MONTHLY REVIEW
of Ninth District Agricultural and Business Conditions
FEDERAL RESERVE BANK OF MINNEAPOLIS
Vol. 10 MAY 31, 1950 Serial No. 5

Mortgage Credit Tailored to Family Incomes

Survey Reveals a Majority of Twin Cities Loans Still of Conventional Type; Risk of Lending Reduced by Amortization Principle

By OSCAR F. LITTERER

MORTGAGE structure in the Twin Cities metropolitan area rests largely on family incomes. This is revealed by a survey conducted by the Federal Reserve Bank of Minneapolis in cooperation with those engaged in mortgage lending. The study showed that mortgages are secured primarily by residential property and, more specifically, by single unit houses.

Private lending institutions are continuing to assume risks in mortgage financing. It appears that the conventional mortgage which is not insured or guaranteed by a federal government agency is still the principal type of mortgage. In financing single unit homes where FHA loans and VA loans are prominent, the survey showed 62% of the mortgages were nevertheless of the conventional kind.

Lending policies of private lenders reflect the influence of federal legislation in this field. Amortization, such as is required on FHA and VA loans, has become the rule on conventional loans. The rate of interest charged on conventional loans is comparable to the rate carried by insured and guaranteed loans.

Maturities of the conventional loans, however, are not lengthened to equal those on the government insured or guaranteed loans. This can be attributed in part to the fact that publicly supervised institutions are limited in the length of maturities they may accept.

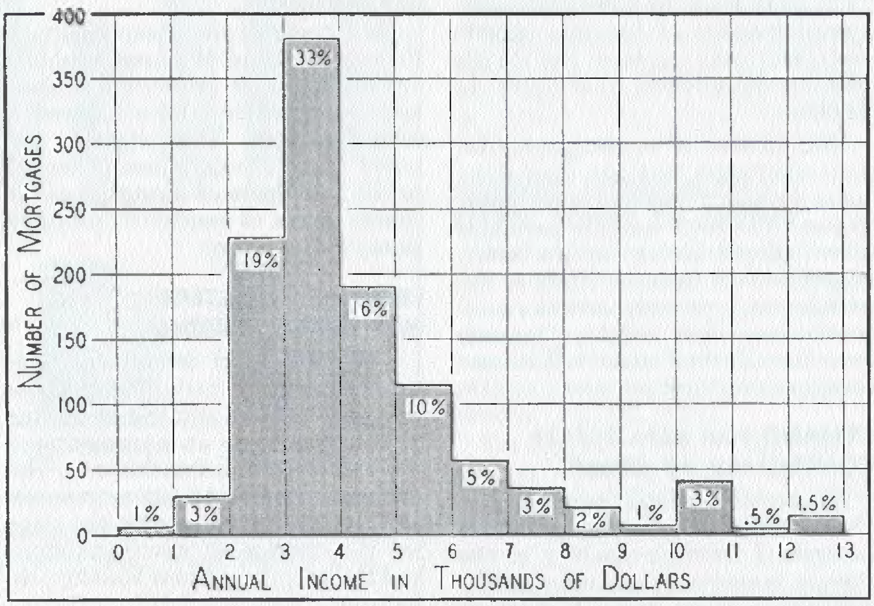
Since the early Thirties, two divergent trends have operated in regard to the risk involved in mortgage lending. First, the principle of amortization steadily reduces the amount of indebtedness outstanding. In periods of declining real estate prices, the necessity of foreclosure on properties due to a lapse in payments does not arise so long as the amounts outstanding on the loans are below the market values of the properties.

Second, on the other hand, mortgage terms have been liberalized through smaller down payments or no down payments and through lengthening of the maturities of the loans. This liberalization tends to offset the reduction of risk in mortgage lending through amortization.

Since the terms of postwar mortgage lending covered by the survey fell into a number of patterns which represented a large majority of the loans, it was possible to segregate these patterns of terms and calculate the annual repayment on the principal over a period of years.

