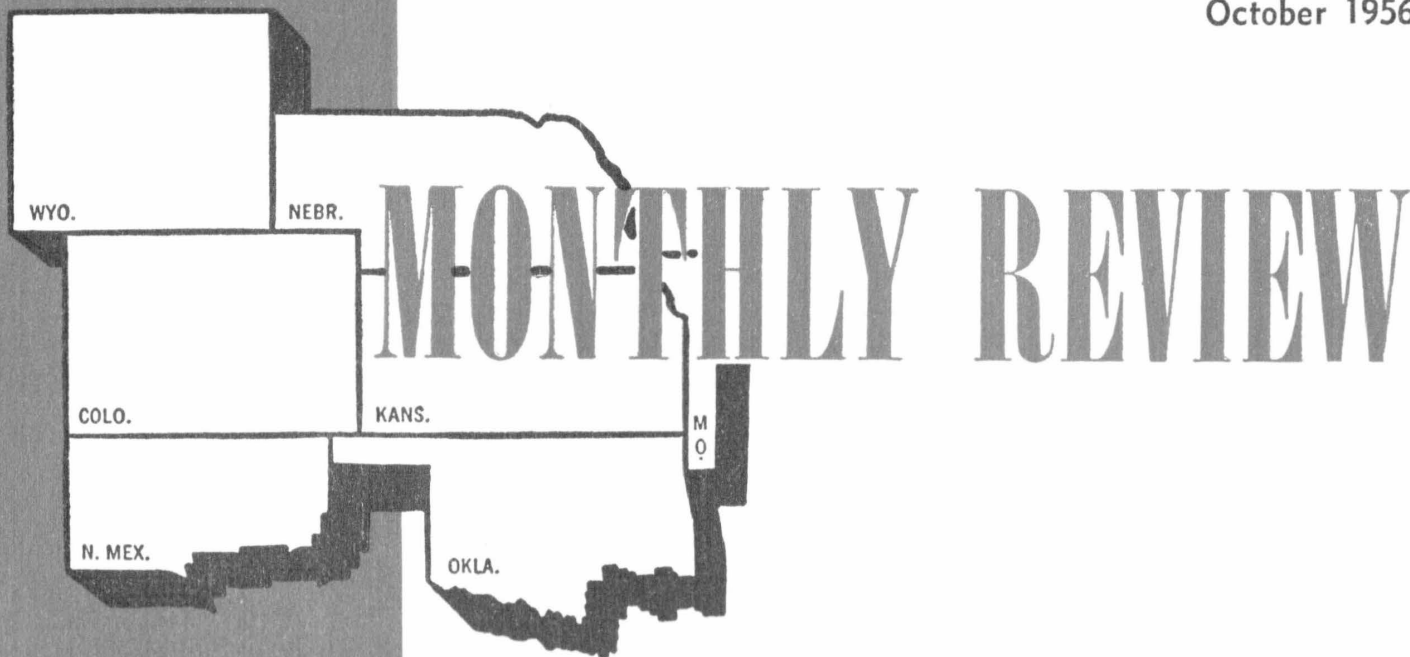


October 1956



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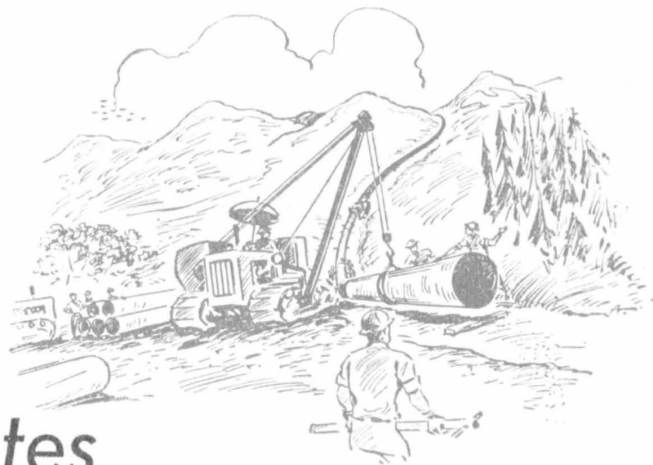
**FEDERAL RESERVE BANK
OF KANSAS CITY**

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Oil Expansion

in the

Western District States



THE IMPORTANCE of crude oil production in the Tenth Federal Reserve District is indicated by the industry's substantial contribution to the area's total output of goods and services. The value of 1955 crude production—estimated at \$1.3 billion—was about two fifths the amount District farmers received for their products last year. Moreover, crude oil accounted for about 70 per cent of the value of all minerals produced in the District during 1955.

The District's crude oil industry is also of considerable significance to the national economy. In 1955, District activity included 30 per cent of all well completions in the Nation, 20 per cent of total crude output, and 10 per cent of the operating refinery capacity. Although the District once enjoyed a much greater share of the Nation's crude production, its present status represents a steady recovery from the 1944 low when the area supplied only 16 per cent of domestic output.

