MONTHLY Review

FEDERAL RESERVE BANK OF MINNEAPOLIS

SUPPLEMENT

SEPTEMBER 1956

Housing and mortgage markets

by

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and

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HOME BUILDING is a basic industry. The volume of building has an important bearing on economic prosperity, as it directly or indirectly affects most individuals engaged in business. The industry operates in small towns as well as in large cities, employs many skilled and unskilled workers and consumes a large quantity of building materials supplied by many manufacturers and distributors. The industry annually provides an outlet for billions of dollars of capital funds and creates a complementary demand for home furnishings, appliances, and innumerable other commodities.

In addition to its size, a characteristic of home building which affects the general economy is that traditionally it has been a boom and bust industry. The number of houses built has fluctuated widely with the swings of the business cycle, as large shifts in the demand for housing occurred. In prosperous times families demand more space and better-quality quarters, which causes the demand for new houses to rise sharply. Conversely, in periods of recession when employment and incomes are down, families conserve on space and are satisfied with inferior quarters, which causes the demand to decline quickly. At all times there is a large standing stock of houses; seldom are they fully utilized. As may be observed on chart 1 page 2, residential building in the thirties declined more than did disposable personal income, and since the end of World War II has expanded much faster.

Because general fluctuations in the volume of home building are of great importance to the economy, many associated with the building industry—be it in actually building and selling houses, in supplying materials or in financing—have periodically posed these queries:

1. Is the current level in residential building gradually saturating the market? Will housing starts slump significantly in the next few years?

2. Is it possible to continue the rapid rise in mortgage debt which accompanies maintenance or an increase in the current level of starts? May not a slower rise in the debt reduce the demand for housing and, thereby, lower general economic prosperity, thus significantly weakening the ability of mortgagors to meet payments on the debt?

Economists, both in government and in private industry, have viewed the outlook for home building and the repayment of the mortgage debt with optimism. But this has not quieted the questioners. The buoyant demand for new houses in the first half of this decade cannot be wholly explained by the customary indexes of annual marriages and household formations, by the repayments on mortgage loans or by the rise in personal incomes. While analysis of these and other trends may not answer all the questions asked, a description of the market for homes, and a discussion of the mortgage debt are relevant at this time.

Acknowledgments

In the preparation of this article the authors drew on information from many sources. A listing of all individuals who gave of their time, and imparted valuable information is impossible because of limited space. Consequently, their helpfulness is hereby gratefully acknowledged.

Of course, individuals who gave such information are not responsible for errors in interpretation that may have crept into the report.

Description of the study

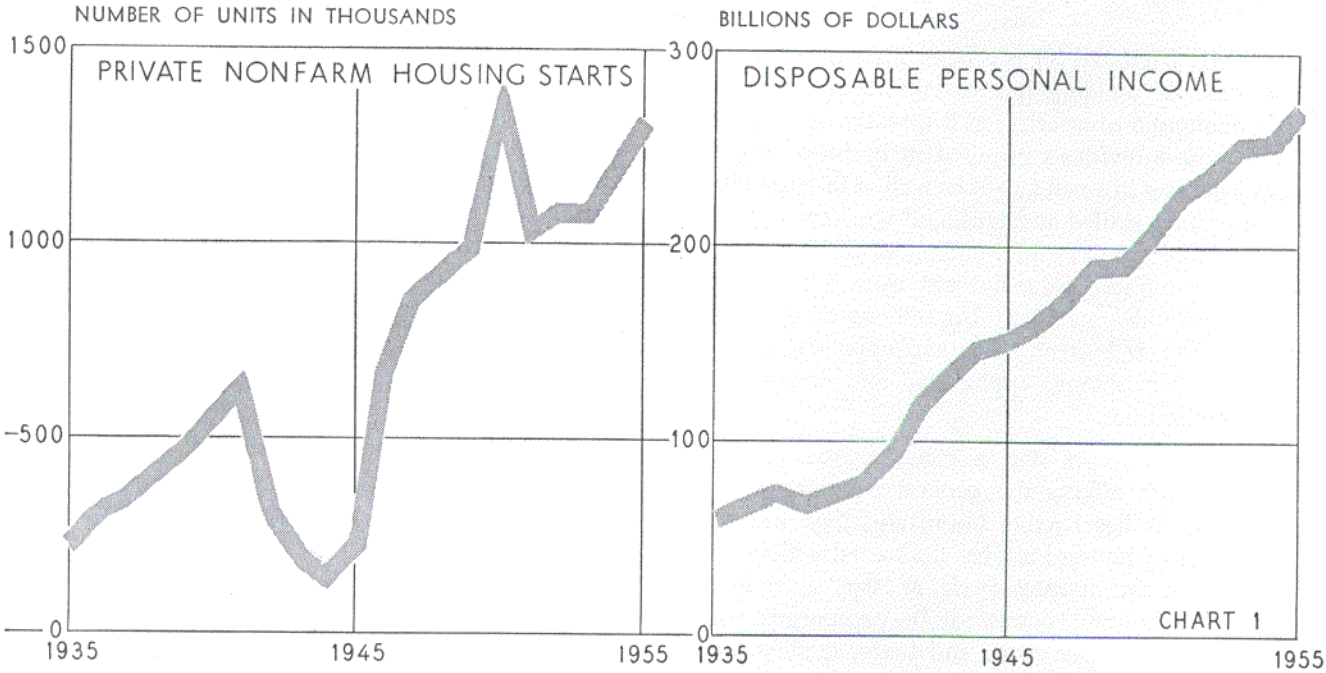
THE CHARACTERISTICS *of the Ninth district make it opportune for a study of the housing and mortgage markets. The regional economy has grown less rapidly here than in the more industrialized sectors of the nation. A few urban centers are fading out, offering places to observe how the number of families who live in a village or town and have a choice of dwellings control the demand for shelter. Cities with a stable population for two or more decades reveal the replacement demand for shelter. Finally, in rapidly growing cities, the influx of population illustrates the strong demand for housing which has led to residential building on a large scale.*

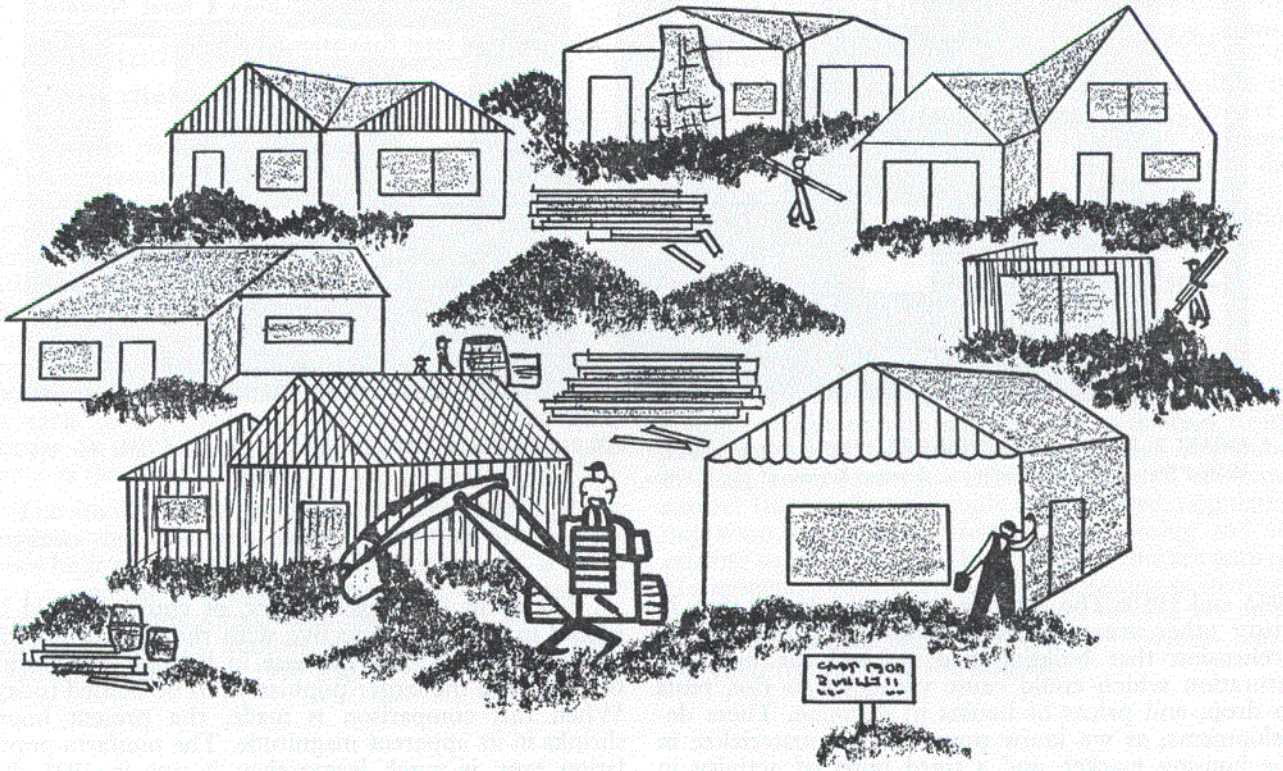
In this study the chief emphasis has been on developments in this district. The analysis, of course, has been made within the framework of the national picture.

Besides the armchair work of analyzing the statistical information available, builders, mortgage men, real estate brokers, and suppliers of building materials were interviewed in a cross section of communities in the Ninth district.[1] Through these interviews specific information was sought to supplement the general data in order to gain a deeper insight into the housing and mortgage markets.*

Chart sources: Dept. of Commerce and Bureau of Labor Statistics.

*All footnotes are listed in the appendix.





Part one: boom in residential construction

A DESCRIPTION of the 1954-55 boom provides a basis for evaluating the building activity, but is partially dependent on observation and inference derived from recent developments and trends.

Following World War II the number of houses built in the nation rose sharply, reaching a peak of almost 1.4 million dwelling units in 1950. In the past seven years (since 1948) well over 1 million new dwelling units have been added annually to the nation's stock of houses. The housing boom already has extended farther into the decade of the fifties than some observers had anticipated when the boom began.

For the most part the Ninth district has shared in the housing boom of the past 10 years, although the boom here has been more erratic. In 1946, the first year following the removal of restrictions on building materials, there was a burst of activity in all communities, both large and small, of this district. Many workers who had been employed in defense work secured employment in the home building industry. Almost 18,000 new nonfarm dwelling units were authorized by permits in 1946, which exceeded the authorizations made in any year up to that time.

Unlike the national trend, the units authorized declined significantly in subsequent years. Although about twice as many houses were built annually as in the latter thirties, not until 1950 did authorizations of new units exceed the number in 1946. In this second marked burst of activity nearly 22,000 units were authorized, setting a new record in this district.

Following 1950 the home building industry again settled back to the level of activity prevailing between

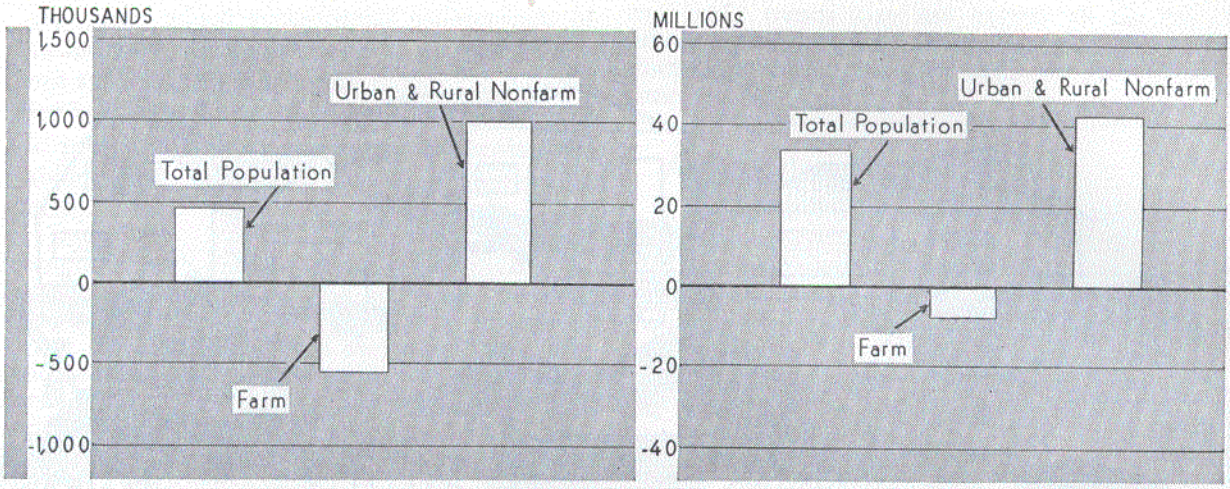


CHART 2: POPULATION CHANGES, 1940 to July 1, 1955 (estimate) for the Ninth district (left) in thousands and for the United States (right) in millions. Source: Bureau of the Census.

1946 and 1950. The activity was much lower than in many other areas of the nation. This provoked apprehension that building had reached the point of saturation which could cause vacancies to rise, rents to drop, and prices of houses to decrease. These developments, as we know now, did not materialize in the housing market, and a third burst of activity in home building began in 1954 and extended through 1955. New records in unit authorizations were established in both of these years. The 1955 value of residential construction contracts exceeded 1954 by 17 percent and the 1950 total by more than 50 percent.

While lagging slightly behind the national trend, the Ninth district in large part shared in the 1955 housing boom.[2] As might be expected, the boom has been particularly strong in the larger cities of the district where population is increasing and where, due to a rapid expansion in private business activity, the movement to suburbs continues. In addition, the building of defense air bases has added to the population growth and thereby to the housing boom in such district cities as Grand Forks, Minot, Glasgow and Great Falls.

Magnitude of the current countrywide housing boom

THE VOLUME OF building in the current boom is frequently compared to former ones in an attempt to gauge the probable future course of building activity. More houses have been built in the past 10 years than in the 1920's. For instance, starts have averaged 1,079,500 in the past 10 years as compared with only 703,400 in the decade of the twenties.

The home building industry, of course, should be placed in proper perspective with the general growth in the economy. The increase in housing starts must be related to the larger population to be housed today. When this comparison is made, the present boom shrinks in its apparent magnitude. The nonfarm population now is much larger than it was in 1925 due both to the absolute growth in population and to the migration from rural to urban centers. The nonfarm population totaled 84,642,000 in 1925 and 142,437,000 in 1955, an increase of 68 percent in 30 years. (Changes in definition of nonfarm have also increased population designated as nonfarm, which is now described as the difference between total and farm population as reported in the U. S. Census.)

In 1925, at the peak of the residential building activity, nonfarm housing starts averaged 11.1 per 1000 nonfarm persons, while in 1955 they averaged 9.3. Since individual years vary sharply, it is more significant to compare the magnitude of the two booms in several time periods. For the United States the number of housing starts per 1000 nonfarm persons for different periods since 1920 are as follows:

Time Periods	Average Annual Number of Starts Per 1000 Nonfarm Persons
Period of 1920-1929	8.4
1920-1924	8.1
1925-1929	8.8
Period of 1930-1939	2.9
Period of 1940-1949	5.1
1940-1945	3.4
1946-1949	7.3
Period of 1950-1955	9.0

On the basis of these time periods, starts made in 1955 and the sustained high level of home building since 1950 have slightly exceeded the volume of the twenties when related to population.

Magnitude of the Ninth district boom

A SIMILAR picture is obtained when residential contracts awarded are related to nonfarm population. Since contracts awarded are available by regions (and housing starts are not) they permit a comparison of activity in the district and the whole nation. This relationship is shown in chart 3. The high activity in the twenties and the post World War II period stands out, as does the low activity in the thirties and early forties. The amount of contract awards per nonfarm person in this district was below the national figure in each time period and especially so in the early forties. In 1955, however, the amount was about the same as the national figure.

The amount of contract awards per nonfarm person suggests that on a per capita basis fewer houses have been built in the district. A similar differential is noted in the number of dwelling units authorized per 1000 nonfarm persons. Comparing district with nation, the ratio in the district number was less in each year since 1940—except in 1945, 1946 and 1949.[3]

Adverse economic conditions have held down home building in this district. The prolonged and deep depression of the thirties was even more acute than in most other areas of the nation. Drouth and dust storms added to the misery created by the economic depression. In the western half of this district many families were forced to migrate to other regions. As a result of the exit of families, in a number of communities no houses were built during the entire decade. In fact a substantial proportion of the standing stock of houses stood vacant. Emigration of population from this district rose sharply in the forties. It has continued at a reduced rate in the present decade. This out-migration has, of course, reduced the demand for new houses.

Components of demand for housing

IN THE DEMAND for housing there are several components which require analysis and evaluation to appraise the outlook for the housing market. A number of these components are of a physical and economic nature: the number of people to be housed, population migration, consumer preference for housing and the existing stock of houses. Other components are entirely of a monetary nature: level and distribution of incomes, accumulation of savings, and terms offered on mortgage loans. These components in combination create the effective demand for housing.