The smallest repayment on the principal was made on typical VA loans. By the end of the fifth year, slightly over 11% of the principal

DISTRIBUTION OF MORTGAGES IN THE TWIN CITIES BY ANNUAL INCOME OF MORTGAGORS



THE LARGEST proportion of mortgages was granted to individuals with annual incomes ranging from $3,000 to $4,000.

was repaid, and by the end of the tenth year less than 26% was repaid. On typical FHA loans, the amount repaid on the principal was at a slightly higher rate. By the end of the fifth year over 12% was repaid, and by the end of the tenth year 28% was repaid.

In a real estate recession, the price of residential property may decline faster than the reduction of the principal through amortization. Under such circumstances, some properties may be turned over to the mortgagees. Should this occur, it may be necessary for the holders of these mortgages to draw on the insurance or guarantee.

Since the conventional loans were made for a shorter term of years than the insured or guaranteed loans, the principal was repaid at a much faster rate. On a typical conventional loan, 38% of the principal was repaid by the end of the fifth year and 88% was repaid by the end of the tenth year. On these loans, the principle of amortization still reduces sharply the risks involved in mortgage lending to private institutions.

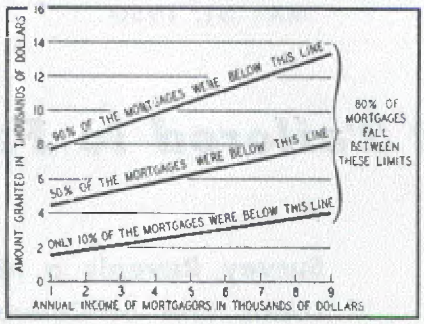
Mortgage lending from the standpoint of the mortgagor provided the other half of the picture. A substantial amount of the mortgage credit was extended to the lower middle income family. Of the total number of mortgages in the sample, 24% were made to individuals with annual incomes of less than $3,000 and 33% were made to individuals with annual incomes from $3,000 to $4,000.

The amount of credit granted on most mortgages was less than three times the annual incomes of the mortgagors. The total monthly payments were tailored closely to the mortgagors' annual incomes. Most of the mortgagors apparently were in a position to meet their monthly payments even though they might suffer some reductions in their incomes.

DEMAND FOR REAL ESTATE CONTROLLED BY CREDIT

Since nearly all real estate is purchased on credit, mortgage credit occupies a strategic position in the private enterprise economy. The amount of credit granted on mortgages, the cost of credit, and the number of years allowed the purchaser of property to repay the credit determines, in a large measure, the demand for real estate and, thereby, new construction.

RELATIONSHIP IN THE TWIN CITIES BETWEEN MORTGAGE CREDIT AND MORTGAGORS' INCOME



THE AVERAGE amount of credit ranged from $4,600 to $8,200 over an annual income scale from $1,000 to $9,000.

In the field of housing, the liberal or conservative credit terms available to prospective purchasers of houses, along with the level of family incomes in relation to the prices of houses, comprise the primary component in the effective demand for shelter. During the war, and even more so in the postwar period, the terms of mortgage credit were liberalized extensively.

As a result of the cheap credit on the one hand and of a housing shortage on the other, real estate brokers and home builders have enjoyed a sellers' market. This situation has raised numerous questions in regard to the soundness of mortgage credit should prices of residential property slump in the future.

LEGISLATION ALTERS MORTGAGE LENDING

The widespread default on mortgages during the early Thirties, due to unemployment and loss or decline of income, led to an unprecedented wave of real estate foreclosures. The distress it created among mortgagors and lending institutions set the stage for the creation of new institutions and the adoption of new lending procedures.

Among the new institutions that sprang into existence were the Federal Housing administration, the Home Loan Bank system, the Home Owners Loan corporation, the Federal Savings and Loan associations, and the Federal National Mortgage association. The methods and techniques initiated through these institutions changed significantly the nature of mortgage lending. A brief review of lending practices in the Twenties and today will bring into focus the changes that have taken place.