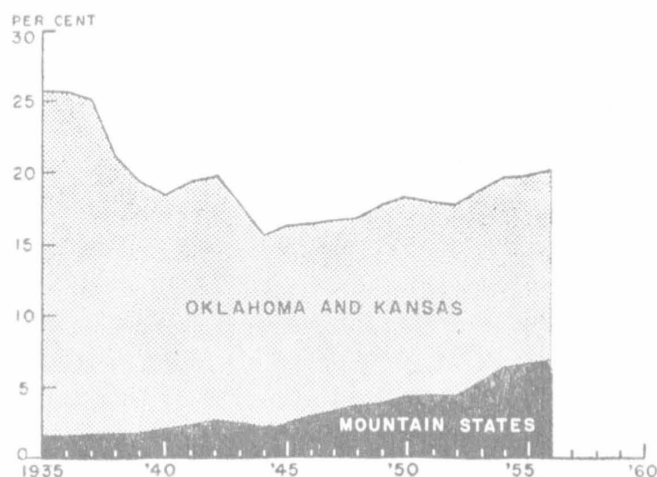
Crude oil production gains in the Mountain States area—Colorado, Wyoming, western Nebraska, and northern New Mexico—have been instrumental in increasing the District's share of domestic output. Over the past 20 years, this region has increased its contribution to District output from 6 to 34 per cent. On the other hand, production in Kansas and Oklahoma during the past decade has just kept pace with national gains. The steady 13-14 per cent of the Nation's annual output supplied by the District's Mid-Continent states reflects the impact of conservation laws which permit adjustment of output to estimates of

demand. Kansas and Oklahoma output has been subject to control through state crude oil production allowables for many years.

The sustained high level of demand for domestic crude has been an important factor in the growth of the Mountain Region's oil industry. While local refinery demand for crude oil has not been sufficient to support the growth in production, outside markets have taken increasing amounts of the area's crude. Major outside markets have been mid-west refineries and Utah and Montana plants.

The area has been fortunate in that much of the output consists of high gravity crude which compares favorably in quality with oil from the Mid-Continent fields. Modern trends in demand have favored high gravity oils because they yield a high ratio of gasoline and diesel fuels. However, the heavy black oils—

THE DISTRICT'S SHARE OF U. S. OIL PRODUCTION



NOTE: 1956 estimate based on data for first six months.
SOURCE: U. S. Bureau of Mines and Oil and Gas Journal.

typical of many Wyoming fields—also have found a substantial market. These low gravity crudes yield a relatively high percentage of residual fuel oil, road oil, and asphalt.

The Midwestern refineries have been the most important outlet for Mountain States crude and now utilize much of the output from Wyoming, Nebraska, and eastern Colorado fields. Salt Lake City refineries, which have drawn heavily on western Colorado production, have gained a larger share of the West Coast market in recent years. Montana processors, who get much of their crude oil from northern Wyoming, also ship petroleum products to the West.

The Rocky Mountain refiners have been able to sell more products in the Pacific Coast region because California refineries have been pressed to cope with the increased demand for gasoline and diesel fuel which has accompanied the influx of population and the growth of industry. The problem for California processors arises from the fact that much of the local crude is of low gravity and yields sufficient quantities of the needed products only by creating burdensome inventories of heavier fuel oils.

Western District Oil in 1935 and a Decade of Progress

Wyoming produced nearly 90 per cent of the western region's modest output in 1935, with about half the state's oil coming from the Salt Creek field in the Powder River Basin. Although it remained the area's leading oil pool until 1939, Salt Creek already had experienced a two-thirds reduction in output from the peak rate of the mid-1920's. Fields in the Big Horn Basin represented the second most important producing area in the state—accounting for about one fourth of the state's crude oil output.

Colorado's 1935 crude production—just over 1.5 million barrels—amounted to about 10 per cent of the Mountain Area's total output. Al-

though the state reported production from several oil fields, the Iles pool in Colorado's portion of the Green River Basin accounted for much of the total. Crude output in northwestern New Mexico was relatively insignificant in 1935 and the western Nebraska area had not yet been developed.

The crude pipeline system which served the Mountain States during the early 1930's was little more than a skeleton of the present network. Local demand in the sparsely populated region had stimulated little pipeline construction. Colorado's pipeline facilities consisted solely of short lines which connected the few producing fields to nearby refineries. The crude oil transportation system in Wyoming was more adequate, with lines linking major oil-producing areas to refining centers. However, the state's only pipeline link with an outside market had been closed.

In the 5-year period 1935-1939, crude production in the Mountain States area increased nearly 50 per cent, with Wyoming gaining an even greater share of the area's output. The most significant development was the marked growth in production at Lance Creek—near Wyoming's eastern border—and the accompanying extension and rehabilitation of the crude pipeline system.

To facilitate production of Lance Creek crude, the pool was linked to the old Douglas, Wyo.-Freeman, Mo., trunk line which in turn connected with Stanolind's eastbound pipeline system south of Kansas City. The Wyoming-Missouri line had been built in the early 1920's to move Salt Creek and Teapot Dome crude to midwestern refineries, but except for portions leased for natural gas transmission, the facility had been out of service for several years. Lance Creek crude began flowing through two additional outlets in 1938—a 232-mile trunk line connected the field with refineries at Cheyenne and Denver, and a shorter line was extended to the Glenrock, Wyo., refinery.

A major trunk line from Ft. Laramie to Salt Lake City, completed in 1939, also provided a significant market outlet for Wyoming crude. In addition to serving as an immediate outlet for Wyoming production, this line later contributed to the development of the Wilson Creek and Rangely fields in Colorado, since its proximity to the two fields permitted the eventual construction of linking pipelines. Production in Wyoming also was stimulated by crude transmission lines which extended from the more isolated fields in the Big Horn and Laramie Basins to railroad loading stations and refineries. In contrast to the Wyoming gains, output in northern New Mexico and Colorado declined during the late 1930's.

Although the District's share of the Nation's annual crude output had shrunk to nearly 18 per cent by 1940, production in the Mountain States area continued to climb. Colorado's output increased sharply in 1944, due primarily to gains at Wilson Creek field in the Uinta Basin. This upturn in production accompanied the construction of a pipeline from Wilson Creek to Wamsutter, Wyo., where it connected with the Ft. Laramie-Salt Lake City trunk line. As a result of the new market outlet to the Salt Lake City refineries, Wilson Creek crude output nearly tripled between 1943 and 1945.

