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Federal Influence on the Urban Residential Mortgage Market

HOME OWNERSHIP has increased rapidly since 1940, influenced in part by the change in financing techniques stimulated by Federal legislation.

Starting in the 1930's the Federal Government established (1) the Federal Home Loan Bank System for relief to lenders, (2) the HOLC (now liquidated) for direct relief to borrowers, (3) the FHA to insure mortgage loans, (4) the Federal National Mortgage Association as a secondary purchaser of FHA-insured mortgages and, somewhat later, (5) the public housing program.

During World War II the major Federal housing agencies were combined, and veterans' guaranteed loans were inaugurated.

The impact of Federal credit aids on mortgage financing has been sizable, with the FHA and VA programs particularly effective. Although fluctuations in market interest rates after mid-1947 adversely affected the volume of these loans, advance commitments by "Fanny May" to purchase VA loans offset the effects of rising rates.

The volume of FHA and VA loans was further affected by anti-inflationary home financing measures in 1950, and, significantly, by the firming of Government bond yields since March, 1951. The rise in market interest rates was partially offset by builder and lender absorption of discounts, and by raising VA and FHA loan rates.

After Congressional hearings, the Federal program was modified again in July, 1953, to (1) expand the role of "Fanny May," (2) authorize builders and some sellers to absorb (but not to pass on) the full discount on FHA and VA loans, and (3) give the President discretionary authority to raise FHA loan-to-value ratios, in order to assure a free flow of funds to the nation's mortgage markets.

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Home ownership has increased rapidly since 1940, . . .

MORE AND MORE AMERICANS are living in homes they own. The census of 1950 was the first decennial census to show over 50 per cent owner occupancy of nonfarm dwellings. During the decade of the '40's the number of owner-occupied urban units rose by over 70 per cent, and since the years immediately preceding World War II the proportion of total consumer spending for the acquisition of homes has roughly doubled. The increase in owner occupancy took a substantial jump in 1950, though since early 1951 the proportion owning homes has remained at about 54 per cent.

The rise in owner occupancy is the result of many forces of which two are predominant. A major factor has been the long period of sustained high levels of income with accompanying large increases in liquid asset holdings and distribution changes in favor of lower-income groups. No less important has been the availability for urban real-estate financing of continuing supplies of credit on moderate terms. Urban mortgage debt has more than trebled since the end of 1945; today it stands at approximately $61.5 billion.

. . . influenced in part by the change in financing techniques . . .

Under pre-1933 financing methods such an increase in home ownership would have been improbable. Through the 1920's the typical mortgage loan was short-term, running three, five, or at most ten years. Maximum loans were limited to 50, 60, or 66-2/3 per cent of appraised values with the result that high-interest second and even third mortgages were common. Although there was some experimentation with amortized mortgages, particularly by savings and loan associations, lump-sum payments or partial amortization with "balloon" payments at maturity were the rule. Interest rates on first mortgages were high, ranging on most loans from six per cent in the money centers of the East to eight per cent in the South, the Southwest, and the West, and rates on second mortgages were considerably more. Such charges were in part the result of the uninsured risk inherent in loans to individuals; in part they reflected the absence of a steady national market for mortgages and the lack of institutions which could assist lending firms to meet withdrawal of investors' funds in times of economic stress.

. . . stimulated by Federal legislation.

In a rapidly expanding economy the weaknesses of the old mortgage instrument were apparent. During the 1920's there were sporadic attempts on the part of lending institutions and state governments to broaden the mortgage market and to moderate the terms on which home loans were made in most areas. None of these were effective, however, and it remained for the Federal Government to institute a program which would enable a large part of middle- and low-income families to enter the housing market. The effects of Federal housing legislation cannot be precisely measured, but, by aiding the flow of credit available to borrowers at low interest rates and on a monthly amortization basis, aggregate demand for housing has been greater than it otherwise would have been.

The focus of this article is on Federal influence on urban real-estate lending during the last few years. Understanding and clarification of present problems will be aided by a brief review of the origin of Federal activity in urban residential finance.

Starting in the 1930's the Federal Government established (1) the Federal Home Loan Bank System for relief to lenders, . . .

The Federal housing program had its inception during the grinding deflation of the Great Depression. As in so much of the legislation of the 1930's the laws affecting urban mortgage financing mixed the motives of "relief, recovery, and reform."

Relief came first. With foreclosures rife during the early '30's, steps were taken to aid (1) the institutions which had committed a good portion of their assets to urban mortgages, and (2) the mortgagors who were losing their homes at an unbelievably high rate.

To help the home lending institutions Congress created the Federal Home Loan Bank System, which included eleven regional banks and their member institutions under the supervision of a Home Loan Bank Board. Membership was open to all qualified institutional lenders, including savings banks and insurance companies, but in practice the savings and loan associations have constituted by far the greater part of the membership. The chief function of the Home Loan Banks was to lend money to member institutions on the security of mortgages. Although Government contributions to the capital stock of the Federal Home Loan Banks furnished most of the initial capital, stock held by members grew rapidly in relative importance after World War II. During the first half of 1951 the Banks re-purchased the remaining Government-owned stock, and as of July 1, 1951, the capital stock of the Federal Home Loan Banks was entirely owned by member institutions.

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. . . (2) the HOLC (now liquidated) for direct relief to borrowers, . . .

In 1933 Congress came to the direct aid of home owners threatened with loss of their properties and further assisted lending institutions by creating the Home Owners Loan Corporation (HOLC), also under the supervision of the Home Loan Bank Board. Provision was made for direct loans to individuals about to lose their homes. These loans were for fifteen-year periods at an interest rate of 5 per cent and were to be amortized on a monthly basis. Making no new loans after June, 1936, the HOLC refinanced more than a million homes and disbursed nearly $3 billion in exchange for defaulted mortgages.

Other means of increasing the supply of funds available for mortgage lending were effected at about the same time. The act which established the HOLC also provided for the chartering of Federal savings and loan associations, and the Treasury was authorized to subscribe up to 50 per cent of the shares of any one association. In 1934 the Federal Savings and Loan Insurance Corporation was established with capital provided by the HOLC. The FSLIC received premium payments from member institutions and insured the accounts of shareholders up to $5,000 (later $10,000).

. . . (3) the FHA to insure mortgage loans, . . .

Early legislation made the Home Loan Bank Board the major agency for stimulating a flow of money into urban real estate finance. In 1934, with the creation of the Federal Housing Administration, emphasis changed from relief to recovery. To stimulate new lending a scheme of mortgage insurance was devised whereby private lending institutions could make first mortgage loans on one- to four-family dwellings and on large rental properties with substantially less risk than heretofore. A plan of insuring loans for repairs to real property, at first considered purely temporary, became a part of the permanent plan. Over the nineteen years of its existence the Federal Housing Administration has added considerably to the scope of its operations.

From the first the FHA was intended to insure mortgages with loan-to-value ratios as high as 80 per cent, low interest rates, and amortization over twenty years. In 1938, however, the FHA was permitted to insure up to 90 per cent of the appraised value of newly constructed homes which sold for $6,000 or less. In 1941 Congress passed Title VI of the National Housing Act to encourage house building in defense areas, and after the war low-priced housing under Title VI was made available to veterans of World War II. In addition, the Federal Housing Administration insured loans to finance low-cost housing, cooperative housing for rental or sale, rehabilitation rental housing, rental housing for military and atomic energy personnel, and programmed housing in designated critical defense areas. Thus, the accomplishment of social aims, such as securing inexpensive housing for veterans or for war workers and improving the quality of rental properties for the general populace, has become a part of the FHA concept.

. . . (4) the Federal National Mortgage Association as a secondary purchaser of FHA-insured mortgages, . . .

The National Housing Act of 1934, which established the Federal Housing Administration, also provided for privately owned national mortgage associations in order to create a secondary mortgage market on a national scale. No attempts were made under this early law to form such associations. In 1935 the RFC Mortgage Company, owned by the Reconstruction Finance Corporation, began the purchase of mortgages on urban commercial properties. Not until 1938, however, was legislation passed aimed at Government sponsorship of a secondary residential mortgage market. In that year the Federal National Mortgage Association (FNMA) was set up with RFC capital. Although FNMA —dubbed "Fanny May"—was not of major importance at the time of its establishment in 1938, it did furnish a market for FHA loans by buying them whenever and wherever private capital was unavailable and by selling them at a premium in certain areas at appropriate times. A decade later FNMA became a major influence in urban residential financing.

. . . and, somewhat later, (5) the public housing program.

From the beginning of the depression emergency there was considerable interest in the provision of low-rental housing to underprivileged families. So-called "public housing" began with efforts by the RFC and later by the Public Works Administration to make loans to private housing companies. When these attempts met with little success, another turn was taken to provide adequate dwellings for low-income groups. In 1937 the U. S. Housing Authority (USHA) began the practice of making loans to local public housing authorities established by municipalities. Through its public housing program the Government added reform to the earlier objectives of relief and recovery.

