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Introduction

Between 1955 and 1958, the federal housing programs played a highly important and controversial role in the conduct of economic stabilization policies. The amount of resources available to the housing sector was influenced by many administrative actions of government agencies as well as by the usual annual changes in housing legislation. The frequency and scope of these actions exceeded anything experienced previously, except in times of war.

Federal credit programs in the housing sector were placed under restraints in 1955, when the economy was moving forward in an exuberant expansion. The imposition of selective controls on government-underwritten mortgages raised crucial questions typically associated with qualitative credit regulations. Was housing singled out for especially severe treatment and, if so, why? Did the restraints serve to correct specific maladjustments in the housing and mortgage markets or to supplement and perhaps reinforce general credit restraints, or both? Did they have effects over and above the checks provided by tightening financial markets and restrictive monetary measures?

Later, in a reversal of the 1955 policy, some of the federal housing programs were mobilized in an effort to moderate the decline in residential construction, while general monetary restraints were continued and even strengthened to contain the inflationary pressures on an economy operating at high levels of activity. Was housing sheltered from the rationing of funds in the capital market and the restraining policies of the monetary authorities, and, if so, why? Did tightening credit have a disproportionate and unduly severe impact in this sector of the economy? Did the relief given to housing blunt significantly the effectiveness of the general program of credit restraint?

Finally, the policies of 1956 and 1957, intended to cushion the downward movement of home building in the midst of general economic prosperity, merged into measures designed to stimulate residential construction as an antidote to the general economic recession that began in the latter part of 1957.

Reconciling Disparate National Objectives

Thus, the relation between federal housing credit policies and general monetary and fiscal policies has been a matter of major continuous concern in the discharge of the government's responsibility for helping maintain economic stability and growth. This concern has resulted mainly from the commitment of the federal government to two broad national objectives. One is the government's pledge to promote stable prosperity, made specific by the Employment Act of 1946 but also implied in the older mandate of the Federal Reserve Act. The other is the advancement of better housing through the federal aids enacted during the past generation. Broadly interpreted, these aids seek to confer on housing a preferential status in the use of resources, especially in the use of funds, compared to the allocation that would result from the free interaction of market forces. The "Declaration of National Housing Policy" in the Housing Act of 1949 establishes as one of the national housing objectives "the realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family"; and it requires, among other things, the administration of federal housing programs "in such manner as will encourage and assist . . . the *stabilization of the housing industry* at a high annual volume of residential construction" (italics supplied).

While there may be sweet harmony between the two national objectives in the long run, there can be conflict in the short run. The objective of economic stability, for example, may call for restraints on federal housing credit aids at times of high employment, rapid economic growth, and potential inflationary pressures. The goals of better housing and stable performance of residential construction may call for sustained federal support regardless of any adverse impact on general economic stability.

From 1955 to 1957, the federal officials responsible for the conduct of stabilization policy were confronted with the delicate task of reconciling the two disparate objectives.[1] This essay seeks to examine the conditions under which conflict arose, the ways in which it manifested itself, the manner in which its reconciliation was attempted, and the extent to which this was accomplished. To review the experience of 1955-1957 seems useful for a number of reasons. First, a record of that period should help improve future

[1] The conflict between the two objectives ceased to exist in late 1957 and 1958, when administrative and legislative measures to stimulate housing were taken as parts of an anti-recession program. These developments are outside the purview of the present paper.

public policies when similar situations in the housing sector develop. Second, federal credit programs generally have been growing rapidly, and the task of administering them so as to strengthen the stability of the economy will become increasingly important. These programs add a significant new dimension to fiscal policy, which to date has been confined to such matters as direct federal expenditures, revenues, and debt management. Thus, the housing issues in economic stabilization policy foreshadow similar, even larger problems to be met in the future, and the record of their resolution should aid in a more systematic consideration of the proper role of all federal credit programs in the conduct of our fiscal affairs. Third, the review, while limited to housing, touches upon a number of important general questions concerning economic stabilization policies. Among these are the relation between selective and general credit controls, the criteria for imposing selective controls, the relative emphasis that stabilization policies may place on aggregate stability or on the composition of total output, and the timing of policy actions.