In the Twenties, the principle of amortization was not a general procedure. A first mortgage on real estate was in the nature of a standing indebtedness. Exceptions to this procedure were the amortization of mortgage bond issues, land contracts, contracts for deed, and mortgages advanced by building and loan associations. Second mortgages, however, carried provisions for partial, if not full, amortization.

The amount of credit loaned on mortgages by lending institutions was limited by supervisory authorities to a percentage of the appraisal values placed on the properties. However, according to the amount of credit loans on many properties during the Twenties, the legal restrictions caused many institutions to set appraisal values which fitted the loan values rather than permitting the appraisal values to set an effective limit to the loans.

The cost of real estate financing was much higher in the Twenties than it is today. The rate of interest on first mortgages was much higher, but more important were the additional charges. To secure sufficient funds, most purchasers of real estate found it necessary to obtain second mortgages from institutions or individuals who were willing to assume greater risks than those who granted first mortgages. The rate of interest on these mortgages was substantially higher than on the first. Renewal charges also added to the cost of financing real estate.

The methods and techniques of mortgage lending introduced through the establishment of federal government institutions in the mortgage lending field changed quickly the general practices. The principle of amortization was adopted universally, especially in the financing of residential properties. Longer maturities became common, interest rates were reduced, and the loan values in re-

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BANKING

District Holds $1.9 Billion in Savings Bonds

RESIDENTS of the Ninth district own a tidy nest egg of United States savings bonds. According to estimates of the Savings Bond division of the U. S. Treasury, outstanding savings bonds — all series — in Minnesota, Montana and the Dakotas totalled $1,917 million at the end of last year. Of these, $1,501 million were Series E bonds. (See chart.)

Minnesota, with the largest population, led the parade. The total for this state of all series of savings bonds outstanding on December 31, 1949 was $1,012 million; E bonds came to $771 million.

The people of North Dakota owned $320 million of savings bonds Series A-G, $256 million of E's. In South Dakota total bonds outstanding were $319 million; Series E, $264 million. Montana holdings of Series A-G totalled $266 million, with $210 million in E's.

Per capita figures — holdings divided by population—show North Dakota out in front. The average resident of North Dakota at year-end 1949 held $529 of savings bonds —all series; $423 of Series E.

Running a close second, Montana per capita holdings of savings bonds of all series were $511; of Series E, $403. In South Dakota per capita holdings of total bonds were $492; of E's, $407. The figure for Minnesota was $340 of all series and $259 of Series E.

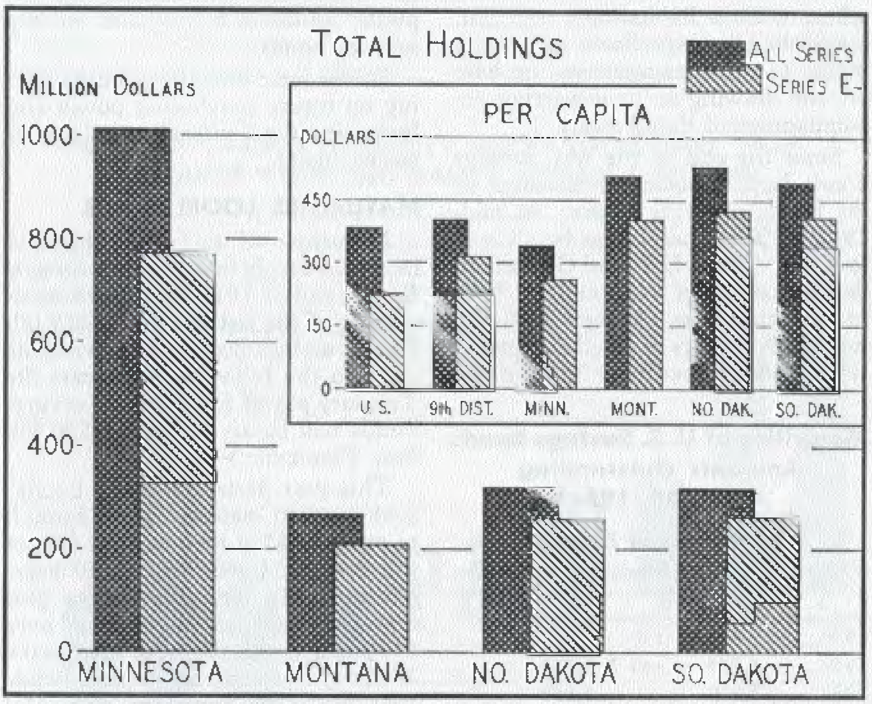
▶ *Of the total holdings (Series A-G) in district states, $1.5 billion are in Series E bonds.*