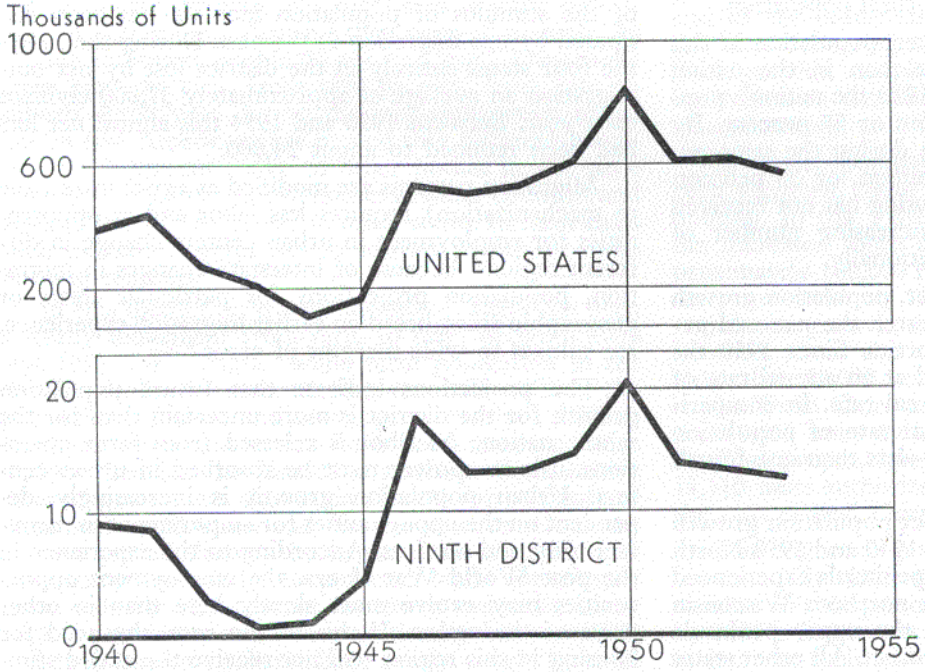


CHART 3

NEW NONFARM DWELLING UNITS AUTHORIZED

UNITED STATES

and

FOUR NINTH DISTRICT STATES*

Number annually—1940 to 1955

*Minnesota, Montana, North Dakota, South Dakota

Source: Bureau of Labor Statistics.

Part two: sources of demand for housing

Population

1. Growth

OVER A LONG period of time, the number of people residing in an area and their division into households determine the underlying need for housing. If there are few residents or if the increase in their number is small, the demand for housing is likely to be small. In short, the growth in households creates a basic need for additional housing.

The amazing population growth experienced at the end of World War II is largely attributable to increased birth rates. In the 1930's birth rates dropped to a new low—less than 20 per 1000 persons. But with the advent of World War II it began to increase, and after the war it rose sharply and then leveled off at a high rate.

The present high birth rate currently adds over 4 million youngsters to the nation's population annually. This large number, along with their grouping into larger families, stimulates the need for housing. While babies do not buy houses, they can certainly prompt parents to enter the housing market to buy bigger and better houses.

Two things stand out in the crude birth rate figures for the nation and the district:[4] the persistence of the high birth rate in recent years and a somewhat higher birth rate in the district than in the nation, perhaps due to the greater proportion of rural population.

Over the last 35 years, however, population in this district has grown more slowly than in the nation because of out-migration. Since 1920 the nation's population has increased by 60 million or 57 percent. By contrast, the district's population during the same period has increased by about 1 million, or 20 percent. Thus, the need for additional housing has not received as great an impetus from an increasing number of people in this district as it has nationally.

In the present decade, however, population growth in the district is considerably nearer the national average than in the thirties and forties. Since 1950 the district's population has increased at an annual rate of 0.8 percent—about half the national rate. In comparison, during the forties the annual rate of population growth was less than 0.4 percent—less than one-fourth the national rate.

By individual states, the district population growth has varied considerably. Between 1940 and 1950 North Dakota and the Upper Michigan peninsula experienced actual population declines, while northern Wisconsin showed no increase. Since 1950 the upper peninsula has continued to decline in population. All other states or parts of states in the district have shared in the countrywide population rise. In this decade (as was the situation in the forties) the greatest gains by state, absolutely and relatively, took place in Minnesota and Montana. Comparative average rates of increase in total population for the four states entirely in the district are as follows:[5]

	1940 to 1950	1950 to 1955
United States	1.4%	1.6%
Minnesota	0.7%	1.2%
Montana	0.6%	1.3%
North Dakota	—0.4%	0.7%
South Dakota	0.2%	0.7%

Population

2. Trends in the next 10 years

SINCE THE END of World War I[5] the need for housing in the nation has received considerable impetus from the high birth rate or the rapid over-all population growth. For the nation it appears evident that housing demand will continue to be stimulated by rapid population growth. The highest of four recent population projections made by the census bureau estimates a total population of 193 million in 1965 and 228 million in 1975. These estimates represent a growth of about 18 percent for the two succeeding decades. Even though the population growth should fall short of this estimate, it, nevertheless, will be substantial.

To what extent the Ninth district will share in this population growth and in the resulting stimulus to housing demand will largely depend on the future magnitude of net migration from the district. Some of the stimulus of population increase has been dissipated by out-migration in the past. During the 1940's the four states entirely in the district lost by net out-migration an average of approximately 37,000 civilians each year. Between 1950 and 1954 this annual net loss had been reduced to about 24,000.

Migration patterns are modified as agriculture (due to mechanization) requires less labor and as opportunities for employment in urban centers change in different regions. Because of interstate changes in migration, population projections for particular states or geographic areas, based on earlier migration experience, are subject to wide margins of error.[6]

The projections indicate that future population growth for the district is more uncertain than for the whole nation. As labor is released from farm operations, this manpower must be absorbed in urban centers. Urban population growth is increasingly dependent on the opportunities for employment in manufacturing and services. According to the experience in the post World War II era, the employment opportunities may evolve more slowly here than in other parts of the nation. If this be the case, the need for housing in this region will not receive the added stimulus of a rapid over-all growth in population.

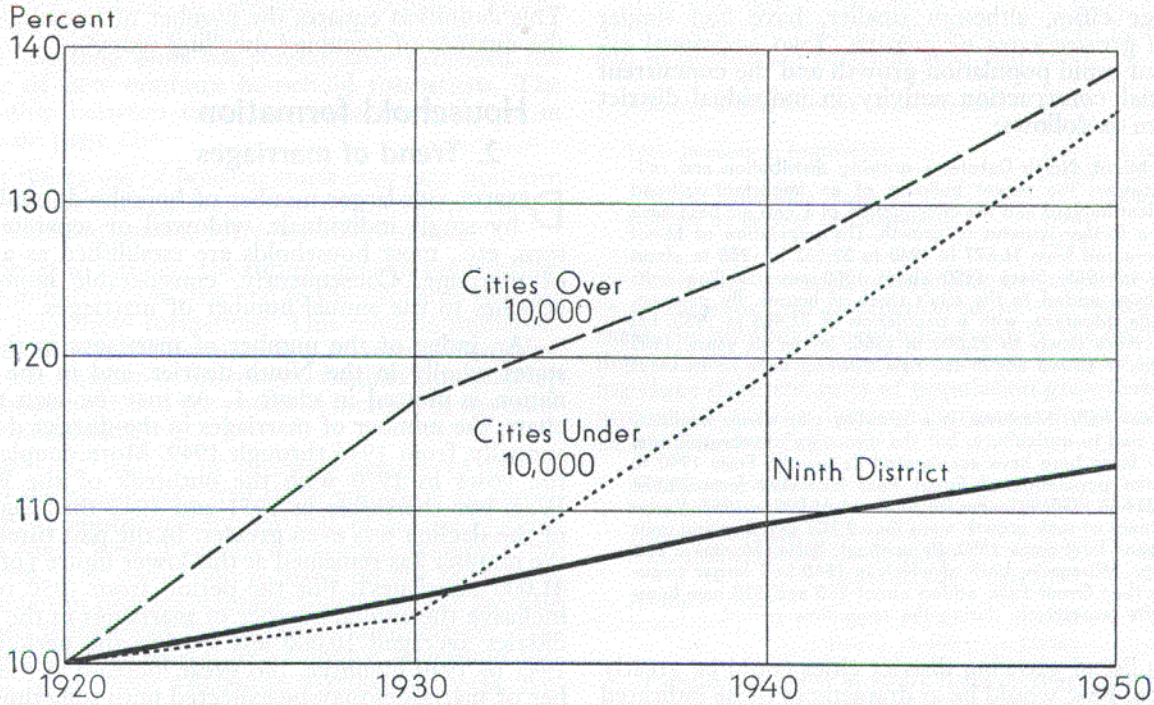


CHART 4: POPULATION INDEX for a sample of cities over 10,000, of cities and towns under 10,000, and of the Ninth district by decade, 1920 to 1950. Source: Bureau of the Census.

Population

3. Differential rate in district growth

HOUSING MARKETS remain local in character. Consequently, growth in a local area is more significant in determining demand than over-all growth. As already indicated, people do not stay 'put.' They move from farm to city, from city to city, from city to suburb. Each year during the past eight years about one in five Americans has moved to a different house. About 13 percent move to other houses in the same county, 3 to 3.5 percent to houses in other counties, and about 3 percent to houses in other states. In most cases such movement gives rise to activity in one or more housing markets.

In this district, as is true nationally, there has been a steady movement from farm to city. Between 1930 and 1950, for example, while farm population in the district declined by more than one-half million, the population of cities and towns grew nearly 1 million. In short, cities and towns have been growing more rapidly than has the district as a whole. Comparative rates of growth are shown on chart 4 for a sample of large and small cities and for the district. Over the 30-year period shown, the larger cities of 10,000 and over grew by nearly 40 percent, while the district grew only by 12.5 percent. In towns and cities under 10,000, population was almost stationary between 1920 and 1930 but on a relative basis nearly caught up with the larger cities by 1950.

Although a few urban centers are fading out and a few are stationary, populationwise, the vast majority of Ninth district cities and towns have experienced some population growth decade after decade. This growth is indicative of the movement away from farms and of the industrial and commercial growth which has been occurring in many district cities and towns. Such growth, coupled with higher levels of income, has added to the basic demand for housing in these urban centers.

In larger population centers where growth has been vigorous, there has been a buoyant demand for housing. In the Twin Cities, for example, population has increased more than 25 percent since 1940. Approximately 100,000 people have been added in the last six years—1950 to 1956. Under the stimulus of such population growth, the construction of new houses has boomed. Over the six-year span from 1950 to 1956 more than 58,000 new dwelling units were authorized in the Twin Cities area. In 1950 about 52 percent of the 11,664 units authorized were in Minneapolis and St. Paul proper, but in 1955 only 15 percent of the 12,310 units authorized were within the city limits of the two central cities.

The vigorous population growth is expected to continue. By 1975 it is estimated the area will add another 600,000 persons.[7] While the anticipated growth by 1975 is 50 percent for the area, suburbs are expected to increase their growth by about 90 percent and the central cities by only 33 percent.

Other cities, although smaller, have had similar or even greater rates of growth. Two additional examples of rapid population growth and the concurrent residential construction activity in individual district cities are as follows:

In Minot, North Dakota, a growing distribution and railroad center, the recent building of an important railroad classification yard and the construction of a new air base have given a further impetus to growth. The population of Minot has increased from 16,577 in 1940 to 22,032 in 1950 to about 25,000 in 1955. Since 1950 about 1000 new dwelling units have been added to the city's stock of houses. By contrast, Missoula, Montana, with a population of 22,485 in 1950, has grown more slowly to 23,000 in 1955. In the six years, 1950 to 1956, it added about 450 new dwelling units to its stock of houses.

Great Falls, Montana, is a growing city whose economy is still tied to agriculture, but the discovery of more oil, and the air force base have accelerated its growth. From 1940 to 1950 the population of Great Falls increased from 29,928 to 39,214 in 1950; it increased to about 44,000 in 1955. Under the impact of such growth more than 2,200 new dwelling units have been built since 1950. By contrast, Butte, Montana, and Superior, Wisconsin, both of which in 1940 had larger populations than Great Falls, added about 210 and 530 new housing units respectively during the same time period.

This list of growing district cities could be greatly expanded. Few would be as dramatic as those indicated above, but the general picture would be the same: namely, that growth in numbers adds materially to the need for housing.

In short, the movement of people tends to create activity in housing markets. This is particularly true when people move from farm to city. When this happens, old rural housing units are usually abandoned, and a demand is created for new units in a population center. There have been a few exceptions to this development. Farm houses have been moved to the city and reconditioned for continued use. Movement from city to surburb need not lead to the abandonment of a housing unit. Rather the unit in the city may be occupied by another family—perhaps a family that recently moved to the city. Increasingly, however, as our cities become older and as new land uses become necessary, abandoned units are demolished and removed from the stock of houses.

Household formation
1. Household basic unit in housing need

How people distribute themselves into households is perhaps as important in the need for housing as population growth and migration. The need for houses or dwelling units is expressed through the 'household' unit. Consequently, the number and composition of households have been subject to detailed analysis by those interested in the outlook for home building.

By census definition a household ". . . includes all persons who occupy a house, an apartment or group of rooms, or a room that constitutes a dwelling unit." This definition equates the number of households and the number of occupied dwelling units.[8]

Household formation
2. Trend of marriages

Despite the larger number of households established by single individuals, widowed or separated persons, etc., most households are established as a result of marriage. Consequently, considerable importance attaches to the annual number of marriages.

An index of the number of marriages in the four states wholly in the Ninth district, and in the whole nation is plotted in chart 5. As may be seen on the chart, the number of marriages in the district declined annually from 1946 through 1949. More couples took the vows in 1950 with the outbreak of the Korean War, but thereafter in 1951 and 1952 the magnitude of the decline was even greater. In the past three years the number has remained at this lower figure (of about 41,000 marriages). For the period from 1950 to 1955 inclusive the annual number of marriages in the Ninth district averaged 10,000 less than in the period from 1945 to 1949 inclusive. No great increase in the number of marriages may be expected until sometime after 1960, when the large baby crops of the post World War II period reach the marriageable-age brackets.

It was anticipated that this pronounced decline in the annual number of marriages would reduce materially the demand for housing. Instead, housing demand has not declined perceptibly, indicating that either a larger percentage of the married-couple households are in the housing market or that demands from the other types of households have increased.

Young people now marry at an earlier age, which has shifted the housing market to younger people. A description of who is buying houses in this district obtained from builders, real estate and mortgage men denotes that the primary market is among young married couples. The couples ranging in age from 25 to 35 years constitute the largest group of home buyers. In cities under 5000 and especially in those under 1000 a somewhat larger proportion of the couples buying houses are slightly older. Not infrequently they have been tenants for some years and only recently were in a financial position to bridge the gap to home ownership.

Household formation
3. And housing starts

Although the number of households is equivalent to the number of dwelling units occupied, the annual net increase in households does not equal the addition of new dwelling units. When more households are formed than new units are built, the population doubles up. As more units are built the population 'undoubles,' or the excess number is offset by demoli-

tions, conversions, or is reflected in increased vacancies. Since 1951 the number of nonfarm housing starts or new dwelling units has substantially exceeded the number of new nonfarm household formations. The relationship between these two variables is shown in chart 6 on page 11.[9]

It is the excess of housing starts over new nonfarm household formations since 1950 which has prompted the perennial question, "Are we overbuilding?"

In order to estimate the future demand for housing, critical importance is attached to the probable number of new household formations. This requires numerous assumptions and the combination of several variables: the annual number of marriages, families doubling up in one household, and the potential increase in the number of households.

A detailed study[10] of probable household formations in the nation indicated there would be an annual increase of approximately 450,000 in married-couple households to 1960. This was the average increase from 1950-1954. The projection is based on the increase in the number of persons reaching adulthood, the increase in armed forces, and the extent of doubling-up. Projections for other than married-couple household formations range from 430,000 to 590,000 per year. According to these projections, the annual increase in households may range from 880,000 to 1,040,000. Much of the anticipated growth is in the 'non-normal' category (or other than husband-wife type) and is due to undoubling.