The period considered in this essay was not the first in which variations in federal housing credit policies had a bearing on economic stability. In 1948-1949, for example, when a decline in home building was followed by a general business recession, stepped-up mortgage purchases by the Federal National Mortgage Association helped to stimulate residential construction. Later, during the Korean War, the maximum permissible terms for government-underwritten mortgage loans were tightened, various other administrative measures were taken to curtail housing credit extended by federal agencies, and even the terms on conventional real-estate loans (not insured or guaranteed by the federal government) were controlled by Regulation X under the authority of the Defense Production Act of 1950. However, a peacetime policy of flexible management of the federal housing credit programs in the interest of economic stability was clearly enunciated only in recent years. Moreover, the Treasury-Federal Reserve accord of 1951, after the disruptions of the Korean episode, did not until recently become fully effective in restoring the potentials of a flexible monetary policy and in exposing problems in the relation between such a policy and specific governmental actions affecting housing credit.

Although this essay focuses on the analysis of policies between 1955 and 1957, it will first briefly discuss the expansion of residential construction immediately before this period and examine the forces which produced that expansion. Any maladjustments in the housing and mortgage markets that the 1955 restraints on housing credit may have sought to correct presumably originated during the rapid advance in home building that began in late 1953. Moreover, the role of residential building in sustaining economic activity during the recession of 1953-1954 and in helping generate the subsequent recovery may have affected the timing of the restraints of 1955. Finally, it was during the 1953-1954 period that policies were formulated to employ the federal housing credit programs with greater flexibility so as to aid economic stabilization.

A major section of the report will deal with the application of selective credit controls in the housing sector during 1955. That year witnessed the first peacetime invocation of nation-wide restraints on the terms of government-underwritten mortgage loans and, except for the brief episode of consumer credit regulation from September 1948 to June 1949, the first peacetime use of any selective credit controls other than margin requirements on loans for the purchase of securities. In addition, and again without precedent in time of peace, restraints were imposed on certain kinds of interim credit to mortgage lenders. The rationale for these actions, their timing and effectiveness, and their relation to general monetary and fiscal policies are worth examination.

The essay will also analyze the shift in housing credit policies during 1956 and 1957 from restraint to relief, which was intended to cushion the impact of tightening financial markets on the housing sector. Not only were some of the earlier restrictions relaxed, but positive steps were taken mainly through massive purchases of mortgages by the Federal National Mortgage Association, to help check the decline in the flow of funds into housing. Moreover, seemingly incongruous measures were initiated to stimulate the *demand* for housing. Here again, the rationale for these actions, their timing and effectiveness, and their relation to the general monetary and fiscal policies of the period bear scrutiny.

The final section will discuss some of the more fundamental issues suggested by review of the policies pursued during the 1955-1957 period. Is the government justified in using its influence over housing credit in the interest of economic stability, as well as for the promotion of better housing, or does this mean using the housing sector as a "buffer" to help absorb the hard knocks of business fluctuations? Can criteria be developed for determining whether governmental efforts to prevent residential construction from magnifying general business fluctuations interfere unduly with the attainment of national housing objectives? Is ever-normal or ever-growing volume of new building the only criterion of good housing policy? Does the greater volatility of the government-underwritten sector of housing construction, compared to fluctuations in the "conventional" sector, which is wholly subject to market forces, indicate that the government's influence has increased rather than moderated instability in residential building itself? If so, to what extent is the more unstable performance attributable to legislative inhibitions in the form of rigid maximum interest rates on government-underwritten loans, which, if held below competitive levels, can act as unintended selective credit controls in disfavor of housing? What are the proper and practicable aims of adjusting the administration of the federal housing programs to general cyclical fluctuations?

The reader must be forewarned that this attempt to analyze policy issues is an "essay" in the literal meaning of the word, that is, an experimental effort. To isolate the net effects of public policies from the multitude of forces acting simultaneously on a complex economy or any of its major sectors is always difficult if not impossible.[2] The evidence will be incomplete and the methodology imperfect. Moreover, even a conscientious attempt at objective analysis will leave room for varying interpretations of what evidence there is. In some cases, it may be impossible to furnish clear-cut answers. In others, only preliminary judgments which are subject to further research can be formulated. Standards for measuring the performance of public policies are as yet poorly developed and depend largely on widely varying views on the goals of such policies. No matter how unequal it may be to the task, however, economic research must address itself to an appraisal of policies if it is to promote better understanding of important public issues and enhance the prospect of more satisfactory solutions. The essay is offered as a modest contribution to this objective.