Production at Wyoming's Lance Creek field began to diminish in the early 1940's. This loss, as well as the dwindling contribution at Salt Creek, was more than offset by increases in output at other fields in the state. The Big Horn Basin pools made substantial gains in production during the period as new pipeline outlets were completed to Casper, Wyo., and Billings, Mont. Increasing output at new fields in the Wind River Basin also added to the gain in Wyoming.

Rangely Leads the Postwar Boom

With the sharp gains in Colorado production added to the substantial growth in

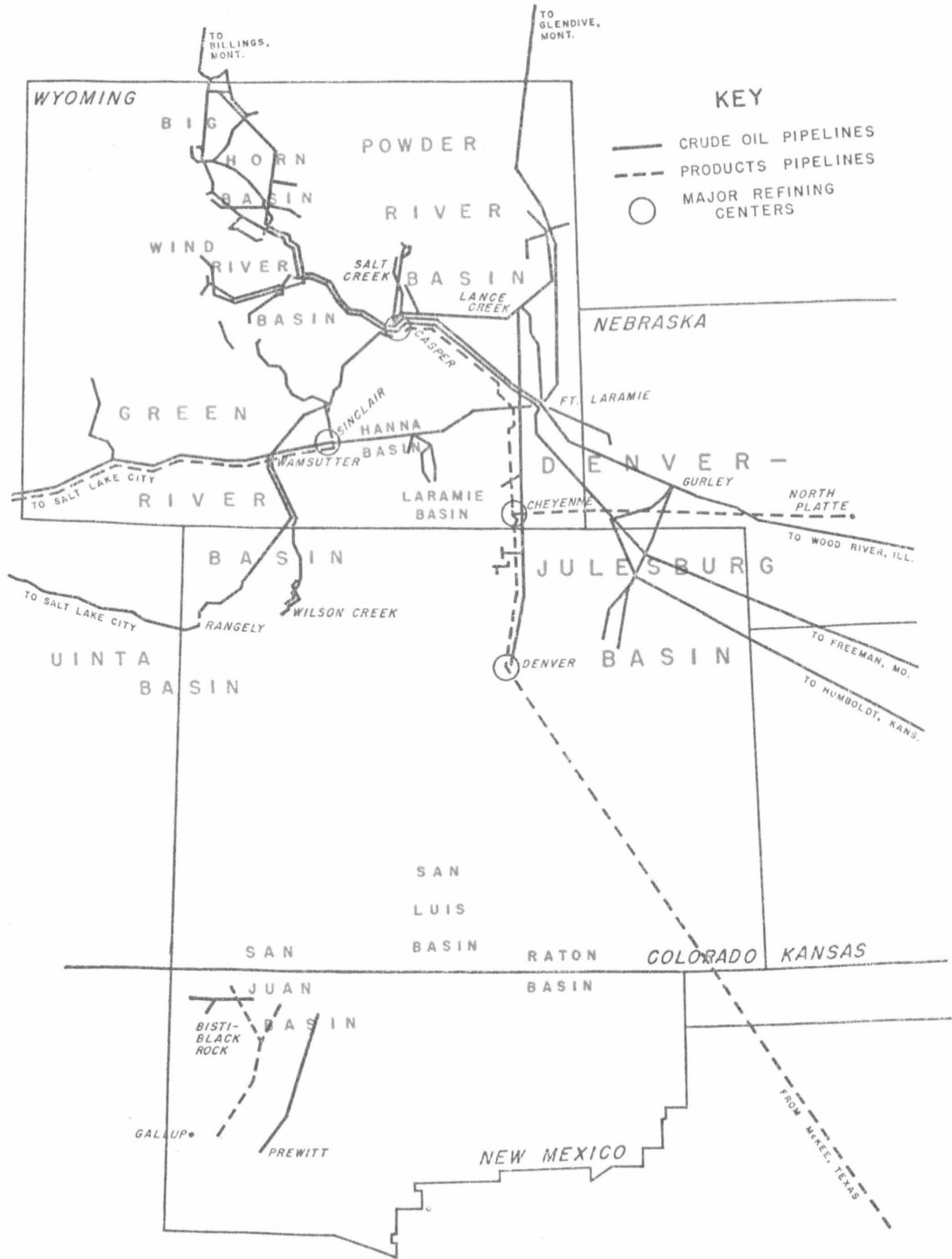
Wyoming, the Mountain States area had increased its share of the District's crude output to 15 per cent by the end of the war. It was also at this point that the District's share of total crude output began to increase.

The outstanding development of the late forties was the phenomenal growth in production at the Rangely field after it gained an adequate market outlet. Accompanying the construction of a 10-inch line to the Ft. Laramie-Salt Lake City trunk line, production quadrupled between 1944 and 1945 and increased fivefold the following year. To further supplement the transportation of Rangely crude, a direct line was laid to Salt Lake City in 1948. With the field's great productive capacity unleashed by the addition of the new transportation facility, Rangely oil supplied more than 83 per cent of Colorado's crude output in 1949. The state's share of the Mountain Area production increased from 12 per cent in 1945 to 33 per cent in 1949.

Although Wyoming experienced nothing as dramatic during the late 1940's as Colorado's Rangely development, the state's crude output was boosted by production from several new fields in the Wind River, Big Horn, Hanna, and Powder River Basins. Older pools in the Big Horn region also continued to record sizable gains in output. This growth in crude production was accompanied by extensive additions to the area's pipeline system, including a 208-mile link between the Wind River Basin fields and Ft. Laramie and a larger crude line to replace the old connection between Cheyenne and Denver. Expansion of the transportation facilities for Wyoming oil also included a 267-mile products line from Casper to Cheyenne and Denver, extensions to new fields, and an outlet for Big Horn oil northward to Billings.