For the nation the following relationship may be drawn between the anticipated increase in households and in population between 1955 and 1960:

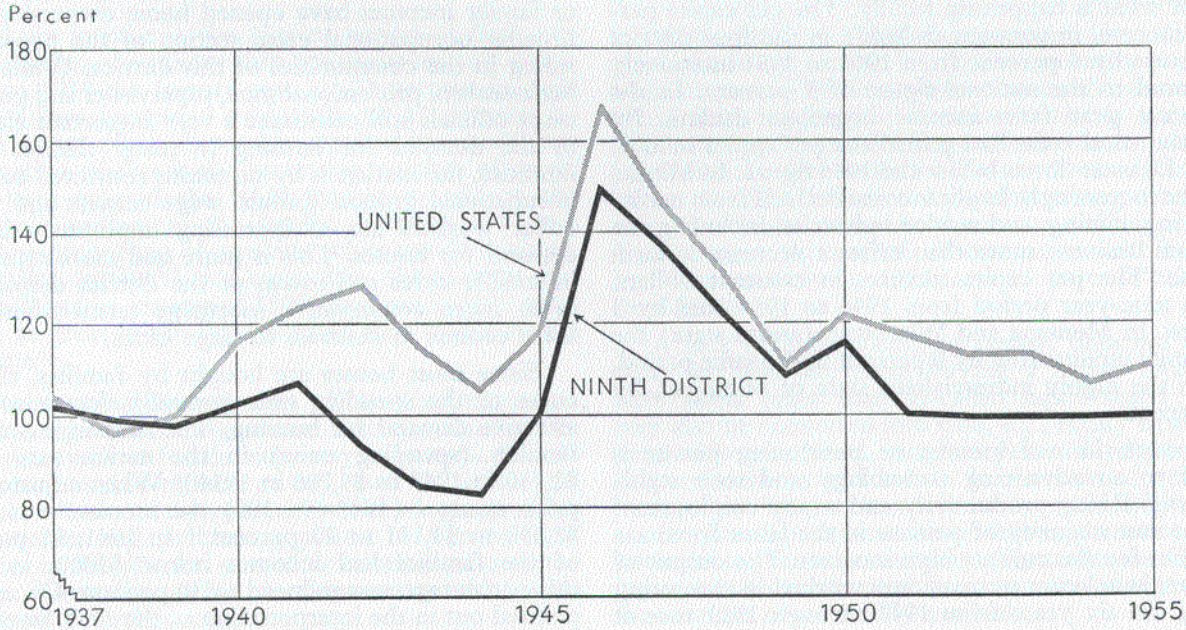
Assumed annual increase in households:	(low)	880,000
	(high)	1,040,000
Total increase in households:	(low)	4,400,000
	(high)	5,200,000
Assumed population increase:		12,652,000
Number of persons per household:	(low)	2.43
	(high)	2.88

Assuming the same relationship between the growth in households and population as in the national estimate, the number of new households in the district will depend on the estimated population increase. Assuming three different rates of population growth between now and 1960, the district's increase in households may be projected as follows:[11]

Assumed population increase 1955-1960		A—200,000	B—250,000	C—300,000
Assumed increases in households 1955-1960	(low)	69,600	87,000	104,400
	(high)	82,200	102,750	123,300
Annual increase in households	(low)	13,920	17,400	20,880
	(high)	16,440	20,550	24,660

To summarize, it appears feasible that over the next five years the need for housing will receive considerable impetus from population growth and new household formations. While projections for household formations are subject to substantial error, it does seem reasonable to anticipate about 1 million new house-

CHART 5: NUMBER OF MARRIAGES, index, United States and the four Ninth district states, Minnesota, Montana, North Dakota and South Dakota, for the years 1937 to 1955. (1937-39 = 100) Source: U. S. Dept. of Health, Education and Welfare.



hold formations annually for the nation. In view of the continued movement away from farms, the aging of our stock of houses (which will increasingly call for more demolitions) and the present low vacancy rates, it appears that the levels of home building achieved in the last five years may be continued or even exceeded during the next five years.

District prospects are more uncertain but also appear bright. While the need for housing will probably receive less impetus here than nationally from population growth, it may receive greater stimulus due to demolitions, since our inventory of houses, as a later section will show, is somewhat older than the average national stock. Finally, assuming emigration does not increase, nonfarm household formations should receive greater stimulus here than nationally if the movement of population from farms continues, because a larger percentage of our people live on farms.

Economic and social status of home purchasers

1. The rise in income

NEED OR DESIRE for housing is only one aspect of the demand. Regardless of desire, houses would not sell if the public did not possess the necessary financial resources, and these, therefore, become of paramount importance. The improved income status of the American people has brought home ownership within reach of more families living in urban centers. Higher incomes have made it possible for many families to qualify for conventional or federally-underwritten mortgage loans.

A study of the social and economic characteristics of recent home buyers in this district gives an indication of what is happening locally. The per capita personal income, in constant dollars,[12] in the four district states rose by 4 percent from 1946 to 1951 inclusively compared to the national figure of 5 percent. In the following year farm income began to decline. By 1954 the rural areas had pulled the per capita income in the Dakotas down below the 1946 figure. In Minnesota the increasingly larger income derived from manufacturing, mining, and service industries, including the vacation business, more than offset a decrease in farm income. The per capita income, in constant dollars, in the nine-year period from 1946 to 1954 rose by 3 percent. In Montana and Wisconsin (entire state) the per capita income rose by 9 percent in the same period, and in the highly industrialized state of Michigan, by 18 percent.

Growth in real income or purchasing power is traced to an advancing technology and to a stable economy. Rising productivity and steady employment for the vast majority of persons in the labor force are the bases for the current high incomes. The output of workers in relation to manhours worked in the nation during the six years from 1947 through 1953 rose at average annual rates ranging from 3.0 to 3.6 percent.[13] This rise in productivity is comparable to the long-run increase of about 3.3 percent from 1909 to 1939. Preliminary estimates for 1954 and 1955 indicate a somewhat greater gain or an average of approximately 5 percent.

In all district states the amount of income derived from wages and salaries has grown decidedly more than from other sources in the post World War II period. The differential, of course, has been larger in the industrial states than in agricultural ones. This is of great significance for home builders and real estate men, as wage and salary workers comprise the largest market for houses in urban centers.

The growth in incomes of prospective home owners, especially among young married couples, which has so materially stimulated the demand for housing in recent years, however, is not totally confined to a rise in productivity and high employment. Between 1940 and 1950 not only was a larger share of the total national income channeled into wages and salaries, but there was a marked change in the distribution of wage and salary income. The average income rose considerably in all occupations, but more in the lower income brackets than in the higher ones. Wages and salaries were increased by the larger relative amounts in the lowest-paid occupations. This narrowing of the gap between high-paid and low-paid occupations was in part responsible for the declining spread in incomes over the past decade.

Status of home purchasers

2. Family versus per capita income

FOR THE HOUSING MARKET, changes in *family* income are more important than in *per capita* income. Larger family incomes have opened home ownership to a broader occupational cross section of the people residing in the communities of this district. While local businessmen, professional men, supervisors and government officials still constitute a very important element in the demand for housing in many district communities, the market is by no means restricted to these occupational groups. Rather, wage earners and white collar workers are of increasing importance in the demand for houses. This is more and more true now in smaller cities and towns of the district despite the often more conservative mortgage terms offered in these centers in contrast to large cities.

Since most houses are bought by families, the income of the spending unit generally determines the effective demand for housing. The median income of families (spending units) in the nation rose from $2,530 in 1947 to $3,700 in 1954.[14] When adjusted for price changes (1947-49=100) the increase was from $2,650 to $3,231 or 22 percent.[15] In 1941, 81 percent of the families had incomes below $3000; in 1953 this percentage was reduced to 30 percent. Or, as was pointed out in the interpretation of the *1955 Survey of*

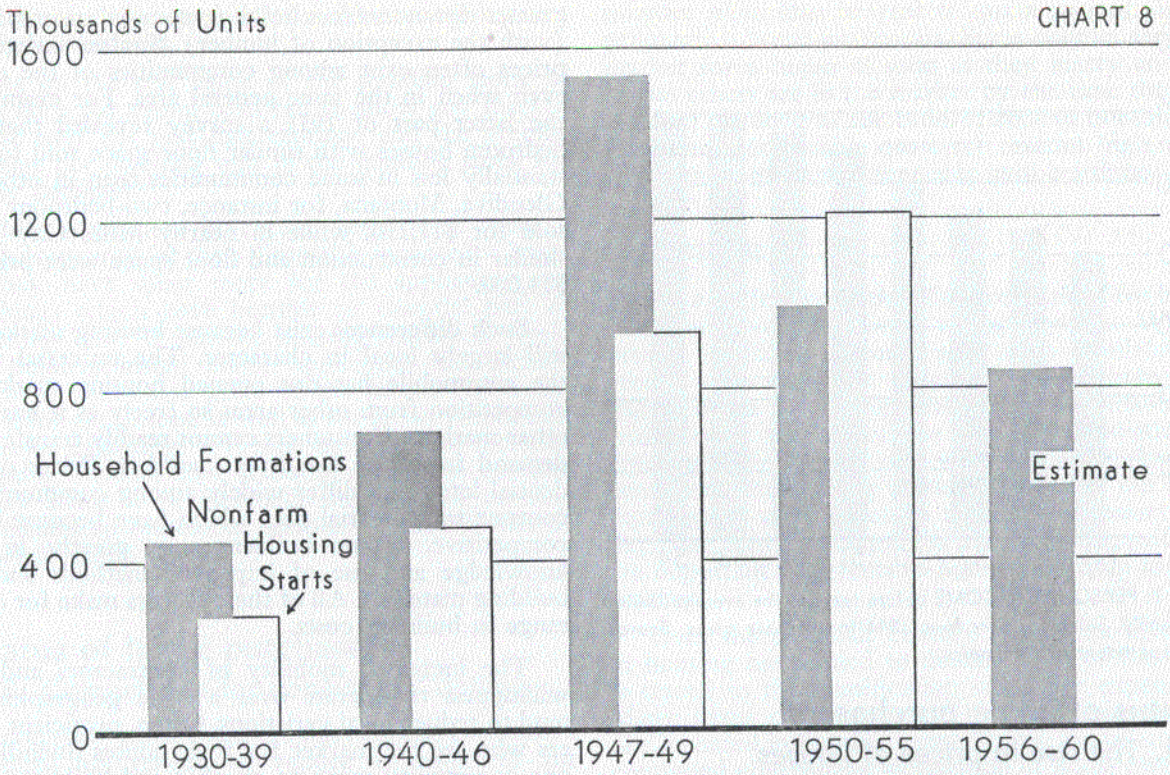


CHART 6: HOUSEHOLD FORMATIONS in relation to nonfarm housing starts in the United States. Sources: Bureau of Labor Statistics and Bureau of the Census.

Consumer Finances,[15] the proportion of spending units or families with income before taxes of $5000 or more increased from 14 percent in 1947 to 32 percent in 1954. In 1955, with over-all stability in the price level, the percent of families above the $5000 mark continued to rise—to 35 percent.[16]

Family income in the current period of high employment has risen faster than per capita income. From 1947 to 1954 the former rose by 22 percent in constant dollars compared with only an 11 percent increase in per capita disposable personal income.[17] One explanation of this is the increasing number of wives who have entered the labor market to add to the economic welfare of the family. Between 1940 and 1950 the proportion of working wives nearly doubled. According to the U. S. Census data, the chances that a family had an income of $5000 or more in 1951 were twice as great if the wife worked than if she stayed at home.[18]

The financial contribution of working wives has reached significant proportions for the families involved, as well as for the economy in general. Should the labor market tighten at any time to reduce the number of wives employed, it would adversely affect the incomes and purchasing power of thousands of families in this district, as well as in other parts of the nation. Naturally, such a development would reduce the demand for housing.

Status of home purchasers

3. The rise in liquid assets

MANY HOME BUYERS, despite the liberalization of mortgage terms, must be able to accumulate a minimum of $1000 to $3000 to make a purchase.[19]

While $1000 to $3000 does not seem like a formidable sum, it can be and is a barrier to many potential home buyers. This is suggested when the amount of liquid asset holdings of consumer units is examined. While the liquid asset holdings of individuals rose from $60 billion in 1941 to $171 billion in 1946 and to $210 billion in 1954,[20] their distribution among consumer units is such that many hold none or small amounts.[21] Twenty-nine percent of all consumer units held no liquid assets early in 1956, and 65 percent held less than $1000.

A lack of liquid assets, of course, does not necessarily exclude one from buying a house. One may have assets other than so-called liquid assets which may also be converted into cash, e.g., equity in a house previously purchased, tangible personal property, or corporate stocks and bonds. In the case of veterans, homes may be purchased in many cases with much smaller down payments. Nevertheless, there are many potential buyers who cannot qualify under the GI program or who are located in areas where the program for veterans is not readily available.

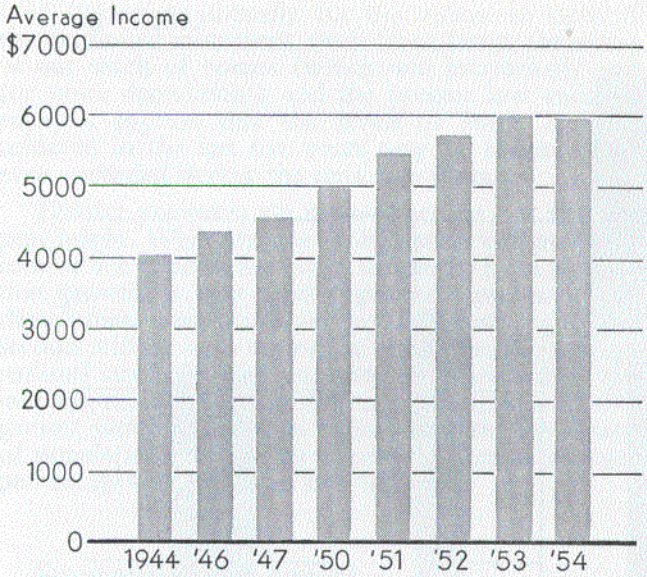


CHART 7: PERSONAL INCOME before taxes of the average United States family. Selected years from 1944 to 1954 are given. Source: U. S. Department of Commerce.

Status of home purchasers

4. The rise in prices of houses

THE POST World War II rise in prices of houses relative to other commodities has tended to curtail the effective demand. Over the past three decades residential building costs in the nation have risen about twice as fast as prices in general. These costs at the end of 1955 were 165 percent above the 1926-1929 average; wholesale prices in the same period rose only 77 percent.[22] Since the period from 1947 to 1949, the Boeckh residential cost index has increased 24 percent while wholesale prices rose 11 percent, and consumer prices rose 14.5 percent.

Price is an especially important factor in the sale of lower-priced houses (below $12,000). Many families buying houses in this price class are excluded when prices rise. In the past five years, for example, median family income has increased $900, but the median price of VA-financed new homes has increased from $9000 to $12,450 and of FHA-financed new homes, from $8,286 to $10,678.[23]

Housing costs and prices are high in this district, where low temperatures during the winter require better-built houses for comfort and economy in heating. Higher costs are reflected in the amount of contracts awarded per dwelling unit. In this district the average is consistently larger than in the other states where the F. W. Dodge Corporation collects such statistical information.[24]

There are also significant differences in the prices of new houses within different parts of the district. Prices of houses are higher in the western half of the district than in the eastern half due mainly to the greater distances from building-material manufacturers (with the exception of lumber). Sizable variations in prices often exist among communities of the district even when in the same general area. For example, in the latter part of 1955 a survey revealed that two-bedroom houses with similar floor space sold for substantially less in some communities than in others. In Glendive, Montana, for instance, two-bedroom houses sold for $11,250, while in nearby Miles City houses similar in construction and floor space were priced at $14,000.

Such differences exist because housing markets are still largely local in character. The universal use of the automobile has not opened housing markets to competition from other areas so freely as it has many other markets. Consumers cannot readily transfer their demand from one locality to another. Prices of residential lots often differ widely among communities in contrast to industrial sites which have become highly competitive. Home builders vary greatly in their knowledge and use of improved methods and new building materials. All of these factors make for a wide range in building costs.

The increased mobility of contractors and their willingness to operate over a wide geographic area tend to reduce local variations. Often, proficient builders who see the market for their houses dwindling in one community move to another and build two- and three-bedroom houses for $2000 and $3000 less than those built by local operators.

So long as building costs continue to rise, the prices of new houses may be expected to follow. While increased competition and ingenuity by builders have enabled contractors to absorb some of the increased costs in past years, there are limits to such readjustments. Contractors report that such limits have for the most part been reached and that further cost increases must be passed on to buyers. From December 1954 to December 1955 the price of all building materials rose 5 percent and the Boeckh index of the construction cost of residences rose 4 percent. Prices of comparable houses from 1954 to 1955 in the $12,000 to $14,500 price range were up $300 to $600. Early reports for 1956 suggest a continued increase in the price of new houses. Although such increases eliminate some potential buyers from the housing market, the immediate effect may be to induce families to buy now rather than wait at a time when prices are rising and expected to continue.

Status of home purchasers

5. Consumers' preferences

CONSUMER EXPENDITURE patterns change with time. Principal forces making for such shifts are the introduction of new products, changing social customs, increased incomes, and changes in the relative prices of different goods. Thus, while the real income of the American people has approximately doubled over the

last 50 years, the proportion of real income going into housing has declined.

Data on the real value of the standing stock of houses on a per capita basis fail to show any marked increase over the past half century, and the average real value per dwelling unit in the standing stock has actually declined.[25]

While consumers in recent years have spent a smaller proportion of their disposable income for housing, they have spent more for the appliances and furnishings which have become an essential part of a dwelling unit. When the housing market is weak, some builders install major appliances and include them in the purchase price of the house. Generally, outlays for appliances, as well as for lavish furnishings (draperies, carpeting, TV sets, etc.) are not included in housing expenditures. If outlays for such complementary items were included, the ratio of housing expenditures to disposable personal income would be somewhat larger.