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During World War II the major Federal housing agencies were combined . . .

With the onset of World War II the necessity of providing houses for war workers superseded all other objectives. Government funds for wartime housing were appropriated directly, and private construction was financed through FHA under Title VI of the National Housing Act. In 1942 the major Federal housing agencies—the Federal Home Loan Bank Board, the Federal Housing Administration, and the Federal Public Housing Authority (formerly USHA)—were combined under the National Housing Agency. Its function was to centralize and coordinate, presumably for the duration of the war, the financing and construction of both public and private housing.

In 1947, under the President's Reorganization Plan No. 3 of that year, the first peacetime overall housing agency was created ". . . with the responsibility of coordinating the principal housing programs and functions of the Government, and of providing a focal point for cooperative effort by Government and private enterprise in solving housing problems."[1] At the outset the Housing and Home Finance Agency included the Office of the Administrator, the Home Loan Bank Board, the Federal Housing Administration, and the Public Housing Administration. The chief officers of the component agencies comprised an Executive Council; this group, with representatives from other interested agencies, made up the National Housing Council. In 1950 the Federal National Mortgage Association was transferred to the HHFA from RFC. The present composition of the Housing and Home Finance Agency is shown in the accompanying chart.

[1]*First Annual Report, Housing and Home Finance Agency,* 1947, p. 1-27.

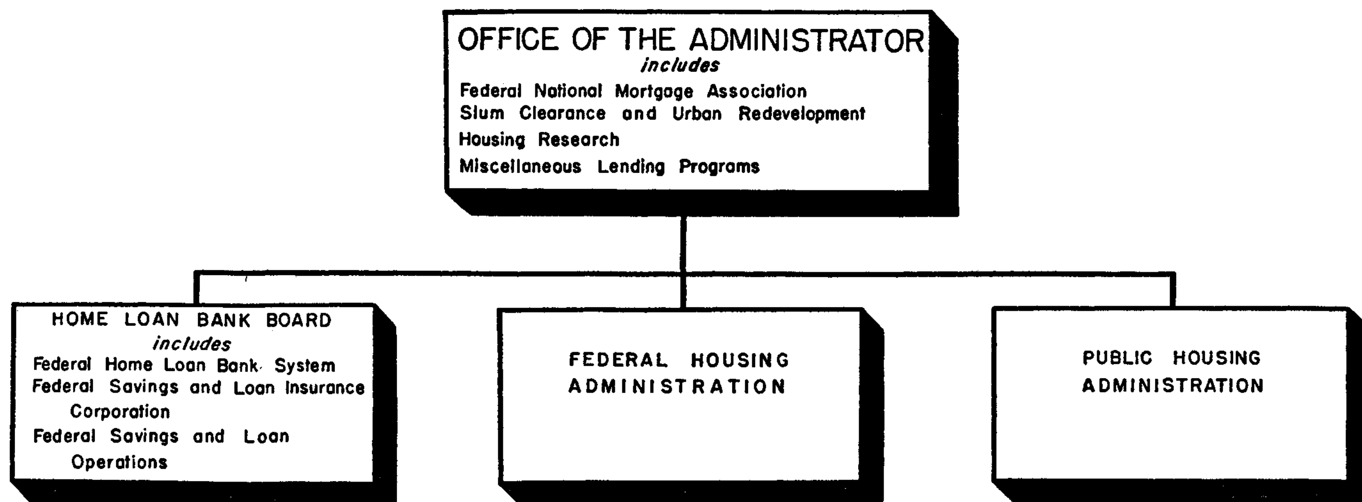
. . . and veterans' guaranteed loans were inaugurated.

Meanwhile, the Servicemen's Readjustment Act of 1944 made provision for the guarantee by the Veterans Administration of first and second mortgage loans made by private lenders to veterans for the purchase of homes. Under the original Act the Administrator of Veterans Affairs could guarantee 50 per cent of a loan up to a maximum of $2,000; in the next year the maximum guaranty was increased to $4,000. Under Section 505a of the original act it was possible to combine an FHA loan with a VA-guaranteed second mortgage for the down payment, and a veteran could finance a $20,000 home without any cash outlay. The combined FHA-VA loan was eliminated effective October 20, 1950. Thereafter, it was only possible to obtain a guarantee of 60 per cent of the value of a property to a maximum of $7,500.

With the concurrence of the Treasury, the Administrator of Veterans Affairs could, after August, 1948, permit an interest rate as high as 4½ per cent, but the rate was left at 4 per cent until quite recently. The guarantee, made incontestable in 1948, has meant a cash payment to the lender should a borrower default. In the event that it is necessary to foreclose on a property, the Veterans Administration, at its option, allows the lender to take the cash guarantee and keep title to the property or makes a cash settlement for the full amount of the indebtedness.[2]

[2]FHA loans are, of course, insured rather than guaranteed. In the event of default on payments on an FHA-insured loan, every effort is made to avert foreclosure. If such efforts fail, a mortgagee may, depending upon the conditions, retain title to the property or assign the mortgage to the FHA and receive debentures in return. The debentures issued under Section 203, which covers proposed or existing one-to-four-family dwellings, carry an interest rate of 3 per cent and mature three years after July 1 following the maturity date of the mortgage. Thus, mortgagees do not receive a cash payment in the event of default, though they may immediately dispose of their debentures in the market.

HOUSING AND HOME FINANCE AGENCY



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The impact of Federal credit aids on mortgage financing has been sizable . . .

Some notion of the impact of Federal credit aids on urban residential construction and finance during the past two decades is given by three indicators:

1. From 1935 through 1952 about 4¼ million new dwelling units were financed with mortgage loans insured by the FHA or guaranteed by the VA. This number represents about 40 per cent of all new dwelling units built during the period and equals more than one-half of the entire volume constructed during the 1920's. Of the 4¼ million new dwelling units nearly 3 million were financed with FHA and VA loans made during the seven postwar years 1946 to 1952.

2. Construction of privately financed rental units has become almost entirely dependent on FHA insurance, in recent years running to more than 90 per cent of all such units.

3. Although the proportion has been declining slightly during the last two years, not far from one-half of all residential mortgages held by institutions carry Government insurance or guarantee.

. . . with the FHA and VA programs particularly effective.

The outstanding fact of the Federal housing program in the post-World War II period has been the rapid growth of FHA and VA loans. A high rate of population increase, an even greater rate of family formation, and the restrictions on wartime building led to a tremendous demand for both new construction and existing dwellings. Institutional investors, after years of extremely low yields, were more than willing to meet the accompanying demand for funds to finance home purchases. It is estimated that nearly 90 per cent of the home mortgage debt now outstanding has been undertaken since the end of World War II and that approximately three-fourths of the debt has been incurred since the outbreak of the Korean conflict. The contribution of FHA insurance and VA guaranty to such an increase has been great indeed. In the postwar period the annual amounts of insured or guaranteed nonfarm mortgages of $20,000 or less built up rapidly to a peak of $5.6 billion in 1950, of which $4.7 billion was loans for new construction. This total figure was 34 per cent of the amount of nonfarm mortgage recordings of $20,000 or less for that year. In 1951 both the dollar and percentage figures remained approximately the same. The data for 1952 showed a sharp reduction in Federally underwritten loans, these loans falling from one-third of nonfarm mortgage recordings of $20,000 or less in 1951 to about one-fourth in 1952. Beginning in mid-1952 and continuing through the first half of 1953, VA and FHA loans have risen somewhat but are still well below earlier high levels.

Although fluctuations in market interest rates after mid-1947 adversely affected the volume of these loans, . . .

During most of the postwar period the rise in the general pattern of interest rates has been a force operating to restrict FHA and VA financing. Although interest rates on loans insured by the FHA and guaranteed by the VA have been permissibly flexible within narrow limits, they have in practice tended to be rigid, for officials of both the Veterans Administration and the Federal Housing Administration have been understandably reluctant to raise the financing charges for housing under their control. Thus, fluctuations in the market rate of interest have had a pronounced impact on the volume of loans made under these programs.

No set rules may be laid down regarding the spread required by institutional investors, particularly insurance companies and mutual savings banks, between the yields on long-term Government bonds and mortgages. According to informed sources the cost of servicing loans, home-office expenses, and risk considerations appear, however, to make a differential net yield of from 1.25 to 1.50 percentage points necessary. VA loans have been particularly sensitive to changes in the prices of other securities. When the VA program became important in 1946, yields on long-term Government bonds were at an all-time low of approximately 2.15 per cent. VA mortgages at 4 per cent and FHA's at 4.25 per cent were attractive then, but as yields on long-term Government bonds rose beginning in mid-1947 there was a marked falling off in VA home loans.

. . . advance commitments by "Fanny May" to purchase VA loans offset the effects of rising rates.