Only as much of the market developments in housing and mortgage finance between 1953 and 1957 will be discussed as seems essential for an appraisal of housing credit policies.[3] For the same purpose, it is necessary to sketch the relative importance of the housing sector in the national economy and describe the magnitude of the federal housing credit programs, as well as their role in the housing and financial markets.

The Housing Sector and Its Federal Aid Programs—Some Orders of Magnitude

Private residential construction expenditures during the period 1953-1957 averaged $16.5 billion a year, or 4.16 per cent of the gross national product and nearly 30 per cent of fixed private domestic investment. They about

[2] Cf. R. J. Saulnier, "An Appraisal of Selective Credit Controls," *American Economic Review, Papers and Proceedings of the 64th Annual Meeting,* May 1952.

[3] For more comprehensive historical analyses of housing and mortgage market developments during the postwar period, see Saul B. Klaman, *The Postwar Residential Mortgage Market* (Princeton for National Bureau of Economic Research, in press), and Jack M. Guttentag, "Some Studies of the Post-World War II Residential Construction and Mortgage Markets" (unpublished doctoral dissertation, Columbia University, 1958). Both studies were very helpful in the preparation of this essay. Cf. also the papers by Saul B. Klaman, James J. O'Leary, and Warren L. Smith in *Study of Mortgage Credit,* Subcommittee on Housing of the Senate Banking and Currency Committee, 85th Congress, 2nd Session, December 22, 1958. The papers, which became available after the draft of this essay was completed, deal with postwar housing credit policies as well as housing and mortgage market developments.

equaled the total amount spent by consumers on automobiles and parts, two-thirds of the business expenditures on "producers' durable equipment," and more than half of the aggregate spending by state and local govern-

TABLE 1

Private Housing Starts under FHA and V.A. Programs Compared with Total Private Housing Starts, 1946-1957
(thousand permanent nonfarm dwelling units)

Year	Total Private Starts [a]	Conventional Starts [b]	Starts under Government Programs [c]			Starts under Government Programs as Per Cent of Total Private Starts	FHA Starts as Per Cent of Total Starts	V.A. Starts as Per Cent of Total Starts
			Total	FHA	V.A.			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1946	662.5	510.5 [d]	152.0	69.0	83.0 [d]	23	10	13 [d]
1947	845.6	405.6 [d]	440.0	229.0	211.0 [d]	52	27	25 [d]
1948	913.5	517.5 [d]	396.1	294.1	102.0 [d]	44	32	12 [d]
1949	988.8	520.0 [d]	468.8	363.8	105.0 [d]	47	36	11 [d]
1950	1,352.2	665.5	686.7	486.7	200.0 [d]	51	36	15 [d]
1951	1,020.1	607.9	412.2	263.5	148.7	40	26	15
1952	1,068.5	647.3	421.2	279.9	141.3	39	26	13
1953	1,068.3	659.7	408.6	252.0	156.6	38	24	15
1954	1,201.7	618.4	583.3	276.3	307.0	49	23	26
1955	1,309.5	639.9	669.6	276.7	392.9	51	21	30
1956	1,093.9	633.9	460.0	189.3	270.7	42	17	25
1957	992.8	696.1	296.7	168.4	128.3	30	17	13

SOURCE: *Housing Statistics*, Housing and Home Finance Agency.

[a] Bureau of Labor Statistics.

[b] Starts not financed under federal government programs.

[c] Reported by the agencies on the basis of first compliance inspections. For details, see "FHA–V.A. Series and the Housing Market," *Construction Review*, June 1957.

[d] Estimates of the Housing and Home Finance Agency given in *Housing Statistics*, July 1954, based on V.A. estimates of the number of units started which were later financed with V.A. first mortgage loans. During the first few years of the V.A. program, there were no compliance inspections which would have furnished a firm basis for determining housing starts under the program, and no statistics on units started under V.A. inspection were collected until about mid-1950. Consequently, the 1946-1950 data in columns 5, 6, and 8 are less reliable than those for the later years.