▶ *Per capita holdings of E bonds in this district are 40% greater than in the U. S. as a whole.*

▶ *Since the end of the war, holders of larger denomination savings bonds have acquired a greater share of the total outstanding.*

HOLDINGS OF U. S. SAVINGS BONDS IN 9TH DISTRICT STATES

On December 31, 1949



DOLLAR-WISE, Minnesota has more savings bonds outstanding than other states in the district. On a per capita basis, North Dakota is in the lead.

SOURCE: Holdings of savings bonds on Dec. 31, 1949, Savings Bond division, U. S. Treasury. Population figures on July 1, 1949 (used in calculating per capita holdings of savings bonds), Bureau of the Census, U. S. Department of Commerce.

NOTE: Per capita holdings of savings bonds for the Ninth district based on figures for Minnesota, Montana, North Dakota, and South Dakota only.

DISTRICT PER CAPITA HOLDINGS OF SAVINGS BONDS SURPASS NATIONAL AVERAGE

Data on per capita holdings for the U. S. as a whole show that at year-end 1949 the average American held $380 of savings bonds Series A-G, $226 of Series E. Residents of the Ninth district—on the average—held 6% more savings bonds of all series, almost 40% more of Series E.

Except for holdings of Series A-G in Minnesota, per capita figures for each state in this district outstripped those for the United States. In the Dakotas per capita holdings of Series E bonds were almost double the national average.

With agriculture playing a leading role in the economy of this district, the Ninth's relatively larger holdings of savings bonds clearly reflect the farm prosperity of the last decade.

SAVINGS BONDS EXCEED OTHER FORMS OF SAVING

In the nation as a whole, the public has salted away over $57 billion in U. S. savings bonds—more dollars than are in time deposits in commercial banks, in deposits in mutual savings banks, in life insurance, or in savings and loan shares.

On February 28, 1950, the public's savings bond portfolio contained $34 billion of Series E bonds, $3½ billion of Series F, $18 billion of G's and $1½ billion of Series D bonds. [1]

Designed primarily for the small investor, Series E bonds are issued

Source: U. S. Treasury Department.

[1] Amounts outstanding and redemption figures are at current redemption values, except for Series G which are at par. Sales figures are at issue price.

in denominations from $10 to $1,000 maturity value and are sold exclusively to individuals (including unincorporated businesses and personal trusts). Series F and G bonds, designed for the larger investor, are issued in denominations of $25 to $10,000 and are sold to anyone, except commercial banks.[2] The E's, F's, and G's have been on sale since 1941.

U. S. savings bonds Series A-D introduced the savings bond idea. Sold from 1935 to 1941, Series A-D were essentially the same as the current Series E. To date all but the Series D bonds issued in 1940 and 1941 have matured.

SAVINGS BOND HOLDINGS ACCUMULATED DURING WAR

The country's multi-billion dollar store of savings bonds was accumulated mainly during the war. Spurred by patriotism, armed with greatly increased incomes and facing shortages of goods, individuals and businesses bought more than $42 billion of savings bonds from 1942 through 1945. Prior to 1942, savings bonds outstanding totalled $6 billion.