As the supply of funds for VA loans threatened to dry up, the Federal National Mortgage Association was authorized, beginning July 1, 1948, to purchase VA as well as FHA mortgages. Limited at first to the purchase of 25 per cent of the eligible mortgages of a lender, FNMA was given authority to purchase 50 per cent of such eligible mortgages in August, 1948, and 100 per cent in October, 1949. Further, FNMA had authority to issue advance commitments whereby lenders could make loans to builders secure in the knowledge that the mortgages could be sold at par when construction was completed. These commitments, which enabled mortgage lenders to originate FHA and VA loans with the intention of selling them immediately to

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FNMA, were made until the end of March, 1950. The dollar volume of VA and FHA loans continued to rise on into early 1951, at which time the commitments began to run out. Thus, for a period of nearly three years FNMA in effect ceased to be a secondary market facility and became a primary supplier of funds. From 1948 through 1951 FNMA purchased nearly $2.7 billion of Government insured or guaranteed loans while selling some $600 million. On balance, then, a little over $2 billion was put into the urban residential market in less than three years. Such purchases, combined with an easing of interest rates during 1949, were among the factors that led to the unprecedented building activity of 1950. At the end of the latter year FNMA held an estimated 11 per cent of all VA loans outstanding.

The volume of FHA and VA loans was further affected by anti-inflationary home financing measures in 1950 . . .

Meanwhile, another factor had become influential on lending activity. In the fall of 1950 the Board of Governors of the Federal Reserve System imposed Regulation X, raising down payments and limiting maturities on conventional loans. FHA loans, which had been under administrative credit controls since mid-year, immediately went on the same basis; terms on VA loans were tightened but remained substantially more moderate than those on FHA and conventional loans These restrictions unquestionably affected both lending and construction activity in 1951 and 1952, but to a large extent the high and rising level of the national income mitigated the effects of the Regulation.

. . . and, significantly, by the firming of Government bond yields since March, 1951.

More important as an influence on Federally insured and guaranteed mortgages was the sharp firming of yields on long-term Government securities which followed the Treasury-Federal Reserve accord of March, 1951. Institutional investors, especially insurance companies, which had been shifting out of these securities at or above par to purchase urban mortgages, found it unprofitable to do so as bond prices fell. Too, with the decline in the prices of high-grade corporates their yields made them more attractive than mortgages. During the summer following the accord, prices of both FHA and VA mortgages dropped below par in the secondary markets throughout the country. Because of a somewhat higher interest rate and greater familiarity to the investing public, FHA mortgages were sold less consistently at discounts than were VA mortgages, and the discounts were smaller. In late 1951 and at the beginning of 1952 there was a moderate recovery in the sale prices of these mortgages, followed by a further gradual decline in prices beginning in the spring of 1952 and continuing for about a year. By early 1953 discounts had become substantial. FHA mortgages were selling at prices ranging down to 97 and VA's at prices ranging down to 90 or even below. Discounts were not uniform throughout the country, tending to be greatest in the Southwest and Pacific Coast areas.

In most sections of the country, during 1952, mortgage companies and correspondents of life insurance companies and mutual savings banks bought mortgages on a reduced scale, if at all, and then on a basis of working in conventionals with VA and FHA loans in a "package" deal to secure somewhat higher average yields. Local lenders continued to make VA and FHA loans for their own portfolios, but these, by and large, were made on a highly selective basis, either to prime risks or for the accommodation of favored customers. The result was a substantial drop for 1952 in the proportions of total recordings accounted for by VA loans. VA mortgages, which constituted 22 per cent of total recordings in 1951, dropped to 15 per cent of the total in 1952. FHA loans fell only moderately from a 1951 figure of 12 per cent of total recordings to 11 per cent in 1952.[3] Yet despite the proportional reduction in loans insured and guaranteed by the Government during 1952, the yearly total of nonfarm mortgage recordings on one-to-four family dwellings rose to an all time high of $18 billion. Conventional loans, made usually at interest rates of 5 or 5½ per cent, had more than taken up the slack.

Beginning in the early months of 1953 complaints were forthcoming from builders and would-be home-purchasers throughout the country that VA and FHA loans were not available. Actually, for the first half of 1953 VA and FHA shares of total recordings showed gains over the first half of 1952. Those who complained about the scarcity of mortgage money contended that, because of the lag between application dates and the dates of insurance commitments or guarantees, the slackening of the flow of money for VA and FHA loans will be reflected in recordings figures for the later months of 1953. FHA applications for April were at the highest point since October, 1950, and VA appraisal requests for May were higher than for any month since the fall of 1950, but in June applications decreased and in July dropped further.

[3]In 1949 FHA loans had constituted 19 per cent of total recordings. In 1950 the proportion dropped to 15 per cent, even though the dollar volume of FHA recordings was in that year at an all-time high of nearly $2½ billion.

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The rise in market interest rates was partially offset by builder and lender absorption of discounts . . .

Notwithstanding the factors noted which adversely affected VA and FHA loan volumes, especially since early 1951, substantial amounts of money have been available for Federally underwritten loans during the past two years, partly because ways were devised of enabling an original lender of funds to sell his paper without loss if he chose not to hold it to maturity. Almost universally for VA loans the practice grew up of obtaining from the builder of a house a sufficient sum to assure reimbursement to the original lender for any loss incurred in selling the mortgage below par. There was never any question, of course, as to whether or not a lender could sell VA or FHA paper at a discount, for these mortgages have always been assignable. The question lay in the legality of obtaining from a builder enough points to compensate for the discount at which the mortgage was sold. Section 504 of the Housing Act of 1950 had required the Federal Housing Commissioner and the Administrator of Veterans' Affairs to issue such regulations as they deemed desirable ". . . for the purpose of limiting the charges and fees imposed upon the builder, veteran, or other purchaser in connection with the financing of the construction or sale of such housing . . ." Both the FHA and the VA issued regulations which, in general, prohibited a charge on the builder of more than 2½ per cent of his construction loan plus 5 per cent simple interest on construction funds actually advanced, but various ways of circumventing the provisions of the Veterans Administration were found.[4] Apprehension grew that builders, who in effect were guaranteeing par paper to lenders, were in fact passing the added charges on to the buyers. Except in areas where builders had unusually high mark-ups this fear was probably well grounded. On May 18, 1953, by a regulation which raised a storm of protest, the Veterans Administration attempted to remove all possibility of circumvention by requiring builders to certify that they had not paid or absorbed in any way fees and charges other than those expressly authorized.

. . . and by raising VA and FHA loan rates.

Meanwhile, members of Congress became concerned over reports from constituents of the failure of FHA and VA rates to be effective in the sense of bringing forth an adequate supply of funds. Only administrative action was needed to increase the interest charges on insured and guaranteed loans. After several months of discussion the rates were raised, effective during the first week of May, 1953, from 4 to 4½ per cent for VA loans and from 4¼ to 4½ per cent for most FHA loans. Although it had been generally argued that an increase in rates would bring these mortgages back to par, the effect of the change has not been as great as anticipated. As the debate over raising rates went on during the first months of the year, yields on intermediate and long-term securities were rising about one-half of one percentage point on the average. As of mid-August, 1953, VA and FHA mortgages carrying the old rates remained at substantial discounts. Those issued at the new 4½ per cent rates ranged generally from par down to 98 or 97 and even lower in some sections and in outlying areas. VA loans continued a little weaker than FHA's.

After Congressional hearings, the Federal program was modified again in July, 1953, to (1) expand the role of "Fanny May," . . .

The uncertain mortgage situation of late May and early June led to Congressional hearings on the subject of urban mortgage lending. On June 30, 1953, certain amendments to the Housing Act, intended to assure a free flow of funds into the mortgage market, were approved. The provisions which in the long-run seem likely to be most significant are the following:

(1) The Federal National Mortgage Association has been given a new role. Since 1950 the purchasing authority of FNMA has been increased from $2.75 billion to $3.65 billion, but mortgages other than defense and disaster mortgages have continued within the $2.75 billion limitation. Purchases of FHA and VA mortgages have been on an over-the-counter—i.e., non-commitment—basis and have been in limited amounts from originating lenders only. Under the recent legislation purchases of VA and FHA mortgages will be permitted under a one-for-one purchase and sale provision. By this plan FNMA will sell mortgages which it presently holds at prices ranging from 96 to par, depending upon the rate which the paper bears, at the same time issuing a commitment to the purchaser to buy, within a year and at par, an equivalent dollar amount of FHA and VA mortgages bearing the recently authorized higher interest rates. Purchasers who want FNMA commitments will be charged a 1 per cent commitment fee and a further ½ of 1 per cent service charge when new mortgages are sold as much as a year later. FNMA continues to purchase mortgages on defense, disaster, and military housing both on an over-the-counter and on a commitment basis.

[4] FHA was adamant in its refusal to permit the collection of more than the authorized fees. However, the authorized fees, plus commissions on insurance and the interest received by a lender for construction loans, enabled many lenders to absorb the smaller discounts at which FHA loans were selling and come out whole.