NOTE: Because of rounding, components in columns 7 and 8 do not necessarily add up to the totals in column 6.

TABLE 2

FHA and V.A. Home Loans Made Compared with Total Nonfarm Mortgage Recordings of $20,000 or Less, 1946-1957
(million dollars)

Year	Total Amount Recorded [a]	Government-Underwritten Loans			Other Loans	Percentage of Government-Underwritten Loans [b]		
		FHA	V.A.	Total		FHA	V.A.	Total
1946	$10,589	$ 422	$2,302	$2,724	$ 7,865	4	22	26
1947	11,729	895	3,286	4,181	7,548	8	28	36
1948	11,882	2,116	1,881	3,997	7,885	18	16	34
1949	11,828	2,210	1,424	3,634	8,194	19	12	31
1950	16,179	2,492	3,073	5,565	10,613	15	19	34
1951	16,405	1,928	3,614	5,542	10,862	12	22	34
1952	18,018	1,942	2,718	4,660	13,358	11	15	26
1953	19,747	2,289	3,061	5,350	14,397	12	16	27
1954	22,974	1,942	4,256	6,198	16,776	9	19	27
1955	28,484	3,085	7,154	10,239	18,245	11	25	36
1956	27,088	2,638	5,866	8,504	18,584	10	22	31
1957	24,244	2,251	3,758	6,009	18,235	9	16	25

Source: *Housing Statistics*.

[a] Estimates of mortgage recordings by the Federal Home Loan Bank Board. Data on government-underwritten home loans from records of the Federal Housing Administration and Veterans Administration. The estimates of mortgage recordings include nonfarm mortgages on small nonresidential property as well as mortgages on homes, and they exclude mortgages on homes exceeding $20,000. Nevertheless, the data indicate approximate orders of magnitude.

[b] Because of rounding the FHA and V.A. components do not necessarily add up to the totals.

ments.[4] They accounted for nearly two-fifths of aggregate expenditures for new construction and exceeded substantially the investment in public construction of all types. The residential mortgage debt at the end of 1957 represented 16.7 per cent of the total net debt, private and public, and 26.7 per cent of the private debt alone. The net flow of funds into the residential mortgage market, totaling $44.1 billion from 1953 to 1957, equaled nearly one-third of the total net flow of funds into all types of debt instruments and

[4] Total spending on new housing, including land and consumer durables furnished with new dwellings but not captured in construction expenditure data, however, is substantially larger than the amount of residential construction expenditures alone.

approximated the combined net increase in long-term corporate and state and local government debt during this period.[5]

The federal credit programs have a massive rather than marginal influence on the housing and mortgage markets. Moreover, they loom large in the aggregate of all federal credit programs. By far the most important of these operations is the underwriting of residential mortgage loans by the Federal Housing Administration and the Veterans Administration. From 1953 to 1957, nearly 2.4 million dwelling units, or 42 per cent of all privately financed units, were started under these programs (Table 1). The great year-to-year variations in the share of government-underwritten starts, which exceeded one-half of the total in 1955 and was less than 30 per cent in 1957, will engage our attention later. Government-underwritten *home* loans made during this period, i.e. loans on 1- to 4-family houses, totaled $36 billion and equaled about 30 per cent of the amount of all nonfarm mortgages of $20,000 or less that were recorded (Table 2). The volume of home loans guaranteed by the Veterans Administration between 1953 and 1957 and, for that matter, during most of the postwar period exceeded by far the volume insured by the Federal Housing Administration.[6]

The government-underwritten residential mortgage debt at the end of 1957 stood at $51.6 billion, or 42.6 per cent of the total debt of this type, and it exceeded the indebtedness of all state and local governments com-

[5] For GNP and types of expenditures, see U.S. Department of Commerce, *U.S. Income and Output,* November 1958. For debt estimates, see *Survey of Current Business,* May 1958. Estimates of the residential mortgage debt through 1956 are from Saul B. Klaman, *The Volume of Mortgage Debt in the Postwar Decade,* Technical Paper 13, National Bureau of Economic Research, 1958. The preliminary estimate for 1957 was furnished by the Board of Governors, Federal Reserve System. For data for the first ten postwar years, see Klaman, *op. cit.* Estimates for earlier periods are given in Leo Grebler, David Blank, and Louis Winnick, *Capital Formation in Residential Real Estate,* Princeton for National Bureau of Economic Research, 1956.