Status of home purchasers

6. Competition for consumers' dollars

COMPETITION FROM other durables for the consumer's dollar has tended to reduce expenditures for housing. The family head who has bought an expensive automobile or elaborate recreational equipment may well be forced to reduce housing outlays. Shorter working hours and the automobile, of course, stimulate recreational activities—many of which are carried on away from home. This tends to reduce the preference for better housing. Similarly, the high cost of domestic services, maintenance work and taxes encourage consumers to be content with smaller quarters.

Nevertheless, at present strong forces are at work in the other direction and may result in larger outlays for housing. Suburban living, the do-it-yourself movement and the change in recreational habits prompted by the advent of TV all place new emphasis on the home. Since the end of World War II, preference has decidedly shifted to home ownership and to the single family unit. In part this is a reflection of the movement to suburbs and of government programs which stimulate home ownership. Frequently, total recurring monthly expenses are less for home owners than for renters.[26]

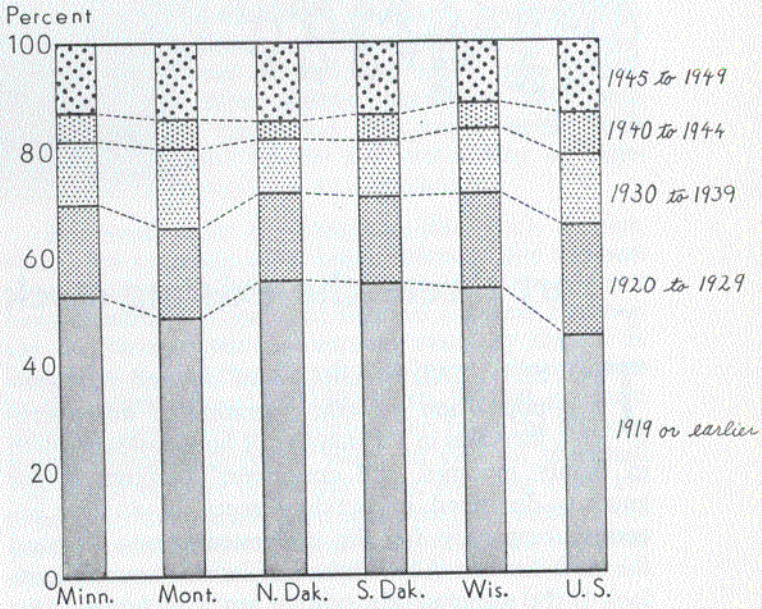
High rents and insufficient numbers of suitable properties for rent have been factors stimulating home ownership in almost every district community. Especially in the smaller cities and towns of the district, desirable houses or apartments are not readily available for rent. Tenants have only a choice between apartments, often located in the downtown area, and older, less desirable houses which have been converted into apartments. Thus, as frequently cited by competent observers, high rent is the only alternative to home ownership. Under these circumstances most young couples who live in rented quarters soon become prospective home purchasers. Some couples are in the market for a house as soon as they marry and most of the others are in the market by the time they have children. So long as the ratio of rent to housing costs (assuming comparable quarters) remains high, the attractiveness of home ownership will continue.

Summary

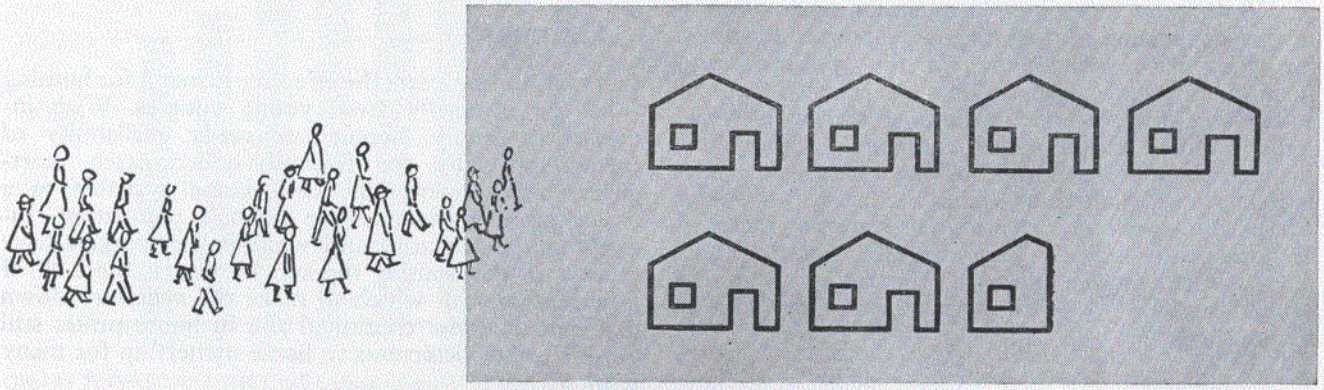
IN THE PAST few years the effective demand for housing has come chiefly from young couples. With increases in family income and ready availability of credit, especially for federally-underwritten mortgages, home ownership has become available to a wider cross section of the nation's population. Increasingly the factory and white-collar workers have come into the housing market. However, the lack of liquid assets with which to make the necessary down payment, and the continued rise in house prices still are important deterrents to home ownership for many workers.

Over the past half century per capita investment in housing has tended to decline. Part of the decline is traced to the classification of family expenditures. Many items complementary to home ownership are not included in housing expenditures. Suburban living, continued government stimulation of home ownership, and the trend toward larger families may combine to shift consumers' preferences for housing upward in the years ahead. Should this occur, the effective demand for housing would receive added stimulus.

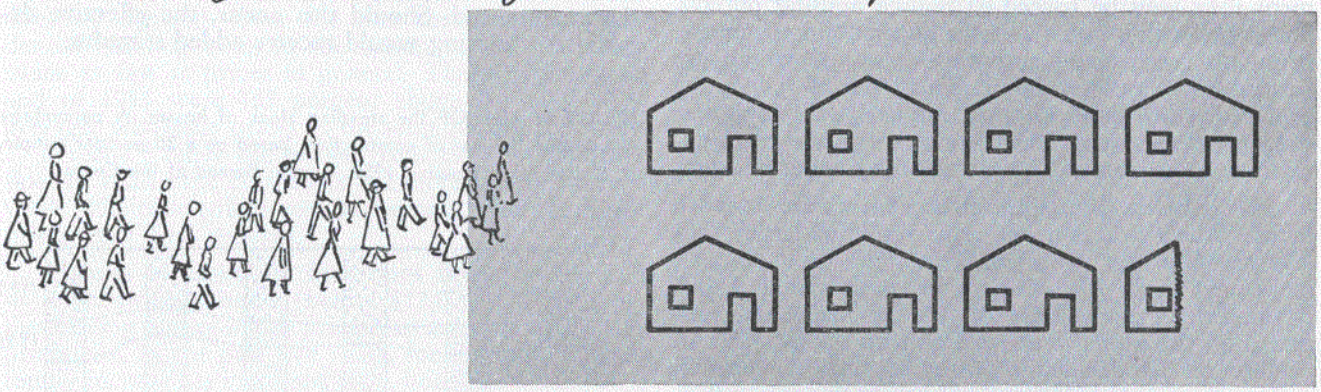
CHART 8: AGE OF the standing stock of houses. A percentage distribution by year of construction, based on a 20 percent sample, U. S. Census of Housing 1950. Source: Bureau of the Census.



To house 25 people in 1940, an average of 6.6 dwelling units were occupied.



To house 25 people in 1950, an average of 7.4 dwelling units were occupied.



Part three: the existing stock of houses and its utilization

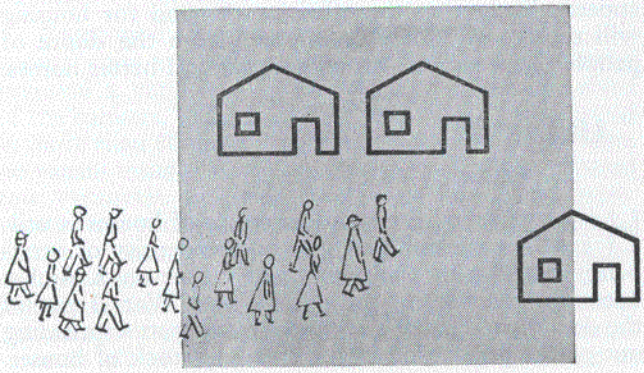
THE SEVERAL SOURCES of demand for housing—population growth, migration to urban centers, increases in the number of households, growth in family incomes, and consumers' preferences for housing—described in previous sections, do not account completely for the continued strong demand for new houses. Also important in the housing outlook is the status of the existing stock of houses. Obviously if a large inventory of high quality houses is already on hand, demands for new houses will be less than if the stock of houses is of poor quality. Likewise, if houses already on hand are not fully utilized, that is, excess vacancies exist, this would be reflected in a reduced demand for new construction. An examination of the existing stock of houses and its utilization in this district is relevant to the study.

Status of houses in the Ninth district

THE STOCK of existing houses in this district is old. According to the 1950 census of housing, more than half of the houses had been built in 1919 or earlier. In Minnesota, North and South Dakota and Wisconsin, from 53 percent to 56 percent of the houses were built prior to 1919.[27] The exception was in Montana, where less than half (48 percent) were of that vintage, as is shown in chart 8 on page 13. In the country as a whole only 45 percent of the houses had been built in 1919 or earlier, which indicates that a more modern stock of houses exists in other parts of the nation.

The relatively large percent of old houses in the district's standing stock indicates that a smaller proportion of the houses have been built in the past three decades. In addition to a smaller population growth (due to emigration to other regions) which reduced the demand for housing, adverse economic conditions forced many families to postpone the building of new dwellings.

In the twenties, agriculture was adjusting back to a smaller peacetime demand for food and fiber. Farm income declined sharply from the World War I peak. The drastic drop in land values brought financial ruin to many individuals. This period was followed by the prolonged and severe depression of the thirties, a calamity which was more acute in this district, especially the western half, than in other parts of the nation. In the latter thirties as the economy emerged from the depression, urban dwellers and farmers alike rebuilt the capital in their businesses and farms before building new houses or even undertaking major expenditures on old ones. During World War II there were practically no houses built for defense workers in this district. For example, the four district states had less than 1 percent of the authorizations made for dwelling units in the nation in 1942 and 1944 and less than one-fourth of 1 percent of them in 1943, as contrasted to the normal 2 to 2½ percent in the post World War II period.



Obsolescence and demolitions

HOUSES DEPRECIATE in value. That is, houses, like other commodities, suffer a loss in economic value through time although because of repairs and modernization and, in recent years, the general price increases, their depreciation has been obscured. Nevertheless, economic depreciation and obsolescence are constantly taking place. These result from normal use (wear and tear), changing land uses, or changes in acceptable housing designs and standards. As houses wear out or become obsolete, they are taken out of the market through demolition or conversion. In view of the somewhat older stock of houses in this district, demolitions are of considerable importance.

In part, of course, obsolescence is an elastic concept. To illustrate, more old houses in recent years have been going out of use than prior to World War II. Low incomes in those years forced many families to live in houses in a state of disrepair and obsolescence which would now be deemed unsatisfactory for living.

Higher incomes and more liberal mortgage credit have brought better housing within reach of many families at the very time when changes in the mode of living and larger families have kindled increased interest in better housing. Many old houses are not adaptable to the use of modern kitchen and laundry appliances. Some are not suitable with regard to space because of revived family living or because of an increase in family size. Such houses are rapidly approaching obsolescence.[28]

In recent years conversions have materially reduced the number of dwelling units. In small towns many loop apartments above retail outlets have been converted into business and professional offices. Houses adjacent to business districts have been converted into stores, offices or other nonresidential structures. Many houses which were divided into small units during World War II when shelter was scarce have been modernized and remodeled into larger units. Such conversions exceed by far the remodeling of nonresidential structures into dwelling units.

In several cities and towns in the Ninth district, where the population has been stationary for the past two or more decades, demolitions and conversions have created an impressive demand for new housing. On the basis of national surveys made by the U. S. Bureau of Labor Statistics it has been estimated that in the neighborhood of 250,000 to 300,000 nonfarm dwelling units have been withdrawn from the housing supply annually in recent years. In view of the small rise in the number of vacant units, dwelling units retired from the market have accounted for most of the difference between the annual number of new nonfarm dwelling units built since 1949 and the relatively small number of additional nonfarm households formed.

Utilization of existing houses

How the standing stock of houses is utilized by the population is another determinant in the demand for new houses. Only in times of emergency are the services of the existing houses used near capacity. In prosperous periods, such as the present, the number of persons per dwelling unit declines as in-laws and children move out to set up their own households. By contrast, in less prosperous times both the average number of persons per household and vacancy rates are likely to increase as families double up to save on their housing costs.

Utilization

1. Density of occupancy

In this district, as in the whole nation, there were about 3.8 persons per dwelling unit in 1940 and about 3.4 in 1950.[29] About 263 dwelling units were occupied per 1000 population in 1940, and, because of a spreading out, about 294 in 1950, an increase of 31 per 1000.[30] The relative drop in the density of occupancy was somewhat greater in the Dakotas than in the other states.

How significant the desire to occupy an independent household and to live in less crowded quarters has been in the demand for additional housing can be appreciated when viewed in terms of the population living in this district. In 1950 the total district population was 5,742,967, which at the density of occupancy in that year required about 177,800 additional dwelling units than would have been required in the preceding decade.

The high birth rate of the post World War II period has slowed down the trend toward lower density of occupancy. Large families (those with three or more children) have been increasing, which has increased the number of persons in many households. In the past several years this has been reflected in the demand for bigger houses.

An inspection of recently-built houses in this district reveals the pronounced trend toward larger and better-quality houses. The economy house or the cracker box, as it has been characterized, which was built immediately after World War II, is no longer in vogue. In a few communities such houses are selling below original cost.[31]

Builders over the district report a steady trend toward more floor space of better quality. The ramblers and ranch-type houses are gaining in favor, although builders in some communities continue to build some one and one-half story houses. Each year fewer two-bedroom houses are built. Two-bedroom houses with expansion space and three-bedroom houses are standard in many communities, and an increasing number of four-bedroom houses are being built.

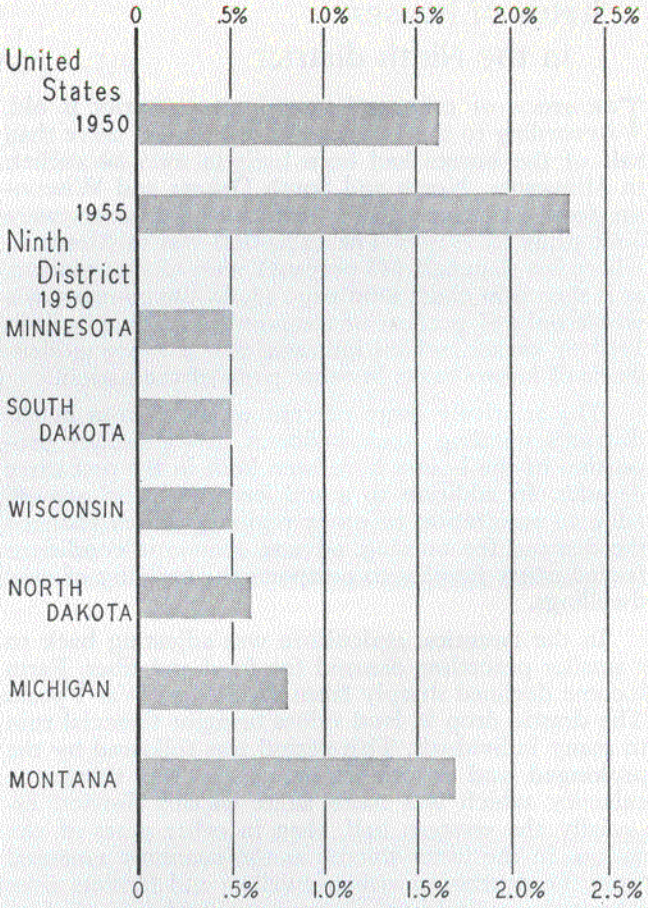


CHART 9: HOUSING UTILIZATION is shown for existing houses. The percentage of total dwelling units vacant is given for two years —1950 and 1955—for the United States, and for the year 1950 in the Ninth district. Source: Bureau of the Census.

That bigger and better houses are being built is reflected in the estimates of 1956 residential building. Housing starts are expected to be down about 10 percent from 1955, but the expenditures made for new houses may be close to last year's total. A moderate rise in construction costs accounts for a part of it. Of equal or greater importance is an upgrading in the quality of structures. In the immediate years ahead it appears likely that the effective demand for housing will receive considerable impetus from the desire of people to spread out—to own larger and better homes.

Utilization

2. Vacancy rates

How intensely the standing stock of houses is utilized is measured not only by the density of occupancy but also by the number of vacant units. As has been pointed out, in the post World War II period the decline in density of occupancy reflects a spreading out of the population in the standing stock of houses.