The number of operating refineries in the Mountain States declined rapidly from the peak reached in the early 1940's and by the end of that decade there were no more

THE OIL INDUSTRY IN THE DISTRICT MOUNTAIN STATES



in the area than in 1935. Nevertheless, the crude capacity of the remaining refineries had more than doubled since the mid-thirties. This trend toward fewer but larger refineries has continued into 1956 and parallels the behavior of the refining industry throughout the Nation. The 40 per cent reduction in the number of plants in the District since 1935 has been accompanied by a 75 per cent increase in crude capacity. A similar drop in the number of refineries has been recorded for the Nation, while total capacity has more than doubled in the past 20 years.

More Outlets for New Discoveries

Despite expanding crude production in Kansas and Oklahoma, the Mountain States area had increased its share of the District's output to nearly one fourth by 1950. However, with the discovery of new reserves in Wyoming and the opening of the Denver-Julesburg Basin, the output potential of the area exceeded the capacity of existing market outlets. It became clear that further increases in production would be contingent on the addition of new facilities for shipping the crude to regions outside the Rocky Mountains.

In an effort to market the growing supply of crude, a group of major oil companies with interests in the region formed the Platte Pipeline Company to build a second outlet to Midwestern refineries. The Platte system extends from the Big Horn and Wind River Basins through Casper and Ft. Laramie and on to Wood River, Ill. The new outlet fostered a 24 per cent increase in the area's crude production between 1952 and 1953—permitting expansion of Wyoming output and lending impetus to the development of the Denver-Julesburg Basin. Western Nebraska output more than doubled following completion of the Platte system, while Colorado and Wyoming production rose about 20 per cent.

Extensive products pipeline building also characterized the Mountain States petroleum

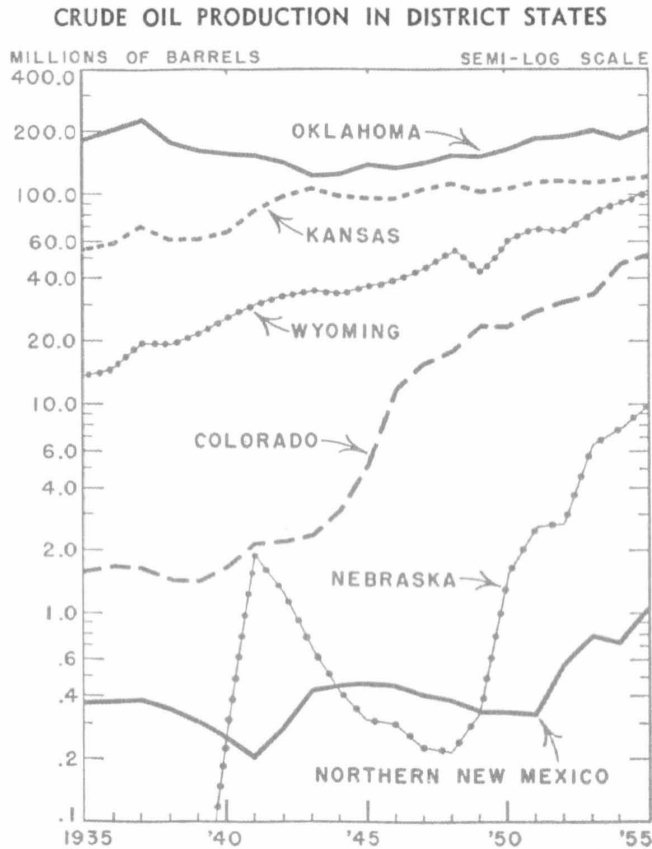
industry in the early 1950's. In January 1953, the first shipment of products was delivered through a new line that connected the Sinclair, Wyo., refinery with Salt Lake City. Later that year, contracts were let for a products line between Cheyenne and North Platte, Nebr.

Highly significant to the region's petroleum industry was the construction in 1954 of two more trunk lines which provided additional outlets to eastern crude markets. The longer of the two projects was the Service Pipeline Company's new line between Ft. Laramie and Freeman, Mo., which replaced the old trunk line constructed between the two points in 1923. At the same time, the Arapahoe Pipeline Company built a new line from Merino, Colo., to Great Bend, Kans., and modernized the existing section between Great Bend and Humboldt, Kans., where the line connected with Sinclair's eastbound trunk system. Subsequently, a network of smaller pipelines in the Denver-Julesburg Basin was connected to the eastbound trunk lines.

The Denver-Julesburg Basin

Stimulated by the extensive additions to the crude oil transportation system—especially those which expanded the eastern market potential for Rocky Mountain oil—the area's drilling activity and production gains have soared to new highs. Much of the recent activity has accompanied the development of the Denver-Julesburg Basin which encompasses southeastern Wyoming, northeastern Colorado, and southwestern Nebraska. Oil was first discovered in the region in 1862, but the current boom dates from the Ohio Oil Company's 1949 discovery near Gurley, Nebr. Within a few months, millions of acres were leased on the eastern flank of the basin and wildcat drilling boomed in the Nebraska and Colorado portions.

While the proximity of the major trunk lines and the rapid development of a crude



NOTE: On a semi-logarithmic graph, equal slopes indicate equal rates of change.
SOURCE: U. S. Bureau of Mines and *Oil and Gas Journal*.

gathering system have done much to encourage activity in the region, a favorable land-leasing situation and relatively fast and inexpensive drilling also have proved very attractive to operators. As a result of the extensive wildcat program in the basin, the producing area now includes Banner, Cheyenne, Deuel, Kimball, and Morrill Counties in Nebraska; Adams, Logan, Morgan, Washington, and Weld Counties in Colorado; and Goshen and Laramie Counties in Wyoming. Although the Colorado portion has been the most productive, the focal point of Denver-Julesburg exploration has shifted to western Nebraska where well completions so far this year are running 50 per cent ahead of the 1955 pace.