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Advocates of the one-for-one plan of FNMA operation were enthusiastic about it. What the plan provides is a Government-assured take-out, at par, for lenders to builders undertaking new construction. Suppose that a mortgage broker or other temporary lender wishes to finance a builder but is reluctant to do so because of the uncertainty of the market. If he today purchases mortgages from FNMA, for which he pays, say, $500,000, he may obtain a commitment from FNMA to purchase an equal dollar value of mortgages within one year of the date of the contract. The lender, who has previously found a buyer, sells the purchased mortgages at once so that he regains his funds immediately. At a cost of 1½ points, or more if the mortgages purchased from Fanny May are sold at a further discount, the lender is assured of selling the mortgages which will result some months hence from his builder's activity. Lending to builders is presumably stimulated, and FNMA's mortgage holdings become a revolving fund obviating further Government appropriations.

. . . (2) authorize builders and some sellers to absorb (but not to pass on) the full discount on FHA and VA loans . . .

(2) Henceforth, the originating lender on either an FHA or a VA mortgage may get any number of points from the builder to assure himself par paper. (On VA loans the rule also applies to the *seller* of *existing* property; so far it does not apply to the seller of existing property in the case of FHA loans.) The law provides that such charges paid by a builder (or seller) shall not be passed on to the mortgagor-buyer. Thus if a lender originating loans to a builder sells the mortgages to a permanent investor for, say, 96, he may require the builder to reimburse him for the discount of 4 points involved in the sale of the mortgages. Furthermore, if the originating lender had to pay a "take-out" commitment fee of one point to the permanent investor, that point may be obtained from the builder. If, however, after obtaining a take-out commitment at 96 the original lender sells the mortgages for 98, he can require the builder to reimburse him only for the actual discount plus the commitment fee. The details of the transaction must be reported to the guaranteeing or insuring authority.

Authorized builder absorption of secondary market discounts, by allowing whatever yields the market demands, should result in a greater flow of funds to these mortgages. A special virtue of such a discount system is the geographical variance of yields which it permits. But this rule will not modify the tightness of the general mortgage market, and it is a question whether the same end might not have been better achieved by allowing another ½ of 1 per cent increase in the rate on VA and FHA loans.[5] For the discount system, which assures competitive yields to ultimate holders, assures them at a cost to someone. It is unlikely that builders (or sellers) will pay substantial discounts without ultimately raising the price of the product. Some mortgagor-purchasers will have the protection of the VA Certificate of Reasonable Value, since a home sold at a price over "reasonable value" is not eligible for a loan. The FHA, however, does not limit sale price but only limits, by its appraisal, the insurable amount. A possible outcome is that VA loans will decline as builders turn to FHA financing, which places no ceiling on selling prices. Those who are interested in maintaining long-run, enthusiastic acceptance of the FHA program look with some misgivings on the administrative difficulties and embarrassments which may result.

. . . and (3) give the President discretionary authority to raise FHA loan-to-value ratios, . . .

(3) Authority was given the President to increase, at his discretion, the loan-to-value ratios on FHA-insured loans. Where the mortgagor is the owner-occupant and approval for mortgage insurance is obtained before construction begins, a ratio as high as 95 per cent may be authorized on mortgage amounts not exceeding $12,000. This legislation, vigorously supported by the National Association of Home Builders, is intended for use should a downturn in housing starts appear likely. It should be stressed that the lower down payments are not to be effective until the President declares them to be.

Because of the time required for preparing the necessary rules and regulations, the Housing Amendments of 1953 did not all become effective until mid-July or later. It is therefore too early to report fully on the effects of the legislation on the availability of money for FHA-insured and VA-guaranteed mortgages. One result is presently indicated, however. There has been difficulty in the use of the one-for-one plan of FNMA for the reason that the selling prices have been set too high. FNMA will sell 4 per cent mortgages at 96, 4¼ per cent mortgages at 97½, and 4½ per cent paper at par. But in August the 4 per cent mortgages were selling in the open market at from 91 to 93, and the other paper at below the Fanny May selling rates. Thus, in addition to the commitment fee and service charge, prospective lenders have to

[5]Among lenders there is strong support for simply removing the maximum interest-rate provisions and allowing competition among lenders to assure a reasonable rate.

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take a loss of several points on the mortgage when it is sold. This makes the "take-out" quite expensive, and so far the volume of commitments sought from FNMA has not been very large.

. . . in order to assure a free flow of funds to the nation's mortgage markets.

Congress has thus tried to maintain a flow of funds to mortgagor-purchasers who qualify for FHA and VA loans while preserving for these buyers certain advantages over conventional loans. The attempt has been made without resort to devices such as unlimited purchasing authorization to FNMA or an extension of the now very limited authority of the Veterans Administration to lend directly to veterans—both of which involve Government entry into the market. Should the downward drift in market yields which has been going on since mid-June persist, the recent steps may prove sufficient to assure plentiful funds at the present maximum rates. As of mid-August, however, money for Federally underwritten mortgages was generally reported inadequate throughout the country, including Eighth District cities. Although the supply of conventional money varied among cities in the Eighth District, largely because of traditional differences in the willingness of individuals to invest in mortgage instruments, the availability of funds for conventional mortgages was in August generally satisfactory as it was for the United States as a whole.

One thing is certain. There is no disposition on the part of private interests or Government officials to effect a serious withdrawal of the Federal Government from the urban mortgage market. In the event of a downturn in economic activity prompt action by Governmental agencies to stimulate the construction industry may be expected, as is evidenced by the "standby" authority recently given the President to lower down payments. A review of the extensive Congressional hearings, held on housing matters over the past two years, reveals universally sympathetic attitudes on the part of Congressmen toward the problems of home-seekers. Such attitudes indicate that present uncertainty is but a passing phase in the evolution of a Federal program which has by now become a permanent part of the structure of the American economy.

Ross M. Robertson

Survey of Current Conditions

BUSINESS ACTIVITY in the Eighth District fell off somewhat during July from the high rate of earlier months as strikes and plant-wide vacations interrupted operations. Construction activity and department store trade declined more than seasonally. Industrial operations, however, declined about the usual amount and employment in the district's major areas continued close to the level of June. Agricultural prospects improved in areas where the drouth was relieved by the scattered rains in the last half of July and early August. To finance operations and inventories for the fall season, business loans expanded more than seasonally during July.

By mid-August, available indicators showed some recovery from July. Industrial operations increased, construction activity picked up after the strike settlement in St. Louis, and preliminary trade reports indicated a continuing high rate of consumer spending. Department store sales in the first three weeks of August were nearly equal to the advanced level in the same period a year earlier and automobile sales showed some strength.

Activity in the nation was at a high rate during July, but showed some of the same movements noticeable in the district. On the one hand, nonfarm employment was greater than during any July on record. Total personal income continued to increase as gradually rising pay scales combined with the record employment more than offset income declines in the farm sector. Industrial activity continued at a high rate, after allowance for seasonal slackening. And although consumer purchasing at department stores declined more than usual in July, in the first half of August it equaled the rate of a year earlier. On the other hand, construction activity expanded less than seasonally and the number of nonfarm houses started in July was off slightly more than the usual amount. Steel mills, in contrast to early 1953, continued operations below capacity rates in July and the first half of August. Automobile and truck output was at near-peak rates in July but fell off somewhat in August.

Wholesale price averages fluctuated within a narrow range between mid-July and mid-August, reflecting primarily price movements in farm products and processed foods.

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CONSUMER PRICE INDEX

Bureau of Labor Statistics (1947-49=100)	July,'53	June,'53	July,'52	July, 1953 compared with June,'53	July,'52
United States	114.7	114.5	114.1	-0-%	+ 1%

RETAIL FOOD

Bureau of Labor Statistics (1947-49=100)	July,'53	June,'53	July,'52	July, 1953 compared with June,'53	July,'52
U. S. (51 cities)	113.8	113.7	116.3	-0-%	— 2%
St. Louis	116.6	115.0	118.8	+1	— 2

WHOLESALE PRICES IN THE UNITED STATES

Bureau of Labor Statistics (1947-49=100)	July,'53	June,'53	July,'52	July, 1953 compared with June,'53	July,'52
All Commodities	110.9	109.4	111.8	+1%	— 1%
Farm Products	97.9	95.3	110.2	+3	— 11
Foods	105.5	103.3	110.0	+2	— 4
Other	114.8	113.8	112.5	+1	+ 2

Employment

A slackening of demand in two of the district's major labor market areas marked July developments in employment. In addition, construction employment in the St. Louis area continued low until a twelve week strike was ended on August 12. Elsewhere in the district, developments were more moderate.