During the same period decreasing vacancies indicate a smaller number of unoccupied dwelling units.[32]

In the 1940 and 1950 U. S. housing censuses a larger proportion of the dwelling units in this district were vacant than was true for the whole nation. In the four states of Minnesota, Montana, North and South Dakota, the gross vacancy rates in 1940 and 1950 were 6.8 percent and 7.7 percent respectively, in comparison with a 6.6 percent national rate at both census dates. At the same time, the net vacancy rate, which includes only the permanent units for rent or sale, and more accurately emphasizes the need for housing, has been less than the national figure. In 1940 the rate in the four district states was 4.9 percent; the national figure was 5.0 percent. In 1950 the rate in these district states was as low as 1.1 percent and in the whole nation 1.6 percent, whereas approximately 5 percent is considered 'normal.'

In some district states a large number of permanent units vacant in the 1950 census were classified as dilapidated, which reflects the age of the housing stock in this region. In North Dakota as many as 28 percent of the vacant units were so classified, and in Montana and South Dakota the percentages were 21 and 25 percent respectively. In the whole nation only 17 percent were dilapidated.

Many vacant units in Minnesota were seasonal (lake-shore dwellings). These constituted 58 percent of the total vacant units. A large number in northern Wisconsin and the Upper Michigan peninsula is also in this classification. In North and South Dakota such seasonal units were only 25 percent and 17 percent respectively of the total vacant units, and in Montana the vacancy was 31 percent.

The net vacancy rate has risen in recent years. The first survey on vacancies made by the U. S. Bureau of Labor Statistics on a national scope since the 1950 census of housing was in 1955. In the second quarter of that year the vacant dwelling units available for sale or rent were 2.3 percent of the total units in the nation, compared to the 1.6 percent rate for 1950. In the first quarter of 1956 the vacancy rate had increased to 2.7 percent. This national rate does not necessarily reflect the level of vacancies in this district. It may encompass housing surpluses in some areas and be offset by shortages in others.

A survey made in the fall of 1955 of the number of vacant units available for sale or rent in this district revealed a very low vacancy rate. Almost one-third of the bankers, builders and real estate men interviewed in more than 80 district communities stated there were no vacant units available. Another one-fourth reported few vacancies. In cities of medium size more apartments were vacant than single dwellings. Others amplified this comment by stating that vacancies were concentrated in smaller apartments. No doubt, the growing number of larger families requiring more spacious quarters is a contributing factor. Most of the vacant units in all of these communities were described as the less desirable ones, which, of course, reflects the upgrading in the quality of shelter demanded.

Although 1955 was a record home-building year, only 9 percent of the respondents reported a rise in vacancies during the year. Where new houses were vacant, generally builders had appraised incorrectly the type of houses demanded. In one community a builder had built an economy house in a new subdivision. These houses were offered at a relatively low price, but prospective buyers deemed them as unsatisfactory for the severe winter weather. Other builders erred on the side of too high a quality: i.e., building too many houses in the $18,000 to $24,000 price bracket. In most communities there was a sufficient supply of housing so families could exercise some choice in the purchase of houses.

A rise in the net vacancy rate has been carefully watched as a harbinger of an approaching saturated housing market. Students in the housing field have assumed that a rise in the net vacancy rate to a normal or critical level presages a sharp decline or cessation of residential building.[33] Because of the range of vacancy rates observed among district communities it is impossible to identify a normal or critical level. In some communities where the vacancy rate was low, home building, nevertheless, had almost ceased. In others where the rate was 3 percent or 4 percent or even higher, builders still were busy erecting new houses. The type of units vacant, of course, is the principal determinant in the demand for new houses. Whether a community is growing, static or declining has a bearing on the demand for new houses, irrespective of the net vacancy rate.

Summary

IN GENERAL, the stock of houses in the Ninth district is older than the over-all national stock. The demand for new houses should, therefore, receive somewhat more impetus from the removal of old houses from the stock of houses here than in the nation as a whole. Currently, a substantial number of housing units—district and nation—are being removed from the housing market. Such removals account in large part for the slow increases in vacancy rates despite the excess of housing starts over the number of new nonfarm household formations.

While the inventory of houses is seldom fully utilized except in time of emergency, net vacancy rates —district and nation—are still very low. Vacancies have crept up since 1950 but remain low in comparison with pre-World War II rates. In most communities net vacancy rates still are far below 5 percent, which figure, according to some observers, is a 'rule of thumb' indicating a saturated market.

In most places a buyers' market prevails for homes in that there is some choice. Good rental units are scarce and high priced with correspondingly low vacancy rates. So long as these conditions exist the demand for new construction should remain strong.

Part four: mortgage credit or debt

Expansion and magnitude of the mortgage debt, the repayment picture and the possible dangers in too-rapid expansion . . .

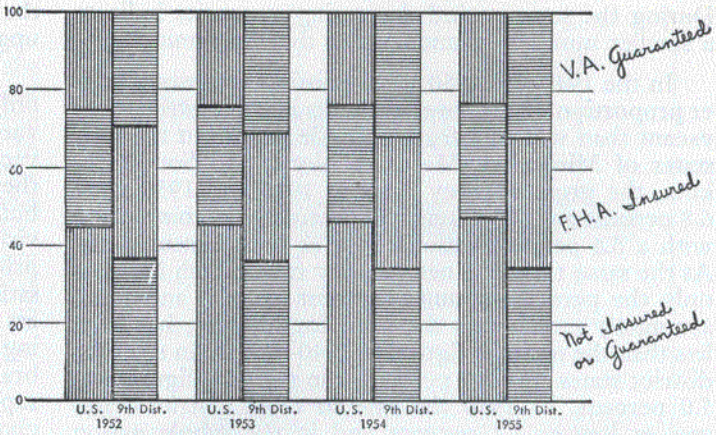


CHART 10: REAL ESTATE LOANS—percentage distribution of residential loans by type of loan. Percentages given are for loans in operating, insured commercial banks in the United States and in Minnesota, Montana, North and South Dakota, June 30, 1952 to 1955. Source: Federal Deposit Insurance Corporation.

SINCE MOST HOUSES are purchased on credit, the availability of mortgage credit—in addition to population growth, household formation and family income—is a significant factor in the housing outlook.

In the post World War II era financial institutions have looked with increasing favor upon mortgage loans. High family incomes stimulated the demand for housing, and as most houses are bought on credit, this in turn, stimulated the demand for mortgage funds. Despite a rapid rise in residential mortgage debt, lenders have had excellent experience with these loans. Delinquency rates have been at a minimum due to uninterrupted economic prosperity.

The favorable repayment experience has caused an increasing number of lenders in this district to view mortgages as a safe investment. Many have purchased federally-underwritten mortgages in the secondary markets; others have liberalized terms to secure more loans in the area they serve. This investment trend is currently reflected nationally in efforts to divert pension fund reserves into mortgages.[34]

Mortgage lending trends

I. Changes in loan procedures

PRIOR TO the federally-underwritten mortgage program which was introduced in 1934, the typical home buyer could expect to borrow only 40 to 50 percent of the appraised value of his house on a first mortgage. For many these conservative loans made a second mortgage or contract for deed mandatory. Interest on first mortgages ran from 5 to 8 percent, and substantially higher on most second mortgages. Interest was ordinarily paid annually, and the principal was due when the loan matured at the end of one to five years. While it was mutually understood that loans would be renewed at maturity, borrowers had no guarantee. Without the discipline of principal amortization by monthly payments, many borrowers found it difficult to reduce the amount of their outstanding loans. Under these circumstances many home owners encountered mortgage difficulties during the depression in the thirties.

With the objective of improving mortgage lending practices and reducing the risk to financial institutions, the Federal Housing Administration was established in 1934.[35] A new federally-underwritten mortgage program was introduced toward the end of World War II. Under the Servicemen's Readjustment Act of 1944 the Veterans Administration was authorized to guarantee certain mortgage loans made by lending institutions to veterans of World War II. The principal objective of this legislation and later amendments was to help veterans buy, build or repair homes upon their return to civilian life without requiring a down payment from their own resources. Thus, the Veterans Administration made it possible for lenders to grant 100 percent mortgage loans. If the veteran defaulted on his loan, the Administration was given the option of making a cash payment to lenders for the portion of the loan guaranteed or of taking over the mortgage and paying the debt in full.[36]

Mortgage lending trends

2. Attitude of lenders toward federally-underwritten mortgages

DIGGING INTO the financial annals of the late thirties reveals that a less favorable investment view toward mortgages prevailed at that time than in recent years. Mortgages were looked upon by many lenders as risky loans.

The Home Owners Loan Corporation purchased mortgages in default from private financial institutions, thus converting frozen assets into liquid funds which could be invested in new mortgages based on lower appraisal values. By the end of 1936 order had been restored in the market in that most delinquent loans written before the depression had been taken out of private financial institutions. Lenders had ample funds. Commercial banks between 1936 and 1941 held large amounts of excess reserves. Even so, only a limited amount of credit was extended on mortgages. The debt outstanding on nonfarm properties reached a low of $24.3 billion in 1937 and rose slowly through 1941 to $27.2 billion, a modest increase of $2.9 billion in five years. Only in part was the conservative lending traced to relatively low family incomes; it was also due to the unfavorable view held on mortgages as an investment. At that time delinquencies were high enough to cause lenders to maintain conservative terms in an attempt to control or reduce the defaults.

The change in attitude toward mortgages was slow. When the FHA-insured mortgage program was introduced, lenders, of course, were under no obligation to grant such loans. Many bankers originally objected to government participation in the mortgage field. Some were doubtful that home owners would stick with the monthly payments over the long maturity of the loans.

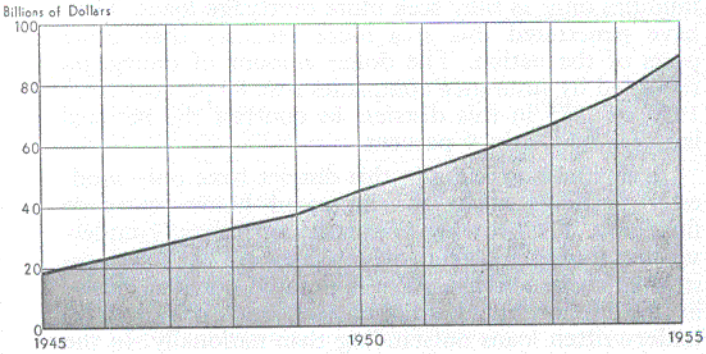
Following World War II, mortgage lenders in this district, especially those in the smaller cities and towns, remained conservative in granting federally-underwritten loans. Many small lenders did not offer FHA or VA loans for one of several reasons: a few still opposed government participation in the mortgage field; some felt that there is excessive red tape and delay involved; others concluded that the small volume of prospective loans in their areas would not cover the cost of assigning a person to the task of keeping abreast of new regulations and of processing these loans and, of course, some preferred their own conventional loans as the net return was greater to them.

Since 1950 more and more lenders have been prompted to offer FHA-insured and VA-guaranteed loans to their customers. Federally-underwritten mortgages now originate in the most remote hamlets, whereas previously they were concentrated in the large metropolitan centers. This is of special importance in the Ninth district which has a large number of small communities.

The present attitude toward mortgage loans is traced to the universal acceptance of improved methods of mortgage financing. In addition to today's economic prosperity, which has enabled families to meet their mortgage payments promptly, the general acceptance of federally-underwritten mortgage loans has fundamentally changed methods of lending on residential properties, as well as reduced the risk of such loans to lenders.

CHART II: TOTAL MORTGAGE DEBT of the United States on one-to-four family nonfarm houses for the years 1945 through 1955.

Source: Federal Reserve Bulletin.



Effect on mortgage market of federally-underwritten loans

FHA-INSURED and VA-guaranteed loans have wrought a veritable revolution in the home mortgage field. They have exerted a dominant influence on the mortgage market in the post World War II era.

The federal program has broadened the market for mortgage loans among financial institutions, while virtually excluding the individual lender. The greater liquidity injected into the market by the standardization of mortgages, procedures, and the establishment of the Federal National Mortgage Association to provide a secondary market for insured and guaranteed mortgages encouraged commercial banks to enter more vigorously into residential mortgage financing, which had been traditionally left to other lenders. For example, between 1935 and 1955 the relative mortgage holdings of commercial banks rose from 10 to 18 percent of the total nonfarm residential debt.

The more liberal mortgage terms are with regard to down payment, length of maturity and interest rate, the greater the number of effective demanders for new and existing houses.[37] With more liberal mortgage terms available under FHA and VA programs than under the conventional mortgage loans, it is not surprising that these programs have become very significant in the total mortgage picture.

The rise in mortgage credit

THE ROLE OF government programs is shown in that the proportion of nonfarm mortgages underwritten by the federal government has increased 20 percentage points since 1945.[38] Interestingly, the proportion underwritten by government declined slightly in 1952, 1953 and 1954. In 1955 under the impact of the VA program the proportion underwritten by the government rose by a small amount.

Particularly significant is the sharp increase in VA mortgages since 1950. Over the five-year period from December 1950 to December 1955, the volume of VA mortgages outstanding increased 138 percent. By contrast, the magnitude of conventional mortgages outstanding on one-to-four family properties rose 90 percent, and FHA-insured mortgages 66 percent. The greater relative growth in VA volume is accounted for primarily by the unusual spurt in 1954 and 1955.

Since 1950, local financial institutions have increased their holdings of both FHA-insured and VA-guaranteed loans. Some have purchased these loans at propitious times in the secondary market; others have granted such loans to prospective home purchasers in their areas. Insured commercial banks in this district during the past four years have consistently held a larger proportion of their mortgages in federally-underwritten loans than did banks throughout the nation. Insured commercial banks in this district as of June 30, 1955 had 64 percent of their mortgage loans underwritten by the federal government. The corresponding percentage for insured commercial banks throughout the nation was 53 percent. Savings and loan associations continue to maintain a strong preference for conventional loans, but an increasing number stand ready to grant federally-underwritten loans when prospective home buyers cannot meet the conventional loan terms. As a result, during 1952-54 federally-underwritten mortgages in the loan portfolios of commercial banks were becoming relatively more important in the district but relatively less important nationally.

Mortgage lenders in past years have gradually liberalized terms on loans in acquiring larger portfolios. In the fall of 1955 over one-half of those lenders who were granting the FHA-insured loans were accepting the maximum terms approved by the FHA office. A majority of those offering VA-guaranteed loans were accepting loans up to 90 percent of the appraised value and 20-year maturity. Loans equal to the appraised value, that is, no down payment required, were seldom accepted by lenders outside of the largest district cities.[39,40]

Institutions granting mortgage credit

The conventional mortgage loan is still of great importance despite the growth of federally-underwritten mortgages. The general economic prosperity of recent years has enabled more families in the nation to qualify for the conventional type of mortgages. In the last four years, for example, such loans have more than held their own at commercial banks (see chart 10, page 18). On June 30, 1955, 36 percent of the mortgages held by insured district commercial banks, were of this type. Although lending practices vary according to policies of individual institutions, an increasing number of loans are made at terms which are near the maximum established by state or national laws. And more institutions are holding mortgage portfolios which are near the legal limit.[41]

This is also true for savings and loan associations. At the end of 1951 such institutions had 74 percent of their mortgage portfolios in conventional loans, but by the end of 1955 the proportion was 77 percent. In these same time periods life insurance firms held 53 and 54 percent of their mortgage portfolios in conventional loans. By contrast, federally-insured mortgages have become a larger proportion of total mortgage holdings for savings banks. At the end of 1951, 50 percent of the residential mortgages held by these institutions were federally-underwritten; just four years later the percent was 64.

On the basis of the relative volume of loans originated, savings and loan associations and commercial banks are principal mortgage lenders in this district. They accounted for 40 percent and 27 percent respectively or 67 percent of the total in 1955 compared to 56 percent nationally.[42]

All lenders have shared in the increased mortgage activity, but there were significant differences among them. Over the six-year span the rapid increase in activity at savings and loan associations is particularly evident in both the national and the district figures, although in this region the increase was only 64 percent compared to an increase of 107 percent for all associations in the nation as a whole.

Especially noteworthy was the strong upsurge in 1955 by commercial banks in the mortgage field. This is traced, in part, to 'warehousing,' an agreement under which banks are temporary holders. The relative increase in loans originated by commercial banks lagged far behind that of savings and loan associations from 1950 through 1954. But by the end of 1955 the gap was less in the national figures and entirely eliminated in the district.[42]

Insurance companies reach out into small communities only as they seek more mortgage loans. They have penetrated this area more recently than other parts of the nation. The dollar amount of mortgages recorded by insurance companies rose 89 percent from 1950 to 1955 in this district. In contrast the national increase was only 9 percent.

Individual investors in this district have only modestly participated in the increased home mortgage financing. The growing popularity of federally-underwritten mortgages, from which they are excluded, restricted their activity. As was pointed out previously, in this district there is a larger proportion of federally-underwritten loans outstanding than nationally. In the

six-year period, from 1950 to 1956 inclusively, the amount of loans originated by individuals rose by 18 percent in the district in contrast to a 46 percent countrywide rise.

The activity in the mortgage market by the several lenders does not necessarily correlate with the relative holdings of mortgages. As the secondary market —which the standardization of federally-underwritten loans has facilitated—has grown, many lenders began to serve as agents for other institutions. It is well known that insurance companies are heavy purchasers of mortgages originated by other lenders. The same is true of mutual savings banks. By contrast, savings and loan associations originate substantially larger proportions than they hold. Commercial banks, in the aggregate, tend to hold the volume they originate.