[6] Differences in the share of the government programs in housing starts and in the volume of mortgage lending are caused largely by the greater use of government-underwritten financing in new construction compared to transactions involving existing property. The difference between the loan "insurance" offered by the Federal Housing Administration and the "guaranty" offered by the Veterans Administration for loans to eligible veterans is largely technical. FHA insurance covers the entire amount of the loan but not all of the lender's expense that may result from default and foreclosure, and the lender obtains FHA debentures for the amount of his claim rather than cash. The V.A. guaranty currently is limited to 60 per cent of the loan and in no event exceeds $7,500, but provides for simpler liquidation procedures in case of default or foreclosure, and the lender's claim is paid in cash. For a statement by the Veterans Administration on the differences between the FHA and V.A. contract, see *Mortgage Interest Rate Problems,* Hearings before the Senate Banking and Currency Committee, 83rd Congress, 1st Session, January 28, 1953. In the context of this paper, the terms "government-underwritten" and "government-insured" loans are used to encompass both FHA-insured and V.A.-guaranteed mortgages. Also, "FHA loans" and "V.A. loans" refer to loans insured or guaranteed by the agencies.

TABLE 3
Government-Underwritten Residential Mortgage Debt Compared with Total Residential Mortgage Debt, 1946-1957
(billion dollars)

End of Year	Total Residential	Government-Underwritten			Government-Underwritten as a Percentage of Total		
		FHA	V.A.	Combined	FHA	V.A.	Combined
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
A. Total Residential Mortgage Debt							
1946	$ 28.1	$ 3.9	$ 2.4	$ 6.3	13.9	8.5	22.4
1947	33.7	4.3	5.5	9.8	12.8	16.3	29.1
1948	39.6	6.4	7.2	13.6	16.2	18.2	34.4
1949	44.9	9.0	8.1	17.1	20.1	18.0	38.2
1950	53.6	11.8	10.3	22.1	22.0	19.2	41.2
1951	61.4	13.4	13.2	26.6	21.8	21.5	43.3
1952	68.9	14.7	14.6	29.3	21.3	21.2	42.5
1953	77.1	16.0	16.1	32.1	20.8	20.9	41.6
1954	87.3	16.9	19.3	36.2	19.4	22.1	41.5
1955	100.7	18.3	24.6	42.9	18.2	24.4	42.6
1956	112.0	19.4	28.4	47.8	17.4	25.3	42.7
1957	121.2	20.9	30.7	51.6	17.2	25.3	42.6
B. Mortgage Debt on 1- to 4-Family Homes							
1946	23.0	3.7	2.4	6.1	16.1	10.4	26.5
1947	28.2	3.8	5.5	9.3	13.5	19.5	34.0
1948	33.3	5.3	7.2	12.5	15.9	21.6	37.5
1949	37.6	6.9	8.1	15.0	18.4	21.5	39.9
1950	45.2	8.6	10.3	18.9	19.0	22.8	41.8
1951	51.7	9.7	13.2	22.9	18.8	25.5	44.3
1952	58.5	10.8	14.6	25.4	18.5	25.0	43.5
1953	66.1	12.0	16.1	28.1	18.2	24.4	42.6
1954	75.7	12.8	19.3	32.1	16.9	25.5	42.4
1955	88.2	14.3	24.6	38.9	16.2	27.9	44.1
1956	99.0	15.5	28.4	43.9	15.7	28.7	44.4
1957	107.5	16.5	30.7	47.2	15.3	28.6	43.9

SOURCE: For government-underwritten loans: Federal Housing Administration and Veterans Administration.

For total home mortgage debt: Federal Home Loan Bank Board.