The public's continued enthusiasm for savings bonds after the war was unexpected. It was widely predicted that, following the war emergency, redemptions of savings bonds would far outrun new sales. Actually, every year since the end of hostilities, the Treasury has sold more new bonds than it has paid off. Total savings bonds outstanding have increased $9 billion. Apparently the forecasters underestimated the effectiveness of savings bond drives and the public's desire to build up or maintain their savings.

The postwar record of net sales continued unbroken in 1949. However, for the first time since the end of the war, the margin of sales over redemptions—the amount of net savings—declined. This means the postwar rate of increase in savings bonds outstanding was slowing down.

SAVINGS BONDS FEATURE SAFETY, HIGH RETURN

The 1949 Federal Reserve Survey of Consumer Finances confirmed the widespread popularity of U. S. savings bonds. Results showed that 92% of the nation's spending units with incomes of $3,000 or over favored investing in savings bonds.

When asked why they would choose savings bonds as against other forms of savings, about 48% cited their safety, about 34% the relatively high rate of return, and 5% helping the country.

REDEMPTIONS LARGEST IN SMALL DENOMINATION BONDS

Owners of small denomination bonds have been the most prone to cash in their holdings. Redemption of Series E bonds amount to 46% of the total issued; F and G redemptions have cancelled only 15%. Dollar-wise the Treasury has paid out $26½ billion redeeming Series E bonds and less than $4 billion for F and G bonds.

Moreover, quick cashing of E bonds is not uncommon. Redemption of E bonds is typically heavy in the year following their sale, while F and G redemptions in the first year after issue have been very small.

Apparently among holders of small denomination bonds there are many whose savings habits have not been established, or who have to redeem bonds to meet emergencies, or who are still drawing on their wartime accumulations of liquid assets.

Since the end of the war, savings bonds have become concentrated in the hands of larger savers. At mid-1945, 45% of the savings bonds outstanding (Series E, F, and G) were in denominations of $100 or less, 55% in denominations of over $100. By mid-1949, holders of small denomination bonds claimed only 30% of the savings bonds outstanding, with the figure 70% for holders of bonds over $100.

In the Ninth district, reports indicate that the less affluent farmers have cashed in bonds to modernize their farms and buy household appliances, while the wealthier farmers have continuously added to their bond holdings.

SAVINGS BONDS KEY FACTOR IN U. S. DEBT

Savings bonds occupy a central position in the management of the public debt. Amounting to 22% of the gross U. S. debt, savings bonds are the main vehicle for spreading the ownership of the debt.

Moreover, government borrowing via savings bond sales is non-inflationary. Whereas selling bonds to the banking system adds to the total money supply, selling savings bonds outside the banking system does not. The Treasury is currently operating with a cash deficit. The inflationary impact of financing this deficit will be lessened to the extent that the public continues buying and holding savings bonds.

At the same time the public is storing up future purchasing power and bolstering the financial soundness of the economy.

MATURITIES LOOM LARGE

Maturities of savings bonds will increase sharply in the next five years. By the end of 1955—the tenth anniversary of the last war year—$29 billion of savings bonds will have come due. In the following five years the Treasury payoff for maturing savings bonds will be an additional $26 billion. (See table.)

This year Series D "baby bonds" sold in 1940 mature. They amount to roughly $550 million. The first of the Series E bonds will be 10 years old in 1951. Their maturities plus Series D bonds sold in 1941 total over $1½ billion. In the next four years, 1952-55, inclusive, the savings bonds sold during the war come due. Maturities amount to almost $4 billion in 1952, $6¾ billion in 1953, over $8½ billion in 1954, and $7½ billion in 1955.