Information on the holdings of nonfarm mortgages by the several types of mortgages is not available for this district, but it would seem from the fragmentary data at hand that the heavy holders are savings and loan associations, commercial banks and insurance companies.

The salient features of home mortgage financing may be summarized under four main points:

1. Since 1950 there has been a rapid rise in home mortgage recordings of less than $20,000 even though the number of housing starts has not exceeded the 1950 peak. The dollar value of recordings has increased somewhat more rapidly across the nation than in the district.

2. While mortgage recordings increased for each type of lender, the greatest relative increases, were made by savings and loan associations nationally, and by insurance companies in the Ninth district.

3. The district proportion of mortgage recordings made by savings and loan associations and commercial banks is substantially higher than the national proportion — in 1955, 67 percent versus 56 percent.

4. In order of magnitude the chief institutional holders of mortgages in this district ranked in the following order at the end of 1955: savings and loan associations, commercial banks and insurance companies.

Magnitude of the mortgage debt

MUCH OF the current apprehension about a possible saturation of the housing market which would curtail home building and cause housing values to drop drastically can be traced to an uneasiness regarding the large mortgage debt. The amount outstanding has risen to an unprecedented magnitude. Can the amount outstanding continue to rise or even be maintained, if there should be a decline in economic activity? At the end of 1955 the total on all properties in the nation had reached $130 billion. At the end of 1945 before the post World War II building boom began, the amount outstanding was the relatively modest figure

Estimated amount of nonfarm mortgages recorded of $20,000 or less by type of mortgagee
U. S. and Ninth district, 1950-1955
(In millions of dollars)

	United States						Ninth District[1]					
Type Mortgagee	1950	1951	1952	1953	1954	1955	1950	1951	1952	1953	1954	1955
Savings and Loan Ass'ns	5,060	5,295	6,452	7,365	8,311	10,451	162	149	160	174	226	265
Commercial Banks	3,365	3,370	3,600	3,680	4,239	5,616	106	98	103	108	124	175
Individuals	2,299	2,539	2,758	2,841	2,882	3,362	48	51	50	55	54	57
Insurance Companies	1,618	1,615	1,420	1,480	1,768	1,932	28	31	39	38	46	54
Mutual Savings Banks	1,064	1,013	1,136	1,327	1,501	1,858	9.7	6.6	8.4	7.6	8.1	10.1
Other Mortgagees	2,774	2,572	2,651	3,055	4,272	5,265	59	56	52	64	82	99
Total	16,179	16,405	18,018	19,747	22,974	28,484	413	392	413	447	541	660

[1] Applies to three district states only. These are Minnesota, Montana, and North Dakota.
Source: Federal Home Loan Bank Board, **Mortgage Recording Letters**, January 1950 to December 1955.

Index of estimated amount of nonfarm mortgages recorded of $20,000 or less by type of mortgagee
United States and Ninth district, 1951-1955
(1950 = 100)

	United States					Ninth District[1]				
Type Mortgagee	1951	1952	1953	1954	1955	1951	1952	1953	1954	1955
Savings and Loan Ass'ns	104.6	127.5	145.6	164.3	206.6	92.5	99.3	108.0	140.0	164.4
Commercial Banks	100.2	107.0	109.4	126.0	166.9	92.9	97.2	101.5	117.5	164.8
Individuals	110.5	120.0	123.6	125.3	146.2	105.0	103.8	113.1	111.8	117.8
Insurance Companies	99.8	87.8	91.5	109.2	119.4	108.1	136.0	134.1	162.8	189.1
Mutual Savings Banks	95.2	106.8	124.7	141.1	174.6	67.8	86.5	78.5	83.2	103.5
Other Mortgagees	92.7	95.6	110.1	154.0	189.8	95.1	88.6	108.7	139.0	168.3
Total	101.4	111.4	122.1	142.0	176.1	94.9	100.0	108.1	131.0	159.8

[1] Applies to three district states only. These are Minnesota, Montana and North Dakota.
Source: Table above and computations.

of $35.5 billion. Thus, in one decade the debt on all properties rose over three and one-half times.

The greatest share of this mortgage debt at the end of 1955—$88.4 billion or 68 percent of the total—was outstanding on one-to-four family houses. With a total of $18.6 billion at the end of 1945, it rose almost five times in a decade. In 1955 the growth in residential mortgage debt set a new record. Of the $16.4 billion increase on all properties, $12.7 billion or 77 percent was on one-to-four family houses. Of course, the burden of the mortgage debt to the typical home owner has not risen as rapidly as the amount of the debt outstanding. A lengthening of maturities on both federally-underwritten and conventional loans has held down the required monthly payments.

The residential mortgage debt has outdistanced other components of the economy. In the 10 years from 1945 to 1955 it has risen 3.8 times as rapidly as both the nonfarm population in the nation and the number of households. In 1945 the debt was about $491 per household and in 1955, $1,850. The value of new residential construction which rose by $15.5 billion in this 10-year period was surpassed almost six times. Compared with individual disposable income, the debt rose 3.7 times faster. The ratio of personal disposable income to debt in 1945 was 4.9 to 1 and in 1955 it was 2.2 to 1.

Magnitude

1. Mortgage debt and investment in housing

THE RISE in the amount of new mortgage loans is not closely correlated with the volume of residential building. The record number of housing starts made in 1950 has not been exceeded in subsequent years; yet the mortgage debt has risen sharply. The increasing amount of credit granted reflects, in part, larger loans in relation to market values, a rise in building costs, and an accelerated activity in the exchange of existing houses. The amount per mortgage recording in this district has increased from $5,292 in 1950 to $7,422 in 1955, or 40 percent. Nationally the increase was from $5,336 to $7,279, or 36 percent in the same period.

It is apparent that some credit has been secured on mortgages for purposes other than acquiring or improving housing. In the sharp rise in instalment debt some home owners overextended themselves and, experiencing difficulty in meeting monthly payments, they consolidated these debts into mortgage loans. If they already had a mortgage on their property, a second one was obtained.

To home owners who have built up an equity in their homes, mortgage loans offer a cheap source of credit. The interest rates are lower and monthly payments are smaller than on instalment contracts. Furthermore, the entire interest paid on mortgages is deductible on personal income taxes, so the government indirectly pays as much as a third of the carrying costs. On instalment loans the interest deductible is limited to 6 percent of the average balance outstanding during the year. Individuals have used the credit obtained on mortgages to buy new cars, home appliances, house-furnishings and, a few more venturesome, to buy common stock.

Magnitude

2. Is the mortgage debt too high?

THE RESIDENTIAL mortgage debt of $88.4 billion appears alarming not only in terms of the total accumulated but in the rapidity of the postwar increase. Even so, in viewing closely present-day activity in the mortgage market, it is difficult to discern who is staggering under the debt. Is it the home owners who so eagerly have taken on this debt to acquire houses, improved housing facilities or other commodities? Is it the financial institutions which have stood ready to grant the increasing amount of credit and have found mortgages a lucrative and safe investment? Is it the federal government which has insured or guaranteed a large portion of the debt?

Home owners have borne up well. Delinquencies and foreclosures are the first symptoms of trouble, and they have been low. Even in 1954, when unemployment rose materially in the iron-mining areas of this district, delinquencies remained low, and foreclosures were almost nonexistent. In all postwar years and in most areas of the district repayments on home mortgage loans have run far ahead of contract schedules. If the typical home owner found the debt onerous, no doubt his grievances would become known.

Institutional investors obviously have been eager to invest in mortgages, as competition in the market and the large number of new loans extended indicate. More bank credit was used in 1955 to acquire mortgages than in any former year. For many lenders the chief consideration in acquiring mortgages has been the differential between the net yields on federally-underwritten mortgages and those on government bonds in the maturity range from 10 to 15 years or more. In recent years lenders have required a spread ranging from 1.25 to 1.50 percentage points, the differential varying with the trend in interest rates.[42]

So far the federal agencies have not been called upon to underwrite any substantial amount of the debt. The Federal Housing Administration sustained a minimum of losses both before and after World War II on the insurance of mortgage loans. Through 1954 the losses were only .03 of 1 percent on the $36 billion of loans insured. This insurance program on mortgages has not cost the American taxpayer one penny. The premium paid by mortgagors has been sufficient to cover all losses.

The guarantee of GI home-mortgage loans by the Veterans Administration has been equally successful. On no-down-payment loans, as well as on others, veterans have established an excellent repayment rec-

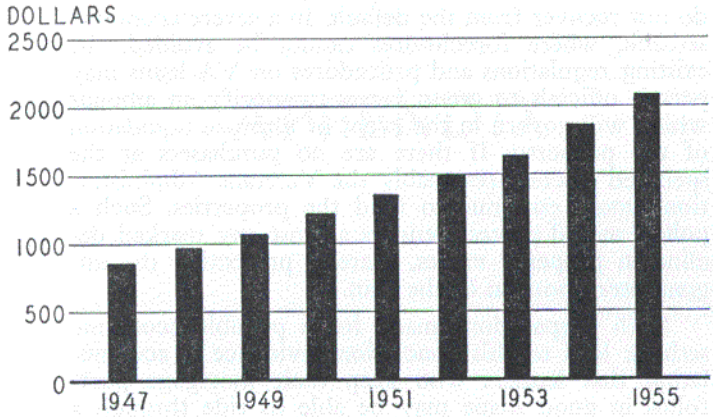


CHART 12: HOUSEHOLD MORTGAGE DEBT on one-to-four family nonfarm houses in dollars, for the years 1947 through 1955.

Sources: Federal Reserve Bulletin and Bureau of the Census.

ord. Since the inception of the program in 1944 the Veterans Administration has sustained a loss of only .06 of 1 percent on the $33 billion of home loans guaranteed to veterans. Since the loan-guaranty program is a veterans' benefit, the cost of administration, as well as of any losses incurred, is born by the taxpayer.

Cost of shelter and mortgage debt

THE MORTGAGE DEBT of over $88 billion outstanding on residential properties is viewed by some observers as too heavy for the American people to carry. They may have confused the debt with the cost (or burden) of housing. The growth in the debt does not necessarily reflect a rise in the latter. Since the mid-thirties home ownership has grown in popularity. For many households it has become cheaper to own than to rent. The traditional gap between owning and renting has disappeared, and especially for young married couples coming into the housing market, it has even reversed itself. The smaller monthly payments required for debt service in comparison to rent are traced to low interest rates and long maturities on mortgage loans. Consequently, the rise in the debt outstanding reflects, in a large measure, the increasing number of families and individuals owning houses.

Studies have been made to ascertain the total recurring expenses involved in owning or renting in nine large United States metropolitan areas in 1949 and 1950.[43] For owners the costs were less in five metropolitan areas: Chicago, Dallas, Detroit, New York and Pittsburgh; for renters costs were less in Atlanta, San Francisco and Washington, D. C. In Los Angeles neither group, owners or renters, had a permanent advantage.

Monthly recurring expenses are an obligation of either owners or renters, but owners reap intangible benefits. Family upon family have become enamored of the advantages of suburban living, with its freedom, independence and the privacy afforded by single houses and pleasant backyards.

The cost or burden of housing that the typical American family is willing to assume is reflected in the proportion of personal disposable income devoted to housing. The relative amount has risen slowly since 1944, when incomes were high and rent and price controls were in effect. Nevertheless, the proportion of income spent for housing, including utilities, still is less than it was in 1929.

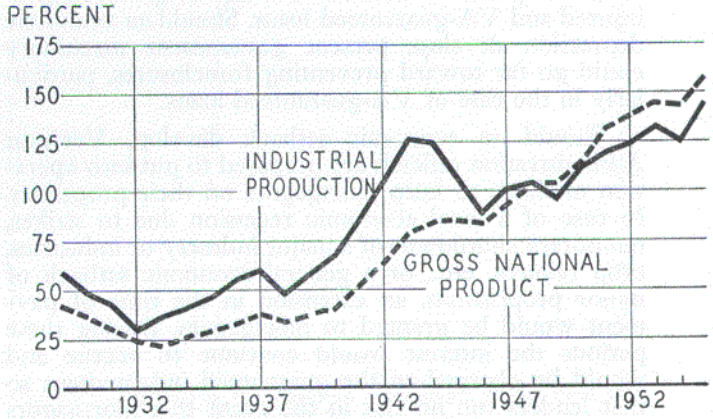
Does danger lurk in rapid mortgage debt expansion?

IN THE BUILDING BOOM of 1954-55 mortgage debt outstanding had risen at a record rate, particularly so in 1955. A number of business analysts have pointed out that this rate of increase cannot be maintained indefinitely.[44]

When the mortgage debt expansion slows down, as it eventually must, what will be the effect on general economic prosperity? On this point there is wide disagreement. Some economists believe that a recession could ensue, with a substantial rise in unemployment; others believe that it may be offset by an expansion in any one of several other industries.

CHART 13: OUTPUT of the national economy in the past two and one-half decades, showing the fall and rise in industrial production and gross national product. Gross national product charted in terms of an index (1947-49 = 100) and in current dollars.

Sources: Federal Reserve Bulletin and U. S. Dept. of Commerce.



No blueprint can be drawn up on the next economic recession. Only the past and the present are known with some certainty; the future can be predicted only with a wide margin of error. However, a bright spot does appear on the horizon as evidence is accumulating that greater economic stability has been achieved. Since the end of World War II, there has been a degree of stability in the economy which has permitted 'rotation' or 'rolling adjustments.'[45] In this period one industry after another has undergone recession and readjustment without a serious general decline of the economy.

Last December some observers predicted a significant decline in home building and in passenger car production in 1956. In fact, they recommended a reduction in federal taxes to moderate a general economic recession. At the time no proof could be offered that they were wrong, although facts made it appear that they might be on the pessimistic side. Now it is known that both home building and automobile production declined in the first half of the year but without affecting general prosperity.

Outlook for mortgage lenders appears bright

ACCURATE APPRAISALS of properties are essential for sound mortgage lending. The Federal Housing Administration has made a great economic contribution in developing an objective method of appraising houses and home construction. In the current housing boom the standards of value established for home construction have removed or minimized speculative valuations and overextensions of credit. As a result it is hoped that in a weak market the sound standards of value will discourage excessive declines in housing values and excessive restrictions of credit. Consequently, sound present-day appraisals made of houses may hold up better in any future depression than former methods did in past weak markets.

The federal government now assumes a great share of the risk of loss on the mortgage debt outstanding on one-to-four family properties. At the end of 1955 almost 45 percent of the loans outstanding were FHA-insured and VA-guaranteed loans. Should an economic depression develop, present government machinery could go far toward preventing foreclosures, particularly in the case of VA-guaranteed loans.

Should an economic setback develop, Veterans Administration officials are prepared to put into operation methods to keep mortgagors on their properties. In case of a local economic recession due to strikes, temporary shutdowns of a major industry or industries, crop failures, etc., or a general economic setback of minor proportions, an extension in the time of payment would be granted to mortgagors. During these periods the interest would continue to accrue and would be charged to the guaranteed indebtedness so that lenders run no risk in the event that mortgagors do not recover from the default. In a severe economic setback, where foreclosures cannot be avoided, the existing regulations and procedures on VA loans may permit officials to go so far as to specify an amount which will govern in the event of ultimate liquidation of the property. If there are no purchasers at the specified prices, presumably the Veterans Administration would continue to hold the properties. Such a policy would protect lenders against any marked decline in property values, thereby protecting the unguaranteed portion of the loan.

Such preparations made for a possible economic setback lead to this conclusion: evidence is accumulating that lenders who keep their mortgage portfolios in good shape may be able to ride through a possible depression without much difficulty.

Summary

THE MORTGAGE DEBT has risen rapidly in the post World War II period. In this district, as in the whole nation, much of the increase in indebtedness is outstanding on residential properties.

The unprecedented demand for mortgage credit has been associated primarily with the increase in home ownership which has stimulated the residential building boom, with the exchange of existing houses, and the repair and modernization of older houses. A relatively small amount of credit has also been used for other purposes. A few individuals have consolidated their instalment loans into long-term mortgage loans. A few home owners with substantial equities in their properties have discovered in mortgage loans a cheap source of credit.

Institutional investors, on the other hand, have been eager to grant these loans, as is reflected by the competition in the market. An increasing number of lenders in this district as elsewhere view mortgages as a safe investment.

The rapid growth in the mortgage debt, which undoubtedly cannot be maintained indefinitely, has caused some speculation over a possible drop in residential real estate values. In this almost continuous period of prosperity since World War II, individuals have developed a feeling of well-being, and have borrowed extensively on future income. In a less prosperous period confidence in the future may be dampened, which may result in a smaller demand for mortgage credit. Since most houses are purchased with credit, this would reduce the demand for houses and may cause values to decline.

Should housing values drop, much of the mortgage debt, nevertheless, may remain on a sound basis. Objective appraisal methods have held down speculative valuations and overextensions of credit in time of boom. It is hoped that in a depressed real estate market, the standards of values established through these appraisals will prevent excessive declines in housing values and excessive restrictions of credit. END

APPENDIX

[1] The communities classified by size, and the respondents by type of institutions are recapitulated in table I. The information requested in the interviews came under these headings: characteristics of the borrowers of mortgage credit, terms granted by lenders on loans, type of houses purchased or repairs and modernization made on existing houses, information on vacancies, and the outlook for residential building.