Dramatic and successful though the Denver-Julesburg development has been, recent oil interest in the District Mountain States

has not been confined to it alone. Another fast-growing area is the San Juan Basin in northwestern New Mexico. Although the basin is better known for its natural gas production, exploration for oil in the Bisti-Black Rock area is attracting much attention. At the end of August, the field boasted 30 wells completed and an equal number in various stages of development. Prospects for a new refinery at Gallup and a crude pipeline connection with Salt Lake City have added impetus to the basin's development.

Summary

The story of growth in the oil industry of the Mountain States is primarily a tale of the development of a transportation system for the area's oil. As market conditions warranted the construction of pipelines to tap proven crude supplies, the presence of the new outlets encouraged further search for new fields. In turn, as these fields developed, additional lines were needed.

The rapid development of new producing areas in the District's western region is indicated by well completion and production data for recent years. Colorado operators completed more than 1,500 wells last year—15 times the number drilled in 1950—while Nebraska drilling increased fivefold and Wyoming recorded a 50 per cent gain over the 5-year interval. Northwestern New Mexico also reported a marked increase in drilling activity but gas well completions accounted for much of the gain.

Crude production in the area has climbed at a remarkable rate, with 1955 output nearly 90 per cent greater than the 1950 level. This rate of growth far outshines both the one-third gain reported for the Tenth District during the period and the one-fourth increase for the Nation. Data for the first six months of 1956 indicate that Mountain States crude output was about 16 per cent higher than during the same period of last year.

Residential

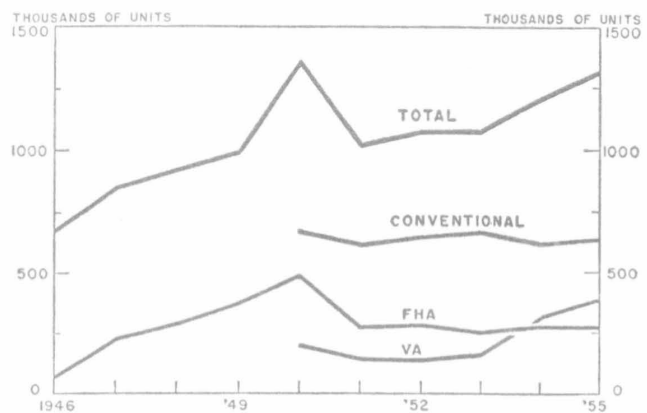
MORTGAGE MARKET

THE DECLINE IN residential construction from the high levels attained in 1955 has been one of the principal areas of weakness in a generally expanding economy in 1956. During the first seven months of 1956, housing starts were 18 per cent smaller than the number in the corresponding months of last year and the value of new residential construction was 15 per cent lower. The commonly cited reasons for this decline, in the face of rising personal income, have been the short supply and high costs of building sites, local overbuilding in 1955, the shortage of mortgage funds, and the inability or unwillingness of buyers to pay the higher prices for homes produced by rising land, materials, and labor costs. To this list could be added the fact that housing construction last year was at an exceptionally high rate and may have reached such a level on the strength of unusually favorable conditions. Construction activity this year compares favorably with that of 1951, 1952, and 1953, and this should be the seventh consecutive year when more than one million privately owned housing units are started.

Whatever other points of disagreement have been expressed by the representatives of the housing industry, there is a consensus that a greater availability of credit would have strengthened the market this year. Except for local conditions, it is unlikely that a

strong case could be presented against such a view, particularly since the housing market depends for much of its volume on sales of homes on liberal credit terms. At the same time, however, factors peculiar to the financing of the housing industry also have operated to restrict the supply of available funds. These influences would not have been entirely removed by less restriction of aggregate loanable funds, unless a more generous flow of savings had been available to the institutions which absorb a large share of residential mortgages. The appetite for credit developed by the housing industry, though never small in years of high business activity, has grown to such a magnitude as to warrant

PRIVATELY FINANCED HOUSING STARTS



SOURCE: Department of Labor, Federal Housing Administration, and Veterans Administration.

re-examination of its sources and uses of funds and the market structure through which available capital is allocated.

The broader outlines of the problem to be examined can be observed in the accompanying chart which shows the volume of housing starts by years since the end of the war and, in the period since 1949, the distribution of these starts between those financed under Government insurance and guaranty programs and those financed conventionally. It is clear that most of the instability in house construction over the past 6½ years has occurred in the first of these categories. The contraction in 1951 was largely concentrated in houses financed under the Federal Housing Administration, while the sharp rise in 1954-55 was confined almost entirely to VA-financed activity. Total housing starts increased by 240,700 between 1953 and 1955 and those financed under the Veterans Administration accounted for 236,300 of the gain. Both FHA- and VA-financed construction were curtailed much more in the first half of 1956 than were conventionally financed dwellings. The instability of construction financed by FHA and VA can be explained, in part, by variations in the extent of Government assistance and by additions to the veteran population. But variations in the flow of credit also have played a significant and increasingly important role as the terms of these mortgages have been extended towards greater liberality.

Supply of Mortgage Credit

Under the favorable conditions of postwar economic stability and growth, the demand for housing and the accompanying demand for mortgage credit have reached record levels. Nonfarm mortgage debt increased more rapidly in these years than any other major form of debt. During 1955, the growth of mortgages on 1- to 4-family houses exceeded the new money security offerings of

corporations by 50 per cent and surpassed the gross security offerings of state and local governments by 100 per cent. Annual increases in house mortgages averaged \$7 billion in the four years 1950-53, then stepped up to \$9.6 billion in 1954, and set a new peak in 1955 with an expansion of \$12.7 billion. Since individual savings have been the major source of funds in this market, these magnitudes can be visualized more clearly in relation to the flow of savings. In 1952-53, the growth of home mortgages was equal to about 25 per cent of total liquid savings of individuals, but in 1955 the proportion rose to 47 per cent. If consumer short- and intermediate-term credit are added to the growth of mortgage credit, the combined expansion of the two forms of debt in 1955 would be equal to almost 70 per cent of individuals' liquid savings.