The payoff of these wartime savings will provide a powerful support to business in the coming years. At the same time, saving bond maturities

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Maturities of U. S. Savings Bonds Amounts Outstanding April 30, 1950

(In Millions of Dollars)

	All Series	Series D	Series E	Series F & G
1950	$ 557	$ 557	....	....
1951	1,555	443	$ 1,112	....
1952	3,959	....	3,959	....
1953	6,773	....	5,526	$ 1,247
1954	8,644	....	6,152	2,492
1955	7,498	....	4,918	2,581
Total	$28,986	$1,000	$21,667	$ 6,320
Following 5 years (1956-60)	$26,164	....	$12,781	$13,385

Source: Federal Reserve Bulletin, May 1950

[2] In June and July 1948 a special sale of Series F and G bonds was open to commercial banks holding savings deposits or issuing time certificates of deposits.

AGRICULTURE

Farm Act of '49 Modernized Parity Prices

▸ *Adjusting parity base period to prices of past 10 years brought parity price indexes up to date.*

▸ *The new parity formula increases parity prices of most livestock. It decreases parity prices of most grains.*

▸ *Parity ratio currently is favorable by peacetime comparison.*

IT IS generally believed by competent authorities that farm prices in general may decline further during 1950. At the same time, the costs of farming may not decline much, if at all. The result may be a continuation of the price-cost squeeze on farmers' net earnings, which would be indicated by a further decline in the parity ratio.

Price supports based on parity prices are so important to the Ninth district economy that a discussion of the parity concept and of the parity formula seems pertinent.

Actually the parity concept, while seemingly complicated, is relatively simple. It is a concept which attempts to measure the buying power of farm products in relation to some previous period of time.

A formula for estimating parity prices developed in the early 1920's, following the collapse of farm prices after World War I. Its purpose was to measure the difference in farm and non-farm prices before and after the war and to show the seriousness of the farm depression of the early 20's.

It was not until 1933, however, that the parity idea was used in farm legislation. Since then, parity prices have developed as a broad foundation for farm price support measures.

PARITY FORMULAS NOT WELL UNDERSTOOD

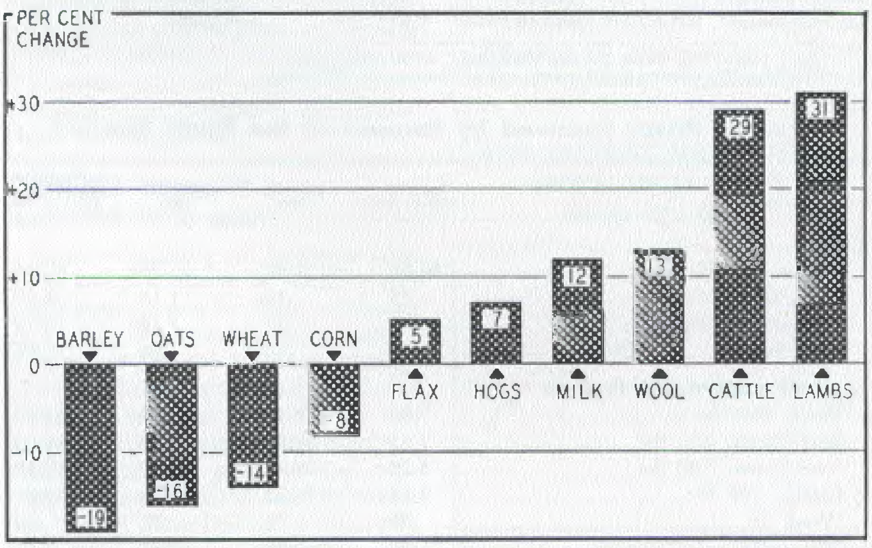
In spite of its wide usage, the average person today is confused by the term parity. He is not able to give an explanation of the method of computing a parity price for a particular farm product.

Unfortunately, the confusion surrounding parity pricing may have increased with the passage of the Agricultural Act of 1949, which revised the basic farm price series that enter into parity computations and which substituted an "adjusted" base price in the new parity formula.