In Evansville, the refrigerator industry, which dominates the economy, cut employment by 20 per cent in May and June. In Paducah, Kentucky, the slump in employment continued through July, due largely to layoffs from the construction of the nearby AEC plant. To these reductions, strikes and vacation shutdowns added to the increase in unemployment. As a result of the cutbacks in these two areas, the labor situation eased somewhat. In July, both areas shifted from the category of a balanced labor supply to one of moderate labor surplus.

In the St. Louis metropolitan area, nonfarm employment decreased from mid-June to mid-July, largely due to plant-wide vacation shutdowns. Construction employment, which had dropped by 8,000 from May to June due to the strikes, increased by about 1,700 in the following month. After the strike settlement on August 12, construction employment recovered to near pre-strike levels, but remained less than a year earlier.

In the Louisville metropolitan area, nonfarm employment continued to increase from June to July when an estimated 237,500 were at work. Most of the increase from June was the result of greater employment in ordnance, chemical, and electrical appliance plants and seasonal increases in food processing and woodworking activities.

Employment in nonagricultural establishments in the nation as of mid-July remained virtually unchanged from a month earlier at 49.4 million, in contrast to a usual decline. In comparison with a year earlier, nonfarm employment was 2.3 million greater. More than one-third of the increase reflected the low level of a year earlier when a nation-wide steel strike was in progress. However, higher demand for goods and services led to increased employment in most types of business.

Unemployment in the nation remained low in July with only 1.5 million persons (2.4 per cent of the civilian labor force) in the jobless category.

Industry

The production of factories in the Eighth District in July reflected vacation shutdowns and strikes, yet remained at levels well above a year ago when effects of the steel strike were felt. In early August, some weekly indicators advanced from those of July.

Manufacturing—Reductions—mainly seasonal—from a month earlier in use of electric power ranged from 5 to 11 per cent in the textile, electrical machinery, chemical and paper and allied products industries. Several industrial groups, such as shoe, stone-clay-glass, food and transportation equipment manufacturers, increased their consumption of power over the June rate. With only a few exceptions, energy use ran far above strike-affected July, 1952.

CONSUMPTION OF ELECTRICITY—DAILY AVERAGE*

(K.W.H. in thous.)	July 1953 K.W.H	June 1953 K.W.H.	July 1952 K.W.H.	July, 1953 compared with June,'53	July,'52
Evansville	991	981	834	+ 1%	+19%
Little Rock	122	144	125	—15	— 2
Louisville	4,228	4,419	3,717	— 4	+14
Memphis	1,390	1,621	1,121	—14	+24
Pine Bluff	432	603	321	—28	+35
St. Louis	4,898	5,266	4,432	— 7	+11
Totals	12,061	13,034	10,550	— 8%	+14%

*Selected Manufacturing firms.

LOADS INTERCHANGED FOR 25 RAILROADS AT ST. LOUIS

July,'53	June,'53	July,'52	Aug.,'53	Aug.,'52	7 mos. '53	7 mos. '52
113,926	110,795	108,461	31,800	33,393	685,251	660,081

Source: Terminal Railroad Association of St. Louis.

CRUDE OIL PRODUCTION—DAILY AVERAGE

(In thousands of bbls.)	July 1953	June 1953	July 1952	July, 1953 compared with June,'53	July,'52
Arkansas	76.8	77.1	76.6	-0-%	-0-%
Illinois	158.9	161.1	165.1	— 1	— 4
Indiana	35.0	35.8	32.5	— 2	+ 8
Kentucky	30.4	30.4	33.5	-0-	— 9
Total	301.1	304.4	307.7	— 1%	— 2%

COAL PRODUCTION INDEX
1935-39=100

Unadjusted July, '53	June,'53	July, '52	Adjusted July, '53	June,'53	July, '52
109.6 P	118.0	95.4	124.5 P	125.5	108.4

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Steel ingot production in the St. Louis area rose from 94 per cent of capacity in July to 100 per cent in the first three weeks of August.

Southern pine output in July was at an average weekly rate 4 per cent below June, but 2 per cent above July, 1952. Southern hardwood producers operated at a rate 9 per cent better than in June and 8 per cent better than a year ago. While production was running somewhat ahead of orders, lumber stocks were reportedly moderate.

The number of livestock slaughtered in the St. Louis area dropped 13 per cent in July from June, but was 10 per cent above July, 1952.

Whiskey production improved somewhat with 33 Kentucky distilleries in operation at the end of July compared with 24 at the end of June and only 12 on July 31, 1952.

Coal and oil production—Coal and crude oil production remained at practically the same level as a month earlier. The July coal output was about a sixth larger than a year ago, however, when production was unusually low.

Construction

Value of construction activity in the nation increased less than seasonally from June to July, but was at a new monthly peak of almost $3.3 billion in July, 2 per cent above that for June, and 8 per cent above that of July, 1952.

In the first seven months of 1953 total expenditures amounted to $19.3 billion, 8 per cent more than in the same period last year. However, increased costs have accounted for most of the gain; physical volume has increased only slightly. Public utility, commercial, educational, and residential construction have set new records so far this year for value of construction put in place.

In addition to the less than seasonal expansion in construction activity, new housing starts declined from 103,000 in June to 96,000 in July, a slightly more than seasonal drop.

Although construction in the nation as a whole was breaking records, construction activity in the Eighth Federal Reserve District in July and early August was below the high rates reached in 1951 and 1952. The reduction in activity was indicated by lower construction employment in a number of district areas.

Completion of portions of the Atomic Energy Commission plant near Paducah has reduced activity there. Furthermore, the work remaining to be done before the December 1954 scheduled completion date of the plant will require a smaller force than was employed last year. Two large power plants being built to supply the AEC plant have been partially completed. Work on one of them, the Electric Energy, Inc., plant at Joppa, Illinois, was halted July 30 for a short period in order to reorganize the work under a new contractor.

In St. Louis a series of work stoppages, one of them lasting from May 19 to August 12, slowed construction of many projects and virtually halted new work. Even before the strike, activity in some types of construction had been slower than a year earlier. Arkansas construction employment was down about 20 per cent from its 1952 level, and Memphis construction employment was off approximately 7 per cent. In the first half of this year the Louisville area was a bright spot in the construction picture with employment about one-fifth greater than a year ago. However, approximately 450 construction workers were released recently in the New Albany sector of the Louisville area, and further major declines are expected in the next few months.

Construction contract awards do not indicate any major increase in Eighth District construction activity in the near future. In the nation, record activity this year was accompanied by contract awards in the first seven months which were 5 per cent larger than for the same period of 1952. In the Eighth District, on the other hand, awards in the period totaled $611 million, or 14 per cent less than in the comparable months of 1952. Declines in awards for the first seven months in St. Louis and Louisville, as shown by the table, considerably outweighed the increases in other metropolitan areas.

TOTAL CONSTRUCTION CONTRACTS AWARDED FIRST SEVEN MONTHS

(Dollar amounts in millions)

	1953	1952	Per cent change
United States total	$9,701.2	$9,269.9	+ 5
Eighth District total	610.8P	713.0	— 14
Non-metropolitan areas	318.9	339.6	— 6
Metropolitan areas			
St. Louis	136.3	219.7	— 38
Louisville	58.8	75.8	— 23
Memphis	66.8	59.6	+ 12
Little Rock	11.7	10.8	+ 8
Evansville	18.3	7.5	+144

P—Preliminary.
Source: F. W. Dodge Corporation.

BUILDING PERMITS

Month of July, 1953

(Cost in thousands)	New Construction				Repairs, etc.			
	Number		Cost		Number		Cost	
	1953	1952	1953	1952	1953	1952	1953	1952
Evansville	88	107	$ 4,063	$ 242	96	99	$ 58	$ 116
Little Rock	46	52	961	438	243	206	353	247
Louisville	172	177	1,062	968	118	87	196	194
Memphis	1,674	1,985	2,433	4,196	274	204	209	299
St. Louis	213	267	4,264	20,696	377	329	509	1,180
July Totals	2,193	2,588	$12,783	$26,540	1,108	925	$1,325	$2,036
June Totals	2,387	2,047	$ 8,839	$ 6,445	964	917	$1,424	$1,916

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Trade

Retail sales during July, like everything else, wilted under the hot summer's sun as volume dropped seasonally below that in June. But in comparison to the relatively low level of sales in July 1952, some lines registered gains. While there were indications that sales of new automobiles compared favorably with those in 1952, used car sales were at a lower level. The rate of sales in early August was reported to be somewhat ahead of July. The used car market showed signs of firming and sales of some makes of new cars were larger than a year ago. In nondurables lines, seasonal promotions in the first half of August were moderately successful.

Sales at department stores in the Eighth District dropped more than seasonally from the advanced level in June. The index of daily sales for July, adjusted for seasonal variation, averaged 107 per cent of the 1947-1949 base period, compared with 122 per cent in June and 104 per cent in July 1952. For the first seven months of 1953 district sales totaled 4 per cent larger than for the same period a year ago. In major district shopping areas, cumulative sales experience from 1952 ranged from equal to last year at Fort Smith to an increase of 14 per cent in Evansville. At mid-August preliminary reports indicated that the cumulative rate of gain from 1952 would be maintained in the month.