Through these interviews specific information was sought to supplement the general data in order to gain a deeper insight into the housing and mortgage markets in the Ninth district.

Table I
Housing Questionnaire
Interviews by city and respondent

Cities Classified by Size*	Population	Banks	Savings and Loan	Realtors	Attorneys	Builders and Contractors	Chamber of Commerce and Builders Exchange	Business Men	Abstract Office and Insurance Companies	Total
50,000										
Duluth	110,000	2	1	1			1			5
Subtotal		2	1	1			1			5
25,000 - 50,000										
Rochester, Minnesota	29,885	1	1	1		1				4
St. Cloud, Minnesota	28,410	2	1	2						5
Winona, Minnesota	25,031	2	1	1		1				5
Great Falls, Montana	39,214	1	1	1		2				5
Butte, Montana	33,251	1	1	1						3
Billings, Montana	31,834	2	1	1		1				5
Fargo, North Dakota	38,256	1	1	1		1				4
Grand Forks, North Dakota	26,836	1	1	1		1				4
Superior, Wisconsin	35,325	2		1						3
Eau Claire, Wisconsin	36,058	1	1	1						3
Subtotal		14	9	11		7				41
10,000 - 25,000										
Ironwood, Michigan	11,466	1	1	1						3
Austin, Minnesota	23,100	1	1	1		1	1			5
Hibbing, Minnesota	16,276	1	1	1		1				4
Moorhead, Minnesota	14,870	1	1	1						3
Albert Lea, Minnesota	13,545	2	1	1		1				5
Virginia, Minnesota	12,846	1		1		1				3
Fergus Falls, Minnesota	12,917	2	1							3
Brainerd, Minnesota	12,637	1		1						2
Helena, Montana	17,581	1	1	1		1				4
Minot, North Dakota	22,032	1	1	1		1				4
Bismarck, North Dakota	18,640	1	1	1		1				4
Huron, South Dakota	12,788	2		1						3
Watertown, South Dakota	12,699	1	1	1		1				4
Chippewa Falls, Wisconsin	11,088	1	1	1		1				4
Ashland, Wisconsin	10,640	1	1	1						3
Subtotal		18	12	14		9	1			54
5000 - 10,000										
Cloquet, Minnesota	7,685	1		1		1				3
Crookston, Minnesota	7,352	2				1				3
Little Falls, Minnesota	6,717	2	1	1	1	1				6
Alexandria, Minnesota	6,319	1	1	1	1	1				5
Grand Rapids, Minnesota	6,019	1	1	1		1				4
Ely, Minnesota	5,474	1		1		1				3
Havre, Montana	8,086	1	1	1		1				4
Miles City, Montana	9,243	2		1		1				4
Glendive, Montana	5,254	2		1		1				4
Dickinson, North Dakota	7,469	1	1	1		1				4
Devils Lake, North Dakota	6,427	1		1						2
Wahpeton, North Dakota	5,125	1								1
Williston, North Dakota	7,378	1	1	1						3
Brookings, South Dakota	7,764	2		1						3
Pierre, South Dakota	5,715	2		1		1				4
Merrill, Wisconsin	8,951	1	1	1						3
Rhinelander, Wisconsin	8,774	1	1	1						3
Menomonie, Wisconsin	8,245	1		1		1				3
Rice Lake, Wisconsin	6,898	1	1	1						3
Subtotal		25	9	17	2	12				65

*No special survey was made in the Twin Cities as much of the information is reported to the Research Department of the bank on a monthly basis.

Cities Classified by Size 1000 - 5000	Population	Banks	Savings and Loan	Realtors	Attorneys	Builders and Contractors	Chamber of Commerce and Builders Exchange	Business Men	Abstract Office and Insurance Companies	Total
Two Harbors, Minnesota	4,400	1		1		1				3
Breckenridge, Minnesota	3,623	1								1
Staples, Minnesota	2,782	1		1						2
Silver Bay, Minnesota	2,500	1		1						2
Caledonia, Minnesota	2,243	1								1
Buhl, Minnesota	1,462	1						1		2
Cokato, Minnesota	1,403	2								2
Mountain Iron, Minnesota	1,377	1								1
Coleraine, Minnesota	1,321	1								1
Bovey, Minnesota	1,320	1								1
Poplar, Montana	1,169	1								1
Malta, Montana	2,095	1							1	2
Glasgow, Montana	3,821	1		1		1				3
Laurel, Montana	3,663	1		1						2
Terry, Montana	1,191	1								1
Rugby, North Dakota	2,907	1								1
Linton, North Dakota	1,675	1								1
Stanley, North Dakota	1,486	1								1
Mobridge, South Dakota	3,753	2		1						3
Miller, South Dakota	1,916	1								1
Arlington, South Dakota	1,096	1								1
Tomahawk, Wisconsin	3,534	1	1							2
Hurley, Wisconsin	3,034	1								1
New Richmond, Wisconsin	2,886	1		1						2
Spooner, Wisconsin	2,597	1		1						2
Cumberland, Wisconsin	1,872	1	1	1						3
Hayward, Wisconsin	1,577	1		1						2
Mellen, Wisconsin	1,306	1								1
Subtotal		30	2	10		2		1	1	46
Under 1000										
Tioga, North Dakota	456	1								1
Ray, North Dakota	721	1								1
Towner, North Dakota	955	1								1
Leeds, North Dakota	778	1								1
Richardton, North Dakota	721	1								1
Wessington, North Dakota	467	1								1
Subtotal		6								6
Grand Total		95	33	53	2	30	2	1	1	217

[2] The annual number of new urban dwelling units authorized provides a comparison—district and national—of the trend in home building. These figures were compiled in table 2 from 1940 to date. The number of units built in urban centers of the four states, Minnesota, Montana, North Dakota and South Dakota, normally ranges between 2 and 2½ percent of the total built in all urban centers of the nation. During World War II there was practically no defense housing built in this district, which caused residential building to decline more than in other parts of the nation. For example, the four states had less than 1 percent of the authorizations in 1942 and 1944 and less than ¼ of 1 percent of them in 1943.

By 1946, authorizations in the Ninth district rose to 3.4 percent of the total, an exceptionally high level, and receded to 2.6 percent and 2.5 percent in subsequent years. The percent again rose slightly in 1950 and thereafter dropped back to 2.2 percent of the total.

Source: U. S. Department of Labor, B.L.S., **Construction During Five Decades, Historical Statistics 1907-1952,** pp. 40-41, and **Construction Review.**

Table 2

Number of new urban dwelling units authorized in the U. S. and four Ninth district states

1940-1955

Year	United States	9th District
1940	396,612	9,284
1941	439,582	8,914
1942	280,838	2,586
1943	209,418	533
1944	114,875	1,142
1945	160,526	4,562
1946	528,505	17,993
1947	508,145	13,120
1948	531,293	13,408
1949	607,480	14,968
1950	837,452	21,953
1951	601,245	13,856
1952	616,837	13,358
1953	569,735	12,689
1954*	1,074,483	23,291
1955	1,146,648	24,000 (est.)

*Data are not comparable after 1953 because of a change in the sample of reporting cities.

3

Table 3

Number of new urban dwelling units authorized per 1000 nonfarm persons, U. S. and Ninth Federal Reserve District 1940 - 1955

Year	U.S.	9th District
1940	3.91	3.18
1941	4.27	3.05
1942	2.68	0.90
1943	1.94	0.19
1944	1.06	0.42
1945	1.48	1.63
1946	4.65	5.97
1947	4.37	4.21
1948	4.42	4.15
1949	4.05	4.45
1950	6.64	6.31
1951	4.65	3.96
1952	4.69	3.76
1953	4.20	3.49
1954*	7.71	6.23
1955	8.06	6.24**

*Data are not comparable after 1953 because of change in sample of reporting cities.

**Estimated.

Source: Department of Labor, **Urban Dwelling Units Authorized;** Bureau of Census, **Population.**

4

Table 4

Crude birth rate, nation and Ninth district[1] For selected years 1935 to 1955

Year	Births per 1000 persons U.S.	9th District[2]
1935	18.7	
1940	19.4	19.8
1945	20.4	
1946	24.1	
1947	26.6	
1948	24.9	
1949	24.5	
1950	24.1	
1951	24.9	27.2
1952	25.1	27.1
1953	25.0	26.6
1954	25.0	
1955	24.7	

[1] The data include the four states wholly in this district: Minnesota, Montana, North Dakota, and South Dakota.

[2] Crude birth rates for each state (adjusted for under-registration) weighted by the number of births in that state.

Source: **Statistical Abstract,** U. S. Department of Health, **Natality, Each State and Territory,** 1953, Vol. 42, No. 11, November 15, 1955, and **Monthly Vital Statistics,** Volumes 4 and 5.

A third factor with respect to births, which is not shown by the above figures, is the increasing importance of higher order births. Second, third and fourth births have increased significantly since 1940. In that year second, third and fourth order births accounted for 44.8 percent of all births, but in 1952 they accounted for 55.7 percent. Conversely, the percentage of first births and births of an order above fourth declined, particularly the former.

[5] Bureau of the Census, **Current Population Reports, Population Estimates,** P-25, No. 129, p. 4.

Despite these uncertainties, census bureau experts, early in 1955, made seven illustrative projections to suggest what population might be in 1960 and 1965 for the individual states, assuming various birth rates and migration patterns.

Only the highest of the seven projections for the four district states were compiled on table 5 (page App.-3). For each state the projection may be compared with the 1950 census and the mid-1955 estimate of population.

6

Table 5

Total population with projections to 1965 and percentage changes for four states wholly in the Ninth district and for the United States, 1950 - 1965

(In thousands)

State	Total Population 1950 (Census)	July 1, 1955 (Estimated)	1960 (Projection)	1965 (Projection)	Percentage Change 1950-1955	1955-1960	1960-1965
Minnesota	2,982	3,174	3,322a	3,479a	6.4	4.7	4.7
Montana	591	633	622a	693b	7.1	4.6	4.7
North Dakota	620	642	633c	642c	3.5	−1.4	1.4
South Dakota	653	677*	686b	705b	3.7	1.3	2.8
Four States	4,846	5,126	5,303	5,519	5.8	3.5	4.1
United States	150,697	165,248	176,103	188,593	9.7	6.6	7.1

a Component method—1930-1953 used as base for migration projection and 1950-1953 fertility level assumed to decline to 1940 level by 1975.

b Component method—1940-1950 used as base for migration projection and 1950-1953 fertility level assumed to continue to 1965.

c Ratio method—1950-1953 fertility level assumed to continue to 1965.

Source: Bureau of the Census, **1950 Decennial Census and Current Population Reports, Population Estimates,** P 25, Nos. 110, 124, and 125.

Interestingly, for North Dakota the projection for 1960 is less and for 1965 just equals the population estimate as of July 1, 1955. For the other three states 1960 projections are larger than the mid-1955 estimates, although in South Dakota by only a small amount. In each state the percentage gains implied by the projections for the two succeeding five-year periods fall below those realized in the 1950-1955 period.

*The State Health Department of South Dakota in a recent news release estimated the present population of the state to be in excess of 700,000.

[7] See **U. S. News and World Report,** March 2, 1956, p. 38.

[8] For purposes of further analysis the number of households is frequently broken down into a number of types and sub-types. One classification of household types is shown in the accompanying table. Of overwhelming importance is the primary family type of household. Most of these are the typical husband-wife-type households which, while all other types are classified for purposes of analysis as non-normal, have since decreased slightly in relative importance.

Table 6

Number, increase, and percentage distribution of households, by type, U. S., 1950 and 1955

Type of Household	Number in millions 3/50	4/55	Increase '50-'55	Percentage Distribution 3/50	4/55	Percentage Increase '50-'55
Total	43.5	47.8	4.3	100.0	100.0	9.7
Primary families	38.8	41.7	2.9	89.2	87.3	7.4
Husband-wife	34.0	36.3	2.3	78.1	75.9	6.4
Other male head	1.2	1.3	.1	2.8	2.7	11.5
Female head	3.6	4.1	.5	8.3	8.7	15.3
Primary individuals	4.7	6.1	1.4	10.8	12.7	28.8
Male	1.7	2.0	.3	3.9	4.2	21.1
Female	3.0	4.1	1.1	6.9	8.5	33.1

Source: Bureau of the Census, **Current Population Reports,** P 20, No. 59.

The absolute and relative changes in the number of households of the various types since 1950 are indicated in the accompanying table. From the figures the more rapid increase in the non-normal type household is readily evident. Particularly sharp has been the rise in households occupied by primary individuals, i.e., single individuals with their own houses or apartments. This type of household increased nearly three times more rapidly than all other households since 1950. Consequently, their share of total households rose from 10.8 percent in 1950 to 12.7 percent in 1955. As such, single individuals established over one-fourth of the new households since 1950.

[9]

Table 7

Average annual increase in nonfarm households and housing starts in post World War II period

Period	Nonfarm Households[1]	Housing Starts[2]
April, 1947-March, 1950	1,579,000	982,166
March, 1950-April, 1955	977,000	1,200,000
April, 1955-March, 1956	893,000	1,289,500

[1] Source: Bureau of the Census, **Current Population Reports,** P-20, No. 59, p. 1. Also see P-20, No. 68.

[2] U. S. Dept. of Labor, **Construction During Five Decades,** Bulletin No. 1146, p. 6, and Monthly Release on housing starts.

[10] Federal Reserve Bank of New York, Guttentag, J., **Prospects for Non-farm Residential Construction,** Unpublished study on housing.

[11] These figures should not be taken as a prediction but merely as a reasonable estimate of the number of new households that may be expected in the next five years. To determine further how many new dwelling units may be reasonably anticipated, various further adjustments need to be made. For illustrative purposes these adjustments are as follows: first, the above figures on the annual increase in total households must be adjusted for the movement away from farms; that is, the rate of increase in nonfarm households over a period of years is expected to exceed the rate of increase in total household formations; second, there may be some conversions of existing structures into dwelling units; third, a percent of existing dwelling units are demolished annually; and, finally, a slight increase in vacancy rates from currently low levels may be expected. Beginning with an average of the two annual household projections under "B" and assuming a continuation of current trends in conversions, demolitions, and vacancies, a set of illustrative average annual figures for 1955-1960 would be as follows:

Annual increase in population (50,000)		
Annual increase in nonfarm households		20,000
Less conversions	–500	
Annual number of demolitions	+1,500	
Annual increase in vacant units	+ 500	
Annual number of new dwelling units		21,500

The figures are only illustrative; they are based on many assumptions and estimates and should not be taken as predictions. While the figures used are thought to be reasonable, they are given merely to indicate the various variables involved in attempting to study the need for housing.

[12] Per capita personal income by states compiled by U. S. Department of Commerce, Office of Business Economics, was adjusted for changes in price level by price deflator for personal consumption expenditures in Gross National Product. The per capita personal incomes are published by U. S. Department of Commerce, Office of Business Economics, in **Survey of Current Business,** September 1955. The price deflators are published by U. S. Dept. of Commerce, Office of Business Economics, in **National Income,** 1954 edition, Table 41, "Implicit Price Deflators for Gross National Product by Major Segments," 1929-53, pp. 216 & 217.

Per capita personal income by district states and continental U. S.
(In terms of 1947 dollars)

	1946	1947	1948	1949	1950	1951	1952	1953	1954
Michigan	$1460	1454	1459	1435	1586	1639	1681	1815	1724
Minnesota	$1300	1256	1328	1239	1311	1343	1349	1388	1405
Montana	$1415	1457	1512	1326	1508	1547	1526	1511	1478
North Dakota	$1158	1446	1308	1083	1182	1154	1033	1011	1014
South Dakota	$1199	1232	1373	1044	1149	1248	1058	1121	1138
Wisconsin	$1339	1294	1326	1299	1375	1493	1494	1506	1458
United States	$1383	1316	1343	1319	1404	1453	1492	1530	1513

[13] U. S. Department of Labor, **Monthly Labor Review,** January 1956, Vol. 79, No. 1, Greenberg, Leon. "Output per Man-Hour in Manufacturing," 1939-47 and 1947-53, pp. 1-6.

[14] **Federal Reserve Bulletin,** June 1955, p. 609.

[15] Adjusted with Consumers Price Index. Index for all items was 95.5-1947 and 114.8- 1954.

Federal Reserve Bulletin, June 1955, p. 610.

[16] **Federal Reserve Bulletin,** March 1956, p. 226.

[17] **Economic Indicators,** March 1956, p. 6.

[18] Miller, Herman P., **Income of the American People,** p. 5.

[19] Table 8 shows the average amount of down payment required for buyers of new and existing homes under FHA financing in 1954.