While the supply of savings from individuals and other sources varies from year to year, the changes are not sufficient to accommodate swings in demand on a scale such as occurred in 1954-55 and the flow of funds into this market was augmented in a number of ways. One of these was the commercial bank practice of buying mortgages from life insurance companies and mortgage brokers under resale agreements and of extending credit to these institutions with mortgages as collateral. Total credit extended to all real estate mortgage lenders by weekly reporting member banks increased \$1 billion between August 1954 and November 1955. These loans, together with their usual additions to mortgage portfolios, increased the proportion of residential mortgage credit furnished by banks from around 10 per cent in 1953-54 to about 19 per cent in 1954-55. A second source was the Federal Home Loan Bank which increased its loans to member associations \$550 million in 1955. Of this amount, \$380 million were on loans maturing in one year or less. Other extra-

ordinary supplements to this flow of capital were made available by life insurance companies and savings and loan associations, which increased the percentage of their total assets invested in mortgages. Even if these actions represented a permanent shift in investment preferences, any further change in the same direction appears less probable as a further source of funds. For example, holdings of Government bonds by insured savings and loan associations at the end of 1955 were close to the minimum required.

Not only were these funds obtained from sources that could not be tapped as readily again in the current year, but they were also partially temporary, carrying an obligation to be repaid in the near future. Retirement of debt to the Federal Home Loan Bank amounted to \$300 million in the first seven months of this year. Mortgages warehoused by banks contracted \$274 million from November 1955 to May 1956, although the volume had increased somewhat by August.

Despite this partial liquidation of temporary financing obtained in 1955, estimates indicate that mortgages outstanding on 1- to 4-family nonfarm homes increased \$5.8 billion in the first six months of 1956, compared with a growth of \$6.5 billion in the same months of 1955. Among the major lenders, life insurance companies furnished a greater absolute amount, but commercial banks and savings and loan associations purchased a smaller share. Mutual savings banks acquired the same amounts in each of the two half years.

This brief consideration of the rate at which capital recently has flowed into the housing market raises questions as to whether the flow of total savings is sufficient to support a sustained high volume of house construction, especially if the sale of houses requires that an important proportion of the loans be made on very liberal terms. The flow of savings is more stable than the combination

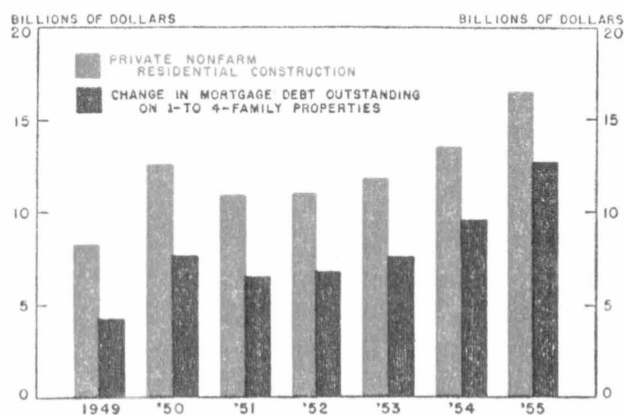
of mortgage and other requirements, and the strong demands from other users of credit are able to divert funds from the housing market. The resources of institutions can be expanded temporarily in meeting such developments, but the possibilities of obtaining flexibility in this way are limited.

Demands for Mortgage Credit

While the flow of savings into the housing market has accelerated to a point where severe competition with other demands is generated, recent changes in the demand for mortgage funds have required a rising supply to support a given number of housing starts. Among the more important influences leading to this expansion have been the growing volume of financing employed in the market for existing houses, rising costs of construction, easier mortgage terms, and the financial requirements of builders. The accompanying chart compares the value of new house construction and the annual growth of mortgage debt in recent years, indicating the more rapid growth of the latter.

Transfers of the ownership of existing houses generate a requirement for mortgage credit when the equity of the buyer is less

VALUE OF CONSTRUCTION AND CHANGES
IN MORTGAGE DEBT, 1949-1955



SOURCE: Department of Commerce, Department of Labor, and Board of Governors of the Federal Reserve System.

than the equity of the seller. As individuals accumulate an equity in their homes, through amortization and rising prices, and as their housing requirements grow, their houses are sold to buyers having less extensive needs and the equity is employed to aid in financing a new and more expensive dwelling. If the buyer of the existing house should be a veteran who makes no or a low down payment, the total demand for funds to finance both the sale of the new and the existing dwelling may approach the value of the addition to the stock of housing represented by the value of the new house. To the extent that sellers of existing houses do not choose to reinvest their entire equity in the purchase of a new house, the need for credit in the housing industry from other sources is expanded further.

An active housing market will produce substantial demands for funds to finance purchases of both new and existing houses, but transfers of existing houses constitute a larger share of the demand in some years than in others. In 1949, the loans made in financing purchases of existing houses under FHA and VA programs constituted 42 per cent of the total under these programs. In succeeding years, the proportion ranged between 30 per cent in 1951 and 43 per cent in 1955. In the three years 1953-55, about \$8.9 billion was employed under these programs in financing purchases of existing houses and an unknown additional amount was used for the purpose under conventional programs.