Specialty store sales during July dropped substantially below those in June. In comparison to July 1952 women's specialty sales were somewhat larger, while men's wear store sales were about equal to those a year ago.

District furniture store sales during July dropped below those in both the previous month and in July 1952. In a few communities throughout the district, increased sales activity of television receivers was noted as new television stations began broadcasting and the power of some existing stations was stepped up.

Inventories held by reporting retail lines on July 31 were at about the same level as on June 30, except at women's specialty stores where they dropped sharply. Inventories this year were at a higher level than a year earlier. Reflecting a cautious attitude toward the future sales level, department stores reported outstanding orders substantially less than either a month earlier or for the same period a year ago.

DEPARTMENT STORES

	Net Sales July, 1953 compared with		Net Sales	Stocks on Hand	Stock Turnover Jan. 1 to July 31,	
	June,'53	July,'52	7 mos. '53 to same period'52	July 31, '53 comp. with July 31,'52	1953	1952
8th F.R. Dist. Total	—22%	+ 2%	+ 4%	+14%	1.99	2.08
Ft. Smith Area, Ark.[1,2]	—13	— 3	-0-	+12	1.92	1.94
Little Rock Area, Ark.[2]	—15	— 3	+ 1	+12	1.87	2.05
Quincy, Ill.	—23	— 2	+ 1	+15	1.91	2.09
Evansville Area, Ind.[2]	—19	+ 5	+14	....	......	......
Louisville Area, Ky., Ind.[2]	—23	+ 1	+ 3	+ 5	2.12	2.20
St. Louis Area, Mo., Ill.[2]	—25	+ 5	+ 5	+18	2.00	2.05
Springfield Area, Mo.[2]	—19	— 1	+ 2	+14	1.76	1.89
Memphis Area, Tenn.[2]	—14	— 1	+ 3	+11	2.08	2.18
All Other Cities[3]	—24	— 4	+ 5	+ 8	1.62	1.88

[1] In order to permit publication of figures for this city (or area), a special sample has been constructed which is not confined exclusively to department stores. Figures for any such nondepartment stores, however, are not used in computing the district percentage changes or in computing department store indexes.

[2] The sample for these areas is unchanged from the sample previously reported for the principal cities in these areas.

[3] Fayetteville, Pine Bluff, Arkansas; Harrisburg, Mt. Vernon, Illinois; Vincennes, Indiana; Danville, Hopkinsville, Mayfield, Kentucky; Chillicothe Missouri; Greenville, Mississippi; and Jackson, Tennessee.

OUTSTANDING ORDERS of reporting stores at the end of July, 1953, were 8 per cent smaller than on the corresponding date a year ago.

PERCENTAGE OF ACCOUNTS AND NOTES RECEIVABLE
Outstanding July 1, 1953, collected during July

	Instalment Accounts	Excl. Instal. Accounts		Instalment Accounts	Excl. Instal. Accounts
Fort Smith	%	44%	Quincy	17%	58%
Little Rock	14	48	St. Louis	19	55
Louisville	18	45	Other Cities	9	47
Memphis	19	36	8th F.R. Dist.	18	49

INDEXES OF DEPARTMENT STORE SALES AND STOCKS
8th Federal Reserve District

	July, 1953	June, 1953	May, 1953	July, 1952
Sales (daily average), unadjusted[4]	86	110	118	84
Sales (daily average), seasonally adjusted[4]	107	122	118	104
Stocks, unadjusted[5]	122	132	138	111
Stocks, seasonally adjusted[5]	131	132	131	119

[4] Daily average 1947-49=100

[5] End of Month Average 1947-49=100

NOTE: Indexes revised August, 1953. Revised back data through 1947 available upon request to Research Department, Federal Reserve Bank of St. Louis, St. Louis 2, Missouri.

Trading days: July, 1953—26; June, 1953—26; July, 1952—26.

RETAIL FURNITURE STORES

	Net Sales July, 1953 compared with		Inventories July, 1953 compared with		Ratio of Collections	
	June,'53	July,'52	June,'53	July,'52	July,'53	July,'52
8th Dist. Total[1]	—12%	— 8%	— 2%	+ 3%	19%	20%
St. Louis	— 8	—16	— 3	+ 1	27	28
Louisville Area[2]	—14	+10	— 1	+ 4	14	13
Louisville	—10	+10	— 2	+ 3	13	13
Memphis	—28	— 3	*	*	12	12
Little Rock	—26	— 5	+ 4	— 5	15	17
Springfield	+ 7	+ 6	— 7	+ 6	15	16

* Not shown separately due to insufficient coverage, but included in Eighth District totals.

[1] In addition to following cities, includes stores in Blytheville, Fort Smith and Pine Bluff, Arkansas; Hopkinsville, Owensboro, Kentucky; Greenwood, Mississippi; and Evansville, Indiana.

[2] Includes Louisville, Kentucky; and New Albany, Indiana.

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	July, '53	June, '53	July, '52
Cash Sales	16%	14%	16%
Credit Sales	84	86	84
Total Sales	100%	100%	100%

WHOLESALE TRADE

Line of Commodities: Data furnished by Bureau of Census, U. S. Dept. of Commerce*	Net Sales July, 1953 compared with June, '53	Net Sales July, 1953 compared with July, '52	Stocks July 31, 1953 compared with July 31, 1952
Automotive Supplies	+15%	+14%	+ 3%
Drugs and Chemicals	+ 2	+28	—
Dry Goods	+ 6	+54	+11
Groceries	+ 8	+ 3	— 4
Hardware	—19	— 4	— 1
Tobacco and its Products	+ 1	-0-	— 4
Miscellaneous	— 5	+25	-0-

*Preliminary.

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Banking and Finance

In the six-week period ended mid-August the money market was at first comparatively easy but later became progressively tighter. Within this framework, bank credit rose sharply, largely through subscriptions to Treasury anticipation certificates. Bank loans increased moderately. During July interest rates in the capital markets continued to drift lower from the peaks reached in June but firmed in early August.

Money market—Reserve positions of most member banks in the nation were comparatively easy in the first half of July. The easiness in the market was primarily due to a reduction in member bank reserve requirements in early July which freed about $1.2 billion in reserves. Reflecting the improved reserve positions the rate on Federal funds dropped to 1/16 of 1 per cent.

From mid-July to mid-August bank reserve positions became progressively tighter. Borrowings by banks increased, and Federal funds were again exchanged at or just below the rediscount rate of 2 per cent. The tightness was the result of both a loss of funds from a gold outflow, contraction of float and Treasury operations and an increased need for reserves to support a deposit expansion.

Reserve positions of district member banks were about the same as in the nation over the entire six-week period. Early in July, district banks were drained of a large amount of funds by Treasury operations, partially offsetting the decline in reserve requirements.

District Banking—Earning assets of district member banks increased during July and the first half of August. The bulk of the growth was in net purchases of Treasury tax anticipation certificates. Total loans rose $37 million at weekly reporting banks, largely as a result of a more than seasonal growth in loans to businesses in most cities. Reports indicated that all types of businesses except sales finance companies increased the indebtedness. Largest net borrowings resulted from seasonal increases in operations of textile, apparel and leather manufacturers at St. Louis. Security, real estate and consumer loans showed little change. Total loans at rural banks were virtually unchanged during July.

Time deposits at district member banks were up $12 million during July, rural area banks reporting the sharpest gain. The growth during the month was more than in July last year; however, for the year to date the increase was less than during the same period a year ago.

Banking nationally—Loans and investments at banks in leading cities of the nation also increased substantially during July and early August. As in the district, the largest growth was due to subscriptions to tax anticipation certificates. Loans to brokers and dealers for the purchase of United States Government securities also rose substantially. Advances to consumers, real estate owners and businesses expanded moderately.

Largely as a result of the jump in bank credit, the private money supply rose moderately in July and early August. However, for the first seven months of this year demand deposits and currency of individuals and businesses contracted about $4 billion compared with roughly $2.5 billion in the corresponding seven months a year ago. Time deposits continued to rise in the six weeks ended mid-August. United States Government accounts rose sharply primarily as a result of new financing.