For total residential mortgage debt: *1946-1956:* Klaman, *The Volume of Mortgage Debt in the Postwar Decade; 1957:* Board of Governors, Federal Reserve System.

bined. Its net increase of $22 billion during the period 1953-1957 accounted for more than two-fifths of the rise in the total residential mortgage debt (Table 3) and 17.8 per cent of the expansion in the aggregate private debt. Because the government programs operate mainly in the market for owner-occupied single-family houses, the share of the government-underwritten home mortgage debt in the total debt of this type is even greater. At the end of 1957, government-underwritten home mortgage loans outstanding represented nearly 44 per cent of the entire home mortgage debt. The amount of these loans, $47 billion, exceeded total consumer indebtedness other than that on mortgages. The net flow of funds into government-underwritten home loans during the 1953-1957 period averaged about $4.5 billion a year (Table 3).[7]

The basic legislation for veterans' home loans prescribes maximum interest rates and maximum loan maturities. These terms have been modified from time to time by amendments, but veterans' home loans under the law have always been permitted to cover up to 100 per cent of the "reasonable value" of the property established by V.A.—the no-down-payment loan being one of the prime benefits that the G.I. Bill of Rights sought to confer upon veterans. In the case of FHA, legislation prescribes maximum loan-to-value ratios as well as maximum loan maturities and interest rates. Both FHA and V.A., however, have administrative discretion to set lower interest rates and require larger down payments or shorter maturities than the statutes permit, not only for individual loans but for all transactions.[8] Both agencies have established procedures under which operative builders, upon approval of their plans, can obtain loan insurance commitments (FHA) or "certificates of reasonable value" (V.A.), have their projects inspected during construction, and sell homes to eligible purchasers with insured or guaranteed loans. These commitments help builders to obtain short-term construction financing and have become strategic instruments in the large-scale production and marketing of homes for owner occupancy.

The most important general characteristic of the government-underwritten mortgage is its high loan-to-value ratio and its long maturity compared to

[7] In a broad sense, the federal involvement in residential financing is even larger than that revealed in the share of FHA and V.A. loans in the residential mortgage debt. The Veterans Administration has made direct home loans to veterans, and the Public Housing Administration and the Urban Renewal Administration have made loans to local public agencies. Moreover, the federal government insures accounts in savings and loan associations which hold conventional residential mortgages as their principal asset, and it insures deposits in commercial and mutual savings banks which together hold a considerable proportion of their assets in residential mortgages.

[8] Apparent earlier doubts about the V.A. Administrator's authority to require down payments across the board were removed in July 1955 when a minimum down payment of 2 per cent was required by regulation. While this action was criticized in and out of Congress, there is no evidence that its legality was ever seriously questioned.

the "conventional," i.e. uninsured, mortgage. It is this characteristic that has made the government-underwritten loan a significant factor in the postwar extension of home ownership to moderate-income families. Another important characteristic is the easier marketability of loans insured or guaranteed by the federal government compared to conventional loans. As a consequence, an active and nation-wide "secondary mortgage market" has developed for government-underwritten loans, in which mortgage originators, usually mortgage companies, sell loans to permanent investors (or portfolio lenders), such as life insurance companies and mutual savings banks, and in which permanent investors can dispose of their holdings.[9]

Other federal housing credit programs with which this essay is concerned aim at improving the marketability of residential mortgages or the liquidity position of mortgage lenders and at augmenting the flow of funds into residential mortgages. One of the two agencies performing these functions is the Federal National Mortgage Association (FNMA), which buys, sells, and holds government-underwritten loans. This Association, established in 1938 to provide an organized secondary market facility for FHA-insured loans and authorized in 1948 to act likewise for V.A.-guaranteed loans, was wholly financed by the federal government until 1954. In order to restrain the at times intensive use of this governmental credit facility and to secure the participation of private capital in its operations, the Housing Act of 1954 provided a new charter for the Association. Its operations were segregated into three sectors: (1) management and liquidation of the then existing mortgage portfolio of about $2.5 billion plus more than $700 million in outstanding purchase and commitment contracts; (2) secondary market functions; and (3) special assistance functions.