During certain periods, the volume of credit employed by the construction industry may be a factor of some importance in the aggregate demand generated by the housing industry. Information on this demand is quite fragmentary, but the data for savings and loan associations show that construction loans increased from \$2,475 million in 1953 to \$4,041 million in 1955 and have continued at

approximately the same rate this year. These loans have short maturities and the volume of loans made, therefore, does not accurately indicate the amount of capital employed. But when a weakening market forces builders to hold larger inventories of unsold units, the length of these loans probably increases and the capital used in carrying the stock is expanded. The information reported by larger banks on their loans for construction purposes generally confirms the data from savings and loan associations. Bank loans outstanding to builders rose by almost \$400 million from 1953 to the end of 1955.

Equity requirements and the prices of homes also exert important influences in establishing the volume of funds demanded. Although equity requirements on conventional financing have been fairly stable, there has been a trend in Government-sponsored programs toward lower requirements and higher maximum loan value. As this trend has broadened the effective demand for houses, it also has created large requirements for mortgage credit. The price paid for houses has advanced as a result of higher building costs and increased family requirements that have brought a demand for larger, better-equipped units.

The combined effect of changes in equity requirements and in housing prices on the demand for funds can be illustrated with data on VA financing of existing houses. In 1953, VA loans closed averaged 82.1 per cent of the purchase price of the dwelling, in comparison with an average of 88.4 per cent in 1955. The effect which this increase had upon the demand for credit was further magnified by the advance in the average price of homes financed from \$10,717 to \$11,343. The average loan, therefore, increased from \$8,800 to \$10,027. If similar information were available on the financing of new houses, it probably would show an even greater increase in the average loan size.

In summary, the demand for mortgage credit has been expanded by liberal credit terms, higher prices, the needs of construction financing, and the increased amounts of credit employed in transferring the ownership of existing houses. Although sales of new houses are stimulated by conditions which improve the market for existing units, the funds used to finance sales of existing units raise the aggregate demands of the housing market and curtail the share available in the new house market.

Interest Rates

The varying demands for mortgage financing press against the supply of savings and lead to changes of interest rates. These changes, in turn, affect the ability and willingness of potential buyers to obtain loans. The long maturities under which many houses are sold cause the cost of funds to be an important consideration in many cases. The total interest paid on a 30-year loan of \$10,000 at 4.5 per cent would be \$8,232, but at a 5 per cent rate, the total would be \$9,333.

Changes in interest rates also affect the availability as well as the cost of funds under the different types of financing. Since conventional loans are negotiated directly between the lender and the borrower, rates of interest on these liens are free to change in response to fluctuations in market conditions. This is not the case with FHA and VA loans, for the laws under which these agencies operate prescribe maximum rates that can be levied. In recent years, the rate has been 4.5 per cent for each type with an additional charge of 0.5 per cent for FHA insurance. When the market rate on long-term money is equal to these rates, lenders accept them at par but when market rates exceed the permissible rates, guaranteed and insured mortgages will be purchased by lenders only at a discount.

The discount on insured and guaranteed

liens will be determined by the spread between statutory and market rates and by the maturity of the mortgage. For example, with a market rate of 4.8 per cent, a 4.5 per cent 20-year mortgage for \$10,000 sells for \$9,800, or at a discount of \$200; a 30-year mortgage carries a discount of \$300. The two discounts would be \$400 and \$500 if the market rate of interest should rise to 5 per cent. Information on the average rate on mortgages in the market is quite limited, for no agency systematically collects data on the rates for conventional or VA mortgages. The Federal Housing Administration has prepared periodic surveys of the prevailing interest rates on mortgages handled by its field offices. On the basis of these data, the interest rate on 25-year FHA insured liens rose only from about 4.60 per cent in June 1954 to 4.64 per cent in June 1955, but in the following six months rose more rapidly to 4.75 per cent. A further small increase to 4.79 per cent had occurred by August 1956. These swings of interest rates are somewhat smaller than the changes in yields of high-grade corporate bonds in the same periods—perhaps indicating the imperfections of measurement resulting from widely different rates in various markets. But on the assumption that these rates reflect with reasonable accuracy the general movement of rates in this market, the pinch on the supply of funds moving into residential mortgages appears to have been no greater than that in other markets.

The appearance of discounts on insured and guaranteed mortgages and their effects upon the housing market have not been completely understood by the general public, with the result that, at these times, lenders have been accused of malpractices when they were acting only in response to market forces. In turn, fear of the loss of good will on the part of some lenders has caused the supply of funds to be restricted when discounts prevailed on these loans.

In the new house market, builders have found it necessary to sell the mortgages obtained through sales of houses at the discounts prevailing but have been limited by regulation against passing on to the buyer of the house more than one point of the discount. Thus, a small discount may be borne entirely by the buyer but as the discount increases above 1 per cent, it is borne by the builder. The seller of an existing house is allowed to pay any discount necessary to obtain a loan, but he is not permitted to add this amount to the price of the house. The appearance of this cost and the agent's commission in many cases are sufficient to alter the intention of the seller. Where this occurs, the demand for mortgage credit and possibly for new housing is reduced.

Concluding Comment

The annual growth of mortgage credit recently has been greater than the increase in the supply of savings, and the housing