EIGHTH DISTRICT MEMBER BANK ASSETS AND LIABILITIES BY SELECTED GROUPS

(In Millions of Dollars)	All Member			Large City Banks[1]			Smaller Banks[2]		
		Change from:			Change from:			Change from:	
Assets	July,'53	June,'53 to July,'53	July,'52 to July,'53	July,'53	June,'53 to July,'53	July,'52 to July,'53	July,'53	June,'53 to July,'53	July,'52 to July,'53
1. Loans and Investments	$4,493	$+131	$+192	$2,608	$+111	$+102	$1,885	$+ 20	$+ 90
a. Loans	2,047	+ 29	+128	1,347	+ 30	+ 94	700	— 1	+ 34
b. U. S. Government Obligations	2,023	+ 89	+ 41	1,057	+ 77	+ 3	966	+ 12	+ 38
c. Other Securities	423	+ 13	+ 23	204	+ 4	+ 5	219	+ 9	+ 18
2. Reserves and Other Cash Balances	1,358	— 27	+ 26	834	— 30	+ 21	524	+ 3	+ 5
a. Reserves with the F. R. Bank	683	— 30	— 14	439	— 16	— 7	244	— 14	— 7
b. Other Cash Balances[3]	675	+ 3	+ 40	395	— 14	+ 28	280	+ 17	+ 12
3. Other Assets	56	+ 3	+ 6	33	-0-	+ 1	23	+ 3	+ 5
4. Total Assets	$5,907	$+107	$+224	$3,475	$+ 81	$+124	$2,432	$+ 26	$+100
Liabilities and Capital									
5. Gross Demand Deposits	$4,350	$+102	$+173	$2,664	$+ 78	$+121	$1,686	$+ 24	$+ 52
a. Deposits of Banks	653	+ 15	+ 19	617	+ 15	+ 19	36	-0-	-0-
b. Other Demand Deposits	3,697	+ 87	+154	2,047	+ 63	+102	1,650	+ 24	+ 52
6. Time Deposits	1,073	+ 12	+ 51	509	+ 3	+ 20	564	+ 9	+ 31
7. Borrowings and Other Liabilities	80	— 6	— 33	73	-0-	— 30	7	— 6	— 3
8. Total Capital Accounts	404	— 1	+ 33	229	-0-	+ 13	175	— 1	+ 20
9. Total Liabilities and Capital Accounts	$5,907	$+107	$+224	$3,475	$+ 81	$+124	$2,432	$+ 26	$+100

[1] Includes 12 St. Louis, 6 Louisville, 3 Memphis, 3 Evansville, 4 Little Rock, and 4 East St. Louis-National Stock Yards, Illinois, banks.
[2] Includes all other Eighth District member banks. Some of these banks are located in smaller urban centers, but the majority are rural area banks.
[3] Includes vault cash, balances with other banks in the United States, and cash items reported in process of collection.

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Capital markets—During July yields on capital market issues continued to drift lower from the peaks reached in June. This was in sharp contrast to most of the first half of 1953 when there was a marked acceleration in the upward movement of interest rates. The July reaction resulted from a continued high rate of savings and a reduction in capital offerings. With the improvement of reserve positions in early July, banks increased holdings of capital market issues. The increased rate of purchases of longer-term Government securities by Treasury investment accounts also added to the supply of funds. As the supply of longer-term funds was increased the demand for them fell off. The volume of corporate and municipal issues in July was about half the June total. In the first two weeks of August interest rates firmed, reflecting in part the tighter conditions in the money market.

Assets of life insurance companies—Assets of life insurance companies rose $2.4 billion in the six months ended June 30, virtually the same as in the first half of 1952. The companies continued to reduce their holdings of Government securities but at a substantially lower rate than in the corresponding months of 1952 ($165 million compared with $650 million). There was also a sizable decline ($190 million) in cash holdings indicating a slight decline in liquidity.

Funds were used primarily to purchase "other" securities ($1.6 billion) and mortgages ($1.0 billion). As in the first half of 1952, roughly two-thirds of the expansion in "other" securities was in net purchases of industrial bonds but most other types of securities were increased also. One exception was a net reduction in holdings of foreign government obligations. Net acquisitions of mortgages were about the same as in the comparable period last year. However, the net increases in VA mortgages were much lower, $45 million compared with $180 million. And there were somewhat fewer net purchases of FHA mortgages. On the other hand, these companies increased their holdings of "conventional" mortgages more than in the first half of 1952.

Checks cashed—Reflecting the continued high level of business activity, the dollar volume of checks cashed remained high during July. Debits to demand deposit accounts (except interbank and United States Government) at banks in 22 reporting centers of the district totaled $4.4 billion. This was the highest July on record and was 11 per cent more than July a year ago. Normally there are fewer deposit withdrawals in July than in June, but this year the July total was about as large as the June figure. Activity was brisk nationally also, debits at the 345 reporting centers amounted to $148 billion, somewhat lower than in June but 8 per cent more than in July 1952.

DEPOSIT ACTIVITY

	Debits[1]			Turnover	
	July 1953 (In millions)	Percent Change from June 1953	Percent Change from July 1952[2]	July 1953 (Annual Rate)	Year Ended July 31 1953[2]
Six Largest Centers:					
East St. Louis-National Stock Yards, Ill.	$ 127.4	— 2%	– 0 –%	25.7	27.0
Evansville, Ind.	173.9	— 2	+16	18.0	17.0
Little Rock, Ark.	155.1	— 2	+ 9	15.5	15.7
Louisville, Ky.	727.6	+ 1	+10	24.2	24.5
Memphis, Tenn.	587.2	— 4	+14	22.6	25.4
St. Louis, Mo.	2,099.5	— 1	+12	22.3	20.7
Total—Six Largest Centers	$3,870.7	— 1%	+11%	22.2	21.7
Other Reporting Centers:					
Alton, Ill.	$ 36.0	—16%	+15%	12.6	12.1
Cape Girardeau, Mo.	14.5	+ 3	+12	12.8	11.5
El Dorado, Ark.	27.0	— 1	+14	11.3	10.9
Fort Smith, Ark.	46.6	— 8	— 1	13.3	13.5
Greenville, Miss.	21.4	— 5	+14	12.5	14.8
Hannibal, Mo.	9.9	+ 3	— 3	9.4	8.9
Helena, Ark.	7.0	— 4	+ 8	10.2	13.0
Jackson, Tenn.	20.1	— 3	+ 4	10.8	11.4
Jefferson City, Mo.	61.0	+17	+15	10.9	11.4
Owensboro, Ky.	38.0	— 9	+11	13.3	15.4
Paducah, Ky.	43.6	+ 3	+ 4	15.9	14.1
Pine Bluff, Ark.	33.2	+ 2	—11	12.6	14.6
Quincy, Ill.	34.2	— 5	+ 6	14.7	14.3
Sedalia, Mo.	12.3	+ 3	+10	10.4	9.9
Springfield, Mo.	72.4	+ 1	+ 4	13.7	14.2
Texarkana, Ark.	25.0	+10	+37	17.0	13.3
Total—Other Centers	$ 502.2	— 1%	+ 7%	12.8	13.0
Total—22 Centers	$4,372.9	— 1%	+11%	20.4	20.1

[1] Debits to demand deposit accounts of individuals, partnerships and corporations and states and political subdivisions.

[2] Estimated.

Agriculture

Agricultural conditions in the Eighth District up to mid-August varied from good to very poor. Prospects for the cotton crop in west Tennessee, for example, were good. Corn and other crops in areas receiving periodic showers also were in good condition. However, moisture was short in wide areas of the district and the drouth was particularly severe in parts of Missouri and Arkansas. This condition was further aggravated by the extremely hot weather in late July and early August.

Crop production—Crop production estimates on August 1 generally were above the estimates for a month earlier, and pointed to a large total crop outturn in the district.

District corn production was expected to be 351 million bushels, 2 per cent more than in 1952. Although early planted corn in the mid-South was damaged seriously by the drouth, corn that was planted later has made satisfactory progress. The condition of the crop varied greatly in different local areas.

Oats and wheat production were estimated to be 21 and 38 per cent larger, respectively, than in 1952.

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This August estimate represented an increase of 5 per cent for both crops from the July estimate. The district rice crop made satisfactory progress during July, the estimated 11,340 thousand bags being 8 per cent larger than the 1952 production. There was a 12 per cent decline in estimated burley tobacco production which reflected reduced acreage allotments and spotty rainfall in the Burley Belt.

ESTIMATED PRODUCTION FOR MAJOR CROPS EIGHTH DISTRICT, AUGUST 1, 1953

	(In thousands) Estimated production August 1, 1953	Per cent change from 1952	Per cent change from 1942-51 average
Corn (bu.)	351,336	+ 2%	— 1%
Wheat (bu.)	70,015	+38	+84
Oats (bu.)	52,487	+21	—13
Rice (bags)	11,340	+ 8	+56
Hay (tons)	8,166	+ 5	—15
Tobacco, burley (lbs.)	193,275	—12	+ 7
Dark, air cured (lbs.)	24,090	— 6	—19
Dark, fire cured (lbs.)	20,767	+ 1	—28

Source: Adapted from Crop Production, USDA, August, 1953.

Hay and pastures—Pastures generally made some recovery in the district where the rains were received. However, in southern Missouri and north-central Arkansas the condition of pastures deteriorated further as a result of the prolonged drouth and excessive temperature. On the average, pastures were in better condition in August 1953 than a year earlier. District hay production was expected to be 5 per cent more than in 1952.