Before January 1, 1950, parity prices for each individual farm commodity was computed by a simple formula, as follows: The average price of a particular farm product in the base period, usually 1910-14, was multiplied by the current parity index to calculate the current parity price.

PER CENT CHANGE IN PARITY PRICES OF SEVERAL FARM PRODUCTS FROM OLD PARITY FORMULA TO NEW

(Prices used as of January 15, 1950)



GENERAL EFFECT of modernization of the parity formula has been to decrease the parity prices on most grains and to increase it on most livestock and livestock products.

Source: USDA "The Agricultural Situation," February 1950.

The parity index is a monthly index of prices **paid by farmers,** with 1910-14 as a base equal to 100. Currently, April 1950, this parity index was 251, which means that prices paid by farmers were approximately two and one-half times the 1910-14 base period level.

Under the Agricultural Act of 1949, some important changes were made in the calculation of new parity prices. These took effect January 1, 1950. The major changes were:

(1) the substitution of "adjusted" base prices for the 1910-14 base period prices previously used;

(2) cash wages paid farm labor and other additional costs were included in the prices paid "parity" index. This second factor will be discussed later in this article.

OLD PARITY FORMULA OUT OF DATE

The old parity formula yielded a price for a particular farm product that gave it the same purchasing power as it had in the base period — usually 1910-14. For example, wheat has a current parity price of $2.16 per bushel under the old formula. The new parity formula, which "adjusts" the parity prices to actual prices of the last 10 years, yields a new parity price for wheat of only $1.85 per bushel.

The old formula was criticized as being 35 years out of date. It tended to distort price relationships between commodities. For example, wheat production has been almost completely mechanized and costs have been altered. Some other farm enterprises, such as livestock production, have not and cannot be fully mechanized.

In other words, the old parity formula failed to adjust the base price in the parity formula to changing conditions and changing supply and demand (price) relationships that come with the years.

The new formula still uses 1910-14 price relationships between the general level of prices farmers receive and pay, but, as indicated above in the case of wheat, it "adjusts" the base period price (1910-14) of a particular farm product to its latest 10-year average price.

OLD AND NEW METHOD OF COMPUTING PARITY PRICES

To illustrate the difference in the old and new method of computing parity, wheat can serve as an example. Under the old formula that has been used since 1933, wheat parity is calculated as follows:

The average price received by farmers for wheat in the base period, 1910-14, was $0.884 per bushel. Prices paid by farmers (their costs) have increased tremendously since 1910-14 and in April 1950 were 251% of the 1910-14 base as measured by the USDA's monthly index of prices paid by farmers, called the parity index.

Hence, if a bushel of wheat were to have the same exchange value today as it enjoyed in the period prior to World War I, it would have to get a price approximately 2½ times the base price. Therefore, the parity price of wheat in April, 1950, under the old formula would be:—$0.884 × 251 = $2.16 a bushel.

Under the new parity formula, which went into effect January 1, 1950, the current parity price of wheat is calculated as follows: First, the actual average price of wheat for the immediate preceding 10-year period is tabulated. This price was $1.49 for the 1940-49 period. Second, this price of $1.49 is divided by the index of all prices received by farmers for this same 10-year period, 1940-49. This index number is 202, using again the 1910-14 period as a base of 100.

This gives an "adjusted" base price for wheat which is then multiplied by the latest prices paid "parity" index to yield the current new parity wheat price. Therefore, the parity price of wheat, April 15, 1950, under the new formula would be: $1.49 ÷ 202 = $0.739 × 251 = $1.84 a bushel.

Old and new parity prices for other farm products are figured in the same manner by substituting the base prices of the particular farm product in the two formulas.

RESTRICTIONS PUT ON USE OF NEW PARITY FORMULA

Although the Agricultural Act of 1949 provides for a new method of calculating parity prices, the new parities cannot be used freely in price support operations.