The secondary market operations were designed to provide market support only at a price that would discourage excessive use of the facility. Purchases were to be made at the going market price rather than at par, which was the practice before the new charter; and sellers of loans to FNMA were required to buy FNMA common stock equal to 3 per cent of the amount of the loans. Also, there were to be no advance commitments for the purchase of loans, which had previously been authorized from time to time and had in effect converted the Association into a primary source of funds. The special assistance operations were to continue a function previously performed by FNMA, that is, the purchase of certain classes of government-underwritten loans which the private market, because of unusual risks or

[9] In contrast to the "primary mortgage market" in which transactions occur between lenders and borrowers, transactions in the "secondary market" are made between different types of lenders. For a more refined definition and detailed analysis of these markets, see Klaman, *The Postwar Residential Mortgage Market,* Chapter 7. For the operations of mortgage companies, cf. Saul B. Klaman, *Postwar Rise of Mortgage Companies,* Occasional Paper 60, National Bureau of Economic Research, 1959.

lack of familiarity with a new type of security or for other reasons, might be unwilling to accept. Sellers of loans falling in this category need not buy FNMA stock, and FNMA could continue to make advance commitments for the purchase of special assistance mortgages. But the amount authorized for this function was strictly limited.

In addition, the Federal National Mortgage Association in 1954 was given access to the private capital market by authority to issue nonguaranteed debentures up to ten times its capital and surplus. To provide a "backstop," however, FNMA's authority for borrowing from the Treasury was continued, and funds for the purchase of special assistance loans come exclusively from the Treasury.[10]

The fate of this effort to restrain the use of government credit will be seen on subsequent pages. It suffices to say here that FNMA's total portfolio rose from about $2.5 billion at the time the new charter became operative to nearly $4 billion at the end of 1957. At the latter date, the Association held 7.7 per cent of the amount of government-underwritten mortgage loans outstanding, nearly 9 per cent of all V.A. loans outstanding, and almost 6 per cent of the FHA-insured mortgage debt (Table 4). The net increase in the FNMA portfolio between the end of 1954 and the end of 1957 represented about 10 per cent of the net increase in the government-underwritten residential mortgage debt. Mortgage purchases by the Association in 1957 alone equaled more than one-sixth of the gross amount of FHA and V.A. loans made during that year, and its purchases of V.A. loans equaled more than one-fifth of the amount of veterans' home loans closed (Tables 2 and 11). Thus, the Federal National Mortgage Association has been a significant factor in the market for government-underwritten mortgages and, indirectly, in the residential mortgage market as a whole. In recent years, the Association has also become an important user of funds in the capital market. Its borrowings at the end of 1957 totaled $3.6 billion, of which $2.7 billion was indebtedness to private investors while nearly $1 billion was owed to the Treasury. This distribution of FNMA obligations between the Treasury and private holders represented a drastic shift from the pattern of the preceding year when $2.1 billion was borrowed from the Treasury and less than $800 million from private investors (Table 18).

The other federal facility in this class is the Federal Home Loan Bank System, which, through eleven regional banks, performs the functions of bankers' banks for its member institutions, mostly savings and loan associations. The Home Loan Banks make loans to members to help them meet unanticipated withdrawals of savings or seasonal mortgage loan demands

[10] For the new FNMA charter, cf. Title III of the *Housing Act of 1954 (Public Law 560,* 83rd Congress, approved August 2, 1954) and the hearings preceding the legislation.

TABLE 4

Mortgage Holdings of the Federal National Mortgage Association Compared with the Government-Underwritten Residential Mortgage Debt, 1946-1957
(million dollars)

End of Year	FNMA Mortgage Holdings [a]			FNMA Holdings as a Percentage of Government-Underwritten Residential Mortgage Debt		
	FHA (1)	V.A. (2)	Combined (3)	FHA (4)	V.A. (5)	Combined (6)
1946	$ 6	—	$ 6	.15	—	.09
1947	4	—	4	.09	—	.04
1948	189	$ 11	200	2.95	.15	1.47
1949	403	425	828	4.46	5.25	4.83
1950	169	1,178	1,347	1.43	11.44	6.10
1951	204	1,646	1,850	1.52	12.47	6.96
1952	320	1,922	2,242	2.18	13.16	7.65
1953	621	1,841	2,462	3.88	11.43	7.67
1954	802	1,632	2,434	4.75	8.46	6.73
1955	901	1,714	2,615	4.92	6.97	6.09
1956	978	2,069	3,047	5.03	7.29	6.37
1957	1,237	2,737	3,974	5.92	8.92	7.70

SOURCE: FNMA mortgage holdings: Federal National Mortgage Association. Government-underwritten residential mortgage debt: Table 3, panel A, columns 2, 3, and 4.