Cotton—The cotton crop in Tennessee, where early plantings came up to excellent stands, was expected to exceed 1952 production. Production in other district states, however, was expected to be less in 1953 than in 1952. The national crop, estimated to be 14.6 million bales, will be somewhat smaller than the 15.1 million bales produced in 1952. Smaller acreage and larger abandonment nationally account for the reduction. A substantial acreage still in cultivation in the district is extremely late, having germinated after July 20. This is particularly true in the Mississippi Delta. Unusually good growing weather will be necessary if this late cotton is to mature.

Soybeans—District soybean production is expected to be slightly larger than in 1952 reflecting a minor increase in acreage.

ESTIMATED SOYBEAN AND COTTON PRODUCTION EIGHTH DISTRICT STATES, AUGUST 1

(Production in thousands)

	Soybeans		Cotton		
	Indicated production bushels	Per cent change from 1952	Indicated production bales	Per cent change from 1952	Per cent change from 1942-51 average
Arkansas	13,194	— 5%	1,225	—10%	—10%
Illinois	87,024	+ 2	....	....	....
Indiana	39,629	+ 3	....	....	....
Kentucky	1,962	+11	....	....	....
Mississippi	4,615	—25	1,860	— 2	+11
Missouri	33,552	+ 2	370	— 6	+ 7
Tennessee	3,580	— 1	650	+ 2	+20
District States	183,556	+ 1	4,105	— 5	+ 5
United States	295,018	+ 1	14,605	— 4	+20

Source: Crop Production, Cotton Production, USDA, August 1, 1953.

Prices—Prices received by farmers remained unchanged for the month ending July 15. Livestock prices generally were higher but price declines in several crops offset this increase. From mid-July through the third week of August cattle prices were steady to lower. Hog prices declined seasonally but moved upward after August 6. Prices paid by farmers increased nearly 1 per cent for the month ending July 15 reflecting higher feeder cattle prices and higher wage rates. The parity ratio thus declined to 93, ten points lower than a year ago.

CASH FARM INCOME

(In thousands of dollars)	June, 1953	June, 1953 compared with May, 1953	June, 1952	6 month total Jan. thru June 1953	1953 compared with 1952	1951
Arkansas	$ 22,609	+14%	—16%	$ 134,477	—28%	—16%
Illinois	135,921	— 1	- 0 -	861,745	— 2	— 3
Indiana	67,132	— 7	—10	453,889	— 5	— 8
Kentucky	27,228	+10	—16	245,779	- 0 -	+ 2
Mississippi	17,840	- 0 -	—23	138,040	— 1	+12
Missouri	72,730	+17	— 3	391,946	—11	—16
Tennessee	26,791	+ 4	—21	173,318	— 9	—10
7 State Totals	$370,251	+ 3%	— 8%	$2,399,194	— 6%	— 6%
8th Dist. Total	$159,633	+ 8%	—10%	$1,018,378	— 9%	— 8%

RECEIPTS AND SHIPMENTS AT NATIONAL STOCK YARDS

	Receipts July, 1953	July, 1953 compared with June, 1953	July, 1952	Shipments July, 1953	July, 1953 compared with June, 1953	July, 1952
Cattle and calves	150,567	— 2%	+20%	56,677	— 6%	+ 6%
Hogs	163,262	—24	—26	40,095	—37	—49
Sheep	54,300	—27	—17	17,470	—59	—58
Totals	368,129	—17%	—11%	114,242	—32%	—34%

Department Store Indexes

REVISION of department store indexes of sales and stocks for the Eighth Federal Reserve District and of sales indexes for Louisville, Memphis and Little Rock has been completed. Seasonal adjustment factors in the sales indexes were recomputed to conform with changes in the pattern of consumer buying. In addition, sample coverage for the district sales index was increased.

A new index of department store sales for the St. Louis metropolitan area was established for the period since 1940. The previous index of sales for the City of St. Louis has been discontinued. The revision of the district stocks index, computed by the stocks-sales ratio method, covers the period since 1947.

The revision of sales and stocks indexes and the establishing of a St. Louis area sales index was accomplished according to procedures developed by Federal Reserve System representatives. Revised indexes and a description of techniques used are available upon request from the Research Department, Federal Reserve Bank of St. Louis, St. Louis 2, Missouri.

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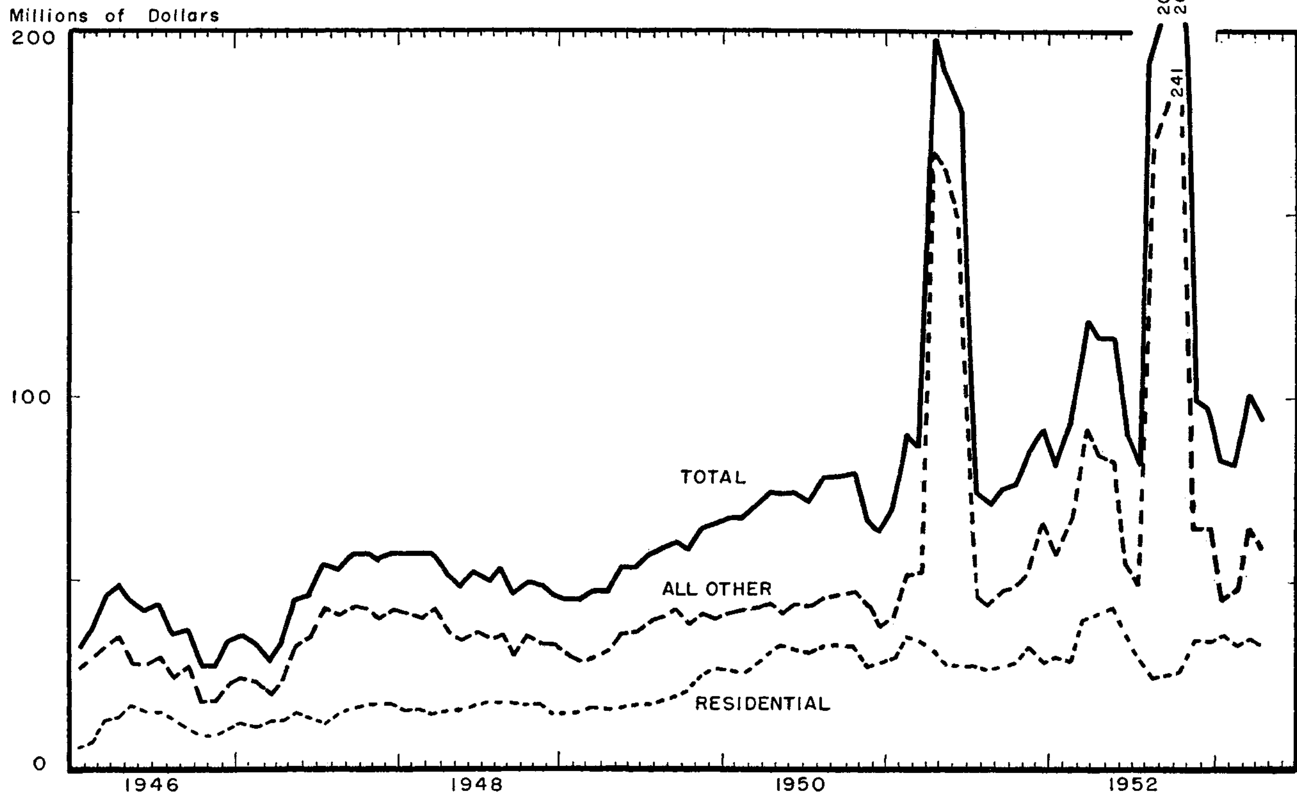

SEASONALLY adjusted construction contract awards for residential, all other, and total construction in the Eighth Federal Reserve District are charted above for the period January, 1946, to April of this year.

Indexes of construction contracts awarded in the Eighth District are now available on a monthly basis for the period from 1923 to date. Both unadjusted and seasonally adjusted indexes of the value of awards for residential building, all other than residential, and total construction have been compiled with 1947-49 averages as a base. Three-month moving averages of data supplied by the F. W. Dodge Corporation are used. A complete description of the technique employed and back data from 1923 to date can be obtained from the Research Department of this Bank upon request.

Current indexes will be published in the *Review.*

INDEX OF CONSTRUCTION CONTRACTS AWARDED
EIGHTH FEDERAL RESERVE DISTRICT*
(1947-1949=100)

	June 1953	May 1953	June 1952
Unadjusted			
Total	184.0P	193.0	206.4
Residential	173.9P	198.0	251.1
All other	188.7P	190.6	185.6

	June 1953	May 1953	June 1952
Seasonally adjusted			
Total	154.5P	170.8	173.7
Residential	148.6P	175.2	214.6
All other	157.2P	168.7	154.7

*Based on three-month moving average of value of awards, as reported by F. W. Dodge Corporation.

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