associated with unprecedented demands for mortgage credit to help finance the purchase of new houses and the transfer of existing ones. Home mortgage needs have dominated the capital markets since World War II and represented the largest single use of capital funds. In the postwar period, nonfarm home mortgages have accounted for over one-third of the over-all increase in outstanding net debt, including all mortgages, securities, and other obligations. Since the end of 1949, the volume of nonfarm home mortgage debt outstanding has more than tripled to well over $120 billion presently.

To preserve the integrity of this debt structure as well as to meet housing needs in the future requires more than ever before the maintenance of sound standards of mortgage finance, as well as stability of prices and capital values generally in the economy. Overdrafts upon capital markets for home mortgage funds or overstimulation of building activity under currently developing boom conditions in the economy could precipitate or intensify a later downturn. Even now, the Federal Government has assumed a huge volume of commitments in underwriting FHA-insured and VA-guaranteed home mortgage loans and in insuring deposits and shares in financial institutions which hold a major portion of all mortgage debt.

In the light of these general observations, I should like to examine some of the provisions of S. 57 which have a significant bearing upon mortgage finance and economic growth and stability. The Board believes that certain features of the bill are desirable and necessary at this time to the continuance of vital housing programs under way. Among such provisions are the extension of the FHA Title I property improvement loan insurance program, the FHA mortgage insurance program for armed services housing, the Voluntary Home Mortgage Credit Program, and the increase in general mortgage insurance authorization for the Federal Housing Administration. With regard to the latter, it would be preferable to remove all limits on FHA insurance in force. Such limitations serve no useful purpose. Moreover, should that step be taken, Congress would still have an opportunity, through the appropriations process, to review annually the standards under which the program is carried on.

Raising maximum interest rates on insured mortgages under several FHA programs, as authorized under certain sections of S. 57, would also be a desirable step. Complete flexibility of interest rates might be even better. Mortgage insurance reduces investment risk to lenders. Experience suggests that under flexible interest rates, market forces would set a lower rate on insured than on uninsured mortgages with otherwise similar terms. Interest rates, fluctuating freely according to market conditions, would in fact be desirable for all housing programs.

Certain other features of S. 57 appear to the Board to be inappropriate for enactment at this time when mortgage lending and housing starts are at or near record levels and when growing pressures in the capital markets are being reflected in high and rising interest rates. I refer specifically to provisions which would provide discretionary authority to reduce again minimum down-payments on homes with FHA-insured mortgage loans, and to extend further the maximum term on Federally-underwritten home mortgages.

The former proposal, if put into effect, would permit a 5 per cent reduction in the downpayment on a $14,000 house with an

FHA mortgage, to a minimum of $455. On an $18,000 house, the reduction would be 38 per cent, to a minimum of $855. You will note from the attached table that minimum downpayments proposed in S. 57 are well below the ones authorized by statute in earlier years, but exceeded from time to time by administrative regulation. On a new $14,000 house with an FHA-insured mortgage loan, for example, the minimum downpayment requirement enacted early in 1950 was $2,800. This statutory limit was reduced in 1954 to $1,700, in 1957 to $900, and in 1958 to the present figure of $480. As mentioned earlier, S. 57 would reduce the limit further to $455.

The latter proposal would extend the maximum term on FHA-insured and VA-guaranteed home mortgages and on VA direct home loans to 35 years from the present limit of 30 years. If effective in the market, such an extension would tend to increase the amount of outstanding mortgage debt by lowering repayment rates, even though the number of credit transactions and the amounts loaned remained unchanged.

This is no time for measures to encourage additional borrowing either by home buyers or by the Treasury that would place additional demands upon our strained capital markets. During the first half of 1959, nonfarm home mortgage debt outstanding climbed an unparalleled amount. In only six months it rose about $7 billion compared with an increase of $10 billion in the entire year of 1958, and $12-1/2 billion in the record year of 1955. The current threat to sustained housing activity is not that mortgage lending terms are too strict, but that savings may be inadequate to accommodate the volume of housing demanded under current financing terms.

The unprecedented growth so far this year in nonfarm home mortgage debt outstanding has been sustained in part through a high level of mortgage warehousing, a record volume of mortgage purchases by the Federal National Mortgage Association, and a record amount of outstanding Federal Home Loan Bank advances. To place capital markets under additional pressure through any further reduction in downpayments or any further extension in maturities would be untimely and unwarranted. Now is the time to encourage a higher rate of saving--not a higher rate of borrowing.

Now is the time, in fact, for the Federal Government of this, the most advanced country in the world, to continue to demonstrate its capacity for leadership by exercising financial discipline. This would make clear to all peoples that its economic policy is wisely directed to the maintenance of economic stability as well as economic growth. As a nation, we must continue to serve as an anchor to which other democracies can tie without any doubt about the strength of that anchor to hold firm against the tides of inflationary forces.

Nearly a century ago, Benjamin Disraeli said: "The best security for civilization is the dwelling, and upon proper and becoming dwellings depends more than anything else the improvement of mankind. Such dwellings are the nursery of all domestic virtues, and without a becoming home the exercise of those virtues is impossible."

That statement is as true now as it was then. In striving toward the end of "proper and becoming dwellings," however, we must be certain that the means we use and their timing are also "proper and becoming" to our over-all goals of long-run economic stability and sustained economic growth. That is what the Board has tried to keep in mind in considering some of the provisions of S. 57.

Minimum Statutory Downpayments on New Homes with
Mortgages Insured by the FHA under Sec. 203 (b) (2) of the
National Housing Act, 1950 to date

Appraised value of new home	Date of Enactment				
	April 1950	August 1954	July 1957	April 1958	Proposed in S. 57
$10,000	$1,250	$ 700	$ 300	$ 300	$ 300
12,000	2,400	1,200	600	360	360
14,000	2,800	1,700	900	480	455
16,000	3,200	2,200	1,200	780	655
18,000	3,600	2,700	1,800	1,380	855
20,000	4,000	3,200	2,400	1,980	1,455

Note: Statutory minima have been exceeded at times by higher minimum requirements imposed by administrative regulation. Limits given in the table exclude Presidential discretionary authority, authorized at certain times, to permit certain further reductions under specified circumstances. Recently, the statutory minima given in this table have also applied to existing houses.