[a] Excluding a relatively small amount of mortgage loans transferred from the Reconstruction Finance Corporation to FNMA in 1954.

in excess of the members' own funds, or to supplement local savings resources in areas of rapid growth. They obtain money for these operations from capital stock (now wholly owned by the members), from deposits by members, and from nonguaranteed debentures and notes issued to private investors. The Treasury reviews and approves the timing, amount, and terms of obligations issued by the banks and is authorized, as a "backstop" device, to buy up to $1 billion of their obligations, an authority that has remained unused to date. Quite apart from formal arrangements, the coordination of the banks' lending operations with general credit policies became one of the critical issues in the management of governmental home-financing programs during 1955.

Advances outstanding of the Federal Home Loan Banks, relatively small in the early postwar period, have reached a substantially higher level in recent years, paralleling the spectacular growth of savings and loan associations (Table 5). At the end of 1955, they totaled $1.4 billion. Obligations of the Federal Home Loan Banks have shown a corresponding increase and rose to $975 million at the end of 1955. While borrowings from the banks represent only a minor proportion of the total resources of member institutions of the Federal Home Loan Bank System, they have at times been an important factor in raising the mortgage lending potentials of the members. During 1955, for example, the increase in advances made by the banks equaled more than one-fifth of the increase in mortgage loans made by members; in 1950, it equaled 27 per cent of the increase.

Although there are other major federal programs for assisting housing and community development, the four activities sketched here have been in the forefront of housing credit policies in recent years. These activities not only have a significant impact on the housing, mortgage, and capital markets, but they also represent a very large sector of the aggregate of all federal credit programs. FHA and V.A. loans outstanding at the end of the fiscal

TABLE 5

Federal Home Loan Bank Advances, Obligations of the Federal Home Loan Banks, and Mortgage Loans Made by FHLB Member Institutions, 1946-1957
(million dollars)

Year	Advances Outstanding at End of Year (1)	Obligations Outstanding at End of Year (2)	Mortgage Loans Made by FHLB Members (3)	Gross Changes in Advances Made (4)	Changes in Mortgage Loans Made by Members (5)
1946	293.5	169.0	3,322	—	—
1947	435.6	261.7	3,466	+21.9	+144
1948	515.0	416.5	3,313	+8.5	−153
1949	433.4	206.5	3,343	−103.9	+30
1950	816.0	561.0	4,880	+419.1	+1,537
1951	805.9	529.5	4,928	−251.8	+48
1952	864.2	448.5	6,303	+162.8	+1,375
1953	951.6	413.5	7,435	+141.7	+1,132
1954	867.5	273.0	8,630	+6.7	+1,195
1955	1,416.8	975.0	11,013	+517.5	+2,383
1956	1,228.1	963.0	10,176	−506.2	−837
1957	1,265.1	826.0	10,070	+370.8	−106

SOURCE: *Housing Statistics*, and *Savings and Home Financing Source Book*, Federal Home Loan Bank Board.

year 1957 accounted for 92 per cent of all loans insured or guaranteed by the federal government. The holdings of the Federal National Mortgage Association, combined with direct home loans to veterans [11] and ancillary mortgage and real estate investments by FHA and V.A., accounted for about one-fifth of the outstandings of all federal loans and financial investments, including those for agriculture, business, and economic aid programs abroad.[12]

Thus, the federal involvement in the housing and related financial markets is large both in absolute terms and in relation to total home building and mortgage lending and to the aggregate of federal credit programs. The special position of housing that these figures illustrate has had significant implications for economic stabilization policies in recent years.

[11] These were authorized in 1950, and most of the loans have been made in remote areas where private lending facilities are held to be inadequate for investment in low-interest home mortgage loans.

[12] Special Analysis E of the *Budget of the United States Government for the fiscal year ending June 30, 1959,* Table 4. The percentages would be still larger if federal loans under other programs such as public housing, urban renewal, and college housing were included.