Table 8

Average property value, amount mortgage, amount down payment for new and existing one-family homes financed under Sec. 203 FHA U. S. and four states wholly in the Ninth district, 1954

State	Average Property Value New	Average Property Value Existing	Average Amt. Mortgage New	Average Amt. Mortgage Existing	Average Amt. Down Payment New	Average Amt. Down Payment Existing
United States	$11,120	$11,934	$ 9,143	$ 9,283	$1,977	$2,651
Minnesota	13,016	13,535	10,089	10,167	2,927	3,368
Montana	12,874	12,015	10,043	8,999	2,831	3,016
North Dakota	11,761	12,739	9,429	9,577	2,332	3,162
South Dakota	10,700	10,060	8,825	7,677	1,875	2,383

Source: 8th Annual Report, **Housing and Home Finance Agency, 1954,** pp. 201-202.

[20] **Federal Reserve Bulletin,** July 1955, p. 750.

[21]

Table 9

Percentage distribution by consumer units of liquid asset holdings By dollar amounts, United States, tri-annually, 1950-1956

Dollar Amount of Liquid Asset Holdings	1950	1953	1956
Zero	31%	29%	29%
$1-$199	16	16	15
$200-$499	11	12	12
$500-$999	10	11	12
$1,000-$1,999	10	12	11
$2,000-$4,999	13	11	11
$5,000-$9,999	6	5	6
$10,000 and over	3	4	4
All Cases	100%	100%	100%

Source: "Preliminary Findings of 1956 Survey of Consumer Finances," **Federal Reserve Bulletin,** March 1956, p. 226.

[22] E. H. Boeckh and Associates, **Residential Building Cost Index.**

[23] From 1950 to 1954 for FHA homes, 8th Annual Report of **Housing & Home Finance Agency,** 1954, p. 186. Data on VA-financed houses taken from **Business Week,** 4/7/56, p. 44.

[24] Furthermore, as better insulation, windows and window frames have been developed, housing costs have risen more in this district than in other regions. For example, from the 1926-29 period to 1955 the cost of building frame houses in the Minneapolis-St. Paul area rose by 187 percent as compared with a 155 percent increase in 47 metropolitan areas of the nation.

[25] In 1929 dollars the decline per dwelling unit was from $3,355 in 1900 to $2,381 in 1950. For details and explanations see Winnick, Louis, "Housing: Has There Been a Downward Shift in Consumers' Preferences?", **The Quarterly Journal of Economics,** February 1955, pp. 85-98, at p. 86.

[26] See **Monthly Labor Review,** August 1954, p. 854.

[27] Stock of houses on the Upper Michigan peninsula no doubt is of comparable age, but data for this area are not available.

[28] The number of dwelling units demolished or converted to other uses has increased materially in recent years. In Minneapolis 1.6 percent of the rental units were demolished, condemned or otherwise withdrawn from housekeeping use annually in 1953 and 1954 according to surveys made by the U. S. Bureau of Labor Statistics.*

In larger cities of this district demolitions in 1955 equaled 5 percent of the number of new dwelling units authorized by permits. In numerous small towns surveyed in the fall of 1955 a few old houses have been torn down annually. Some units were taken out of the market because they no longer commanded a price sufficient to net a return on the investment. Others were replaced by new structures, residential or nonresidential, or other developments such as wider streets and new highways. Nearly all of the temporary dwelling units built during and after World War II in many district towns and cities in the form of barracks or quonset huts were removed from the market some years ago or were converted to other uses.

*U. S. Depts. of Labor and Commerce, **Construction Review,** July 1955, Vol. 1, No. 7, p. 8.

[29] The density figures given are not strictly comparable, because in 1940 the ratio was total population to number of dwelling units, while in the 1950 census it was population living in dwelling units to number of dwelling units. An adjustment for this would slightly reduce the decreases shown (see No. 30).

[30] For individual states in the district, the decline in the density of occupancy between 1940 and 1950 was as follows:

	Population per Dwelling Unit	
	1940	1950
Minnesota	3.8	3.4
Montana	3.5	3.2
North Dakota	4.2	3.7
South Dakota	3.9	3.4
Michigan (entire state)	3.8	3.4
Wisconsin (entire state)	3.8	3.6

[31] Statistics on square feet of floor space do not fully reflect the steady growth that has taken place in the size of lower-priced houses. Statistics on floor space are compiled for all houses built, but they are not broken down by price brackets. The number of houses built in the several brackets varies widely from year to year. This has masked the trend to larger houses at the lower end of the price range. Even so, over a period of years the statistics reveal a perceptible growth in the square feet of floor space per dwelling unit.

[32] The gross vacancy rate is the ratio of the number of unoccupied dwelling units (regardless of whether the units are seasonal, such as summer homes or cottages, permanent units dilapidated and not fit for use, or acceptable quality houses but not for rent or sale at time count was made) to the total units in standing stock. For instance, in U. S. Census of Housing dwelling units were classified as vacant if no one was living in them at time of enumeration.

[33] See Fisher and Fisher, **Urban Real Estate,** Chapter X, pp. 183-214.

[34] Traditionally, pension funds have been placed into low-yielding bonds instead of into mortgages with substantially higher yields because of the cost of servicing. A group of mortgage companies has set up an organization, **The Investors Central Management Corporation,** to solve the special servicing problems in order to encourage the investment of more pension funds in mortgages.

[35] Since the advent of FHA in 1934, terms on insured loans have been liberalized from time to time. Under the initial program established by the National Housing Act of 1934, the most liberal terms a lender could grant a borrower and still have the mortgage qualify for FHA insurance were as follows: Loans could be made up to 80 percent of the appraised value, but could not exceed $16,000. Rate of interest allowed was 5 percent with 1/2 percent added for insurance and another 1/2 percent for servicing the loan. In addition, it was mandatory that the mortgage be amortized in equal monthly payments in a time period not to exceed 20 years. In 1938 the terms required by the FHA were liberalized, especially for low-priced homes. Th new schedule, in part, was as follows:*

New homes costing up to $6000
- Down payment—10 percent
- Maximum maturity—25 years
- Rate—5 1/4 percent including mortgage insurance.

New homes costing from $6000 to $10,000
- Down payment—10 percent on the first $6000 and 20 percent on the excess.
- Maximum maturity—20 years.
- Rate—5 1/2 percent including mortgage insurance.

New homes costing over $10,000 and on existing homes
- Down payment—20 percent with $16,000 as maximum insurable mortgage.
- Maximum maturity—20 years
- Rate—5 1/2 percent including mortgage insurance.

Loans drawn up under provisions enacted in the successive Housing Acts are insured against possible delinquency of repayment by mortgagor. Under the insurance program the amount of the loan in relation to the appraisal value has been increased to 80 or 90 percent. In most instances this eliminates the need for secondary financing. Maturities were lengthened to 20, then to 25, and finally to 30 years in 1954. Interest rates were reduced. It has become almost a universal procedure to amortize the principal as well as the interest over the life of the loan, and require monthly payments.

During World War II the FHA program was restricted to defense and military housing. After the war this program was continued for a few years as a part of the Veterans Emergency Housing Program. Upon termination of this temporary FHA program designed to stimulate defense and military housing, the original purpose of insuring mortgages on one-to-four family houses again became the principal objective in the Housing Act of 1948, but in subsequent acts the terms were liberalized progressively.

*FHA, **Insured Mortgage Portfolio,** Vol. 3, No. 6, December 1938.

[36] The loan guaranty program has consistently given veterans more lenient terms than those available to non-veterans. Under the original act the VA guaranteed up to 50 percent of the home loan or up to $4000, whichever amount was less. An amendment in December 1945 raised the maximum amount to $4000 and lengthened the maturity to 25 years. Interest was set at 4 percent, and repayment scheduled on a monthly plan for a 20-year period. The maximum amount which may be guaranteed has been raised successively and now stands at $7,500. The maximum maturities have fluctuated between 25 and 30 years; currently it is 30 years. Down payments were increased after the Korean outbreak but were relaxed in 1953 and 1954. As residential construction picked up momentum in 1955, the veteran was again required to pay closing costs and later a 2 percent down payment. These requirements are still in effect.

The Housing Act of 1949 was significant in that it established some important procedures for slum clearance and public housing development, but it did not change the program for the typical home-financing operation. In contrast, the Housing Act of 1950 liberalized existing programs with a view to ". . . encouraging greater production of homes for middle-income families." To achieve this end several significant changes were made. Down payments were reduced.

For low-cost, owner-occupant single units down payments were reduced to as little as 5 percent of the first $7000 of appraised value and 30 percent of the excess up to a maximum mortgage of $9,450. For more expensive single units the down payment remained at 20 percent with a maximum mortgage of $16,000. The maximum maturities continued to be 25 years, but interest rates were reduced to 4¼ percent.[1] One of the interesting new features of the 1950 housing act was the authorization to insure mortgages on cooperative projects. The FHA was given authority to furnish ". . . technical advice and assistance in the organization of the cooperatives and in the planning, development, construction and operation of their housing projects." Such projects constructed by nonprofit cooperatives to provide housing for their members could be insured in amounts up to $5,000,000.[2]

The Housing Act of 1950 was in force only a few months when the Korean outbreak occurred. Under war-time conditions, credit restrictions were imposed designed to reduce the volume of housing starts to about 800,000 to 850,000 annually. Regulation X, administered by the Board of Governors of the Federal Reserve System, imposed credit restrictions on housing loans not insured or guaranteed by government agencies. Companion restrictions were issued by the Housing and Home Finance Agency to apply to government insured and guaranteed mortgages.

Regulation X sought to control housing credit by increasing down payments and reducing maturities. Down payments ranged from 10 percent for houses having a transaction price of less than $5000 to 50 percent at $25,000 and over. Preference for veterans, usually amounting to about 10 percentage points, was continued. On houses costing under $5000 the veteran could still pay as little as 5 percent down with 25 years to pay. On a $10,000 house a veteran paid $1,300 down (in contrast to nothing or 5 percent before regulation X) and a non-veteran paid $2,300 down (in contrast to about $1,200 before regulation X). For homes costing under $7000 maturities could still run 25 years, but over $7000 they were reduced to 20 years.[3]

As it turned out, a large volume of advance mortgage commitments had been granted prior to the enactment of regulation X, and consequently it was not an important restrictive factor in new home financing until the summer of 1951.[4] By then, claims on the nation's resources were becoming less stringent, and on September 1, 1951, credit terms under regulation X were relaxed. On a $10,000 home down payments were reduced to $600 for a veteran and $1,500 for a non-veteran. Terms up to 25 years were now permitted for homes costing up to $12,000 rather than $7000.[5]

In July 1952 mortgage terms were further relaxed. Veterans again could buy homes costing up to $7000 with no down payment, while the non-veteran paid $350. On a $10,000 home the veteran paid $580 down, and the non-veteran, $1,450. A few months later in September 1952 regulation X was suspended entirely under the provisions of the Defense Production Act of 1952. In general, mortgage terms now reverted to those provided in the National Housing Act, namely, no down payment on houses costing less than $7000 if purchased by veterans, although closing costs up to 4 percent of purchase price needed to be paid in cash. For non-veterans under FHA provisions, down payments ranged upward from 5 percent with a $14,000 mortgage maximum for single dwelling units. Maximum maturities remained at 25-years for low-cost homes. These, of course, were the most liberal terms permitted under the law. Frequently the standards of lenders were more strict.[6]

The next significant liberalization of terms on FHA mortgages came in the Housing Act of 1954, approved in August. Down payments were reduced on new construction to 5 percent of the first $9000 of appraised value and 25 percent of the excess up to a maximum mortgage of $20,000. Regulations were issued under the VA program in 1954 to include closing costs in the purchase price, thus necessitating no cash outlay for the veteran. Under both the FHA and VA programs maturities up to 30 years were allowed.[7]

[1] The reduction in interest rate was an administrative order and not part of the Housing Act of 1950.

[2] 17th Annual Report of the FHA, pp. 2-3.

[3] **Federal Reserve Bulletin,** October 1950, pp. 1284-1286.

[4] **Monthly Labor Review,** April 1952, p. 390.

[5] See **Federal Reserve Bulletin,** November 1951, p. 1382, for complete schedule.

[6] **Monthly Labor Review,** July 1952, p. 52.

[7] FHA, **Insured Mortgage Portfolio,** Vol. 19, No. 2, Winter 1954-1955, pp. 18-19.

[37]

Table 10

FHA and VA housing starts as a percentage of total housing starts United States, 1935-1955

Cumulative:	Total Private Housing Starts (B.L.S.)	FHA Assisted	VA Assisted	FHA as % of Total	VA as % of Total
1935-1952	10,547,100	3,225,714	996,953	31	9.5
1953-1955	3,654,100	805,400	855,400	22	23.4
Annually:					
1935	215,700	13,964	.....	6	.....
1936	304,200	49,376	.....	16	.....
1937	332,400	60,003	.....	18	.....
1938	399,300	118,741	.....	30	.....
1939	458,400	158,119	.....	34	.....
1940	529,600	180,091	.....	34	.....
1941	619,500	220,387	.....	36	.....
1942	301,200	165,662	.....	55	.....
1943	183,700	146,154	.....	80	.....
1944	138,700	93,259	.....	67	.....
1945	208,100	41,159	6,000	20	3
1946	662,500	69,033	83,000	10	13
1947	845,600	228,818	211,000	27	25
1948	913,500	291,053	102,000	32	12
1949	988,800	360,541	105,000	36	11
1950	1,352,200	485,930	200,000	36	15
1951	1,020,100	263,533	148,679	26	15
1952	1,068,500	279,901	141,274	26	13
1953	1,068,300	252,000	156,600	24	15
1954	1,201,700	276,300	307,000	23	26
1955	1,309,500	277,100	391,800	21	30

Source: **6th Annual Report,** Housing and Home Finance Agency, 1952, p. 115 and Departments of Commerce and Labor, **Construction Review,** Vol. 2, No. 2, February 1956.

The figures since the end of World War II are of particular interest. As a percentage of total starts FHA-assisted starts in the nation reached a peak of 36 percent in 1949 and in 1950, but since then they receded steadily. By contrast, VA starts accounted for 25 percent of total starts in 1947 and then receded during the next six years. In 1954 and 1955, however, they increased rapidly and for 1955 VA starts accounted for 30 percent of total new housing starts (more than double the 1952 figure). The GI home-buying program has contributed significantly to the postwar housing boom.

[39] In a few communities the Veterans Administration was making direct loans requiring a small down payment or none.

[40]

Table 12

Percentage distribution of residential real estate loans held by insured commercial banks United States and four Ninth district states By type of mortgage, as of June 30, 1952 to 1955

	FHA Insured		VA Guaranteed		Conventional	
Year	U.S.	4 States	U.S.	4 States	U.S.	4 States
1952	29.6	32.3	25.5	30.7	44.9	37.0
1953	30.2	32.3	24.1	31.4	45.7	36.3
1954	29.9	32.4	23.6	32.0	46.5	35.3
1955	28.8	32.1	23.8	32.1	47.4	35.8

Source: Reports of the FDIC.

[41] For national banks individual conventional loans on real estate may be made up to two-thirds of the appraised value provided the loan is completely amortized in 20 years. Over-all real estate loans may not exceed 100 percent of the unimpaired capital and surplus or 60 percent of total time deposits, whichever is less(see section 24 of the Federal Reserve Act). Similar provisions apply to state banks in two Ninth district states. In both Michigan and Montana real estate loans may be made up to 60 percent of the appraised value and for a term of 10 years, provided 40 percent of the loan is amortized over the 10-year period. In the absence of amortized payments the maximum loan is 50 percent of appraised value with five years allowed for repayment. The over-all limitation for state banks in these two states is the same as that applying to national banks (in Montana, however, FHA-insured mortgages and the guaranteed portion of VA loans are not applied to such limitations). Similar legal provisions would also apply to other types of financial institutions.

[42] Federal Reserve Bank of St. Louis, **Monthly Review,** November 1955.

[43] United States Department of Commerce, **National Income Supplement** 1954.

[44] See Burck, Gilbert, and Parker, Sanford S., "The Danger in Mortgage Debt," **Fortune,** April 1956, p. 124.

[45] Chamber of Commerce of the United States, Washington 6, D. C., "Can We Depression-proof Our Economy?", 1955.

[38]

Table 11

Mortgage debt outstanding on nonfarm one-to-four family properties 1945-1955

		Government-underwritten In billions of dollars			Total Percent of Nonfarm Mortgage Debt	
End of Year	Total	Total	FHA Insured	VA Guaranteed	Conventional	Gov. Underwritten
1945	$18.6	$ 4.3	$ 4.1	$ .2	$14.3	23.1%
1948	33.3	12.5	5.3	7.2	20.8	37.5%
1949	37.6	15.0	6.9	8.1	22.6	39.9%
1950	45.2	18.9	8.6	10.3	26.3	41.8%
1951	51.7	22.9	9.7	13.2	28.8	44.1%
1952	58.4	25.4	10.8	14.6	33.0	43.5%
1953	66.0	28.1	12.0	16.1	37.9	42.6%
1954	75.7	32.1	12.8	19.3	43.6	42.4%
1955	88.7	38.8	14.3	24.5	49.9	43.7%

Source: **Federal Reserve Bulletin,** February 1956, p. 159.

FEDERAL RESERVE BANK OF MINNEAPOLIS

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