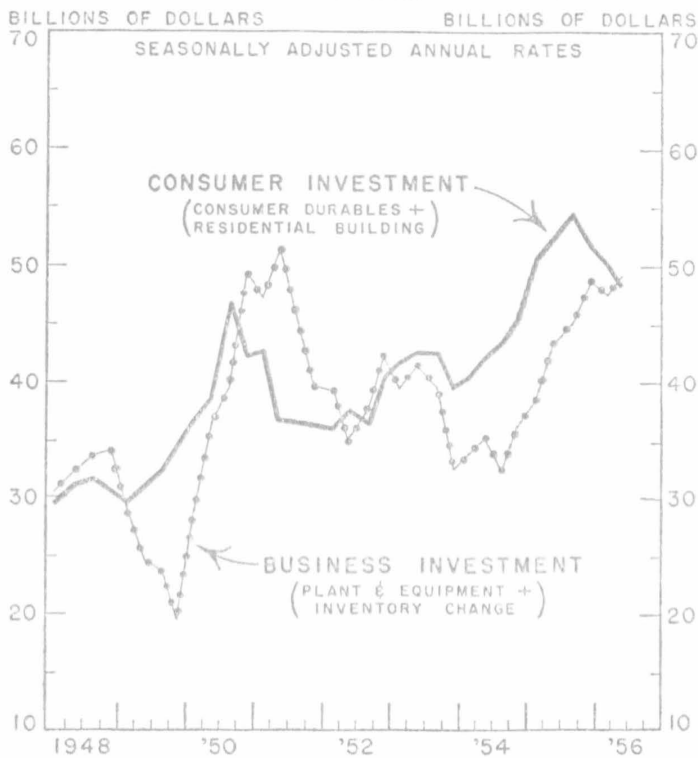
market thus has absorbed a greater share of total new capital. This position in the market was attained when the demands of others—such as consumers, businesses, farmers, and government units—were not strong, but its maintenance has been increasingly difficult as the demands of others have increased. The curtailment of supplies has fallen more heavily on insured and guaranteed mortgages than on conventional loans, and the market for houses financed under these programs has been weaker than for those financed conventionally.

While the annual growth of mortgage credit has demonstrated the ability of savings institutions to support the expansion of the housing supply, an important part of the credit is flowing into the financing of existing houses. Even though a healthy condition in this market is essential to the housing industry, this use of credit intensifies the difficulties of obtaining sufficient financing to maintain an active demand for new houses.



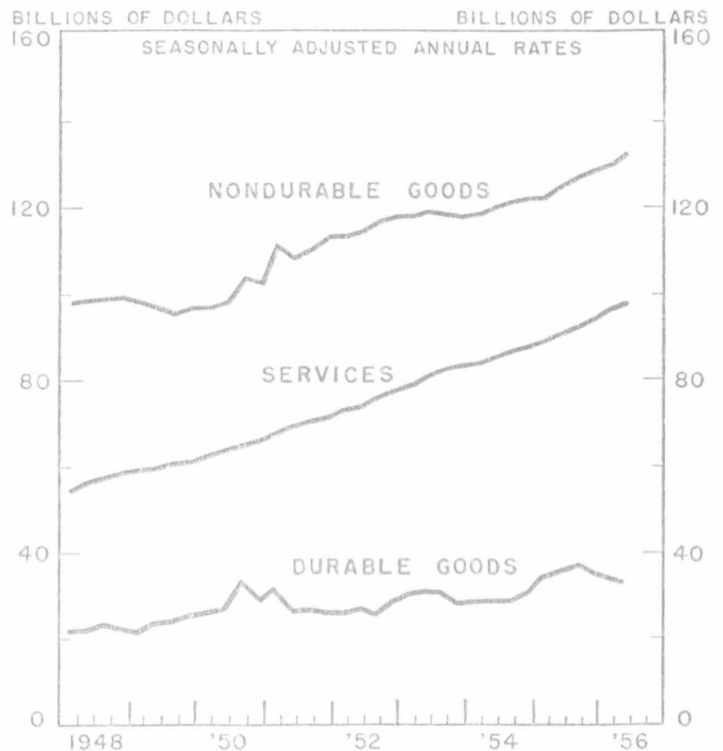
CONSUMER AND BUSINESS INVESTMENT

United States



PERSONAL CONSUMPTION EXPENDITURES

United States



BANKING IN THE TENTH DISTRICT

District and States	Loans		Deposits		August 1956 Percentage Change From				
	Reserve City Member Banks	Country Member Banks	Reserve City Member Banks	Country Member Banks	July 1956	Aug. 1955	July 1956	Aug. 1955	
	Tenth F. R. Dist.	-2	+7	0	+10	-2	-2	+1	0
	Colorado	-1	+16	0	+4	+1	-1	+1	-2
Kansas	0	+3	+3	+15	-1	-3	+1	0	
Missouri*	-2	+2	0	+7	-2	-2	0	+1	
Nebraska	-2	+8	0	+2	-1	-5	+1	-6	
New Mexico*	**	**	0	+18	**	**	-1	+3	
Oklahoma*	-3	+8	-2	+16	-5	+1	0	+5	
Wyoming	**	**	0	+6	**	**	+1	+4	

*Tenth District portion only.

**No reserve cities in this state.

PRICE INDEXES, UNITED STATES

Index	Aug. 1956	July 1956	Aug. 1955
Consumer Price Index (1947-49=100)	116.8	117.0	114.5
Wholesale Price Index (1947-49=100)	114.6	114.0	110.9
Prices Rec'd by Farmers (1910-14=100)	237	244	232 r
Prices Paid by Farmers (1910-14=100)	288	287	280 r

r Revised.

TENTH DISTRICT BUSINESS INDICATORS

District and Principal Metropolitan Areas	Value of Check Payments		Value of Department Store Sales		*Value of Residential Building Permits	
	Percentage change—1956 from 1955					
	Aug.	Year to date	Aug.	Year to date	Aug.	Year to date
Tenth F. R. Dist.	+3	+6	+6	+3	-6	-30
Denver	+9	+10	+9	+8	-14	-40
Wichita	-1	-1	+4	+2	-8	-43
Kansas City	-2	+4	+2†	-1†	+114‡	-7‡
Omaha	-2	+2	-3	-3	+106	+48
Okla. City	+13	+8	+5	+5	-18	-38
Tulsa	+4	+9	+8	+5	-25	-25

*City only.

†Kansas City, Mo., only.

‡Kansas City, Mo., and Kans.