The law provides that in the case of the so-called "basic" crops of corn, wheat, cotton, tobacco, rice and peanuts, the old parity formula must be used in price support operations until 1954—if **the old formula yields a higher support price than does the new formula.**

It would appear, therefore, that the old formula may continue to be used for some time for corn, cotton, wheat, and peanuts, since it yields a higher support level. On the other hand, rice and tobacco may use the new parity formula.

Furthermore, the law provides that parity prices for support operations of the non-basic farm commodities cannot be less than a "transitional" parity price.

This transitional parity price is defined as the parity price according to the old formula reduced by 5% for each full calendar year that has elapsed since January 1, 1949. The transitional parity price is to continue in effect until it is less than the parity price under the new formula. This means that transitional parity prices in 1950 may be 95% of the old parity price. Next year, it would be 90%, and so on.

As indicated earlier, there were two major changes in parity computation in the Agricultural Act of

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January-March Cash Farm Income*

(Thousands of Dollars)

State	1935-39 Average	1949	1950	1950 in Percent of 1949
Minnesota	$ 76,843	$ 284,703	$ 276,793	97%
North Dakota	17,388	101,940	69,689	68
South Dakota	23,345	129,003	104,293	81
Montana	12,874	58,634	51,328	88
Ninth District[1]	148,196	627,877	553,696	88
United States	1,680,482	5,870,254	5,476,894	93

*Data from "The Farm Income Situation," dated April 1950.
[1] Includes 15 counties in Michigan and 26 counties in Wisconsin.

Average Prices Received by Farmers in the Ninth District*

Commodity and Unit	April 15 1937-41 Avg.	April 15 1949	April 15 1950	Parity Prices[1] United States April 15, 1950
Crops				
Wheat, bushel	$0.84	$1.98	$1.99	$2.16
Corn, bushel	.59	1.10	1.16	1.57
Potatoes, bushel	.66	1.51	1.26	1.70
Oats, bushel	.31	.60	.66	.925
Livestock and Livestock Products				
Hogs, 100 lbs.	7.29	18.54	15.54	18.90
Beef Cattle, 100 lbs.	7.12	19.81	21.03	17.00
Veal Calves, 100 lbs.	8.25	25.42	25.27	19.10
Lambs, 100 lbs.	8.34	24.78	22.88	18.80
Wool, lb.	.26	.53	.51	.505
Milk, wholesale, 100 lbs.	1.48	2.89	2.98	4.34
Butterfat, lb.	.29	.65	.64	.695
Chickens, live, lb.	.124	.268	.178	.286
Eggs, doz.	.157	.381	.270	.499

*Source: "Agricultural Prices"—April 28, 1950.
[1] The term parity as applied to the price of an agricultural commodity is that price which will give to the commodity a purchasing power equivalent to the average purchasing power of the commodity in the base period, 1910-14.

BUSINESS

Construction, Manufacturing Spur Business

NINTH district business activity continued the upward trend during April, and prospects for employment in construction and in manufacture of durable goods indicate these favorable conditions may be extended into coming months.

In the past several weeks, some geographic areas in the district have not shared in this renewal of business prosperity. In some sections, the cold and wet spring weather has delayed the seeding of small grains for several weeks and the unprecedented floods have interrupted the movement of business.

Furthermore, the renewed prosperity has not pervaded the entire economy. A few industries in this district, following the trend in the nation as a whole, have not experienced an increase in their gross receipts. Small grain farming, a primary industry in the western part of the district, has been in this category. Even though grain prices have risen gradually in the past few months, the receipts from farm marketings in this area were down materially from a year ago.

Some businesses, particularly in the soft goods lines, have not experienced an expansion in sales. Consumers have concentrated on buying houses, furnishings and appliances for homes, and new cars; they have curtailed their purchases of various kinds of soft goods.

OVER-ALL DISTRICT BUSINESS WAS HIGH

Since practically all business concerns and a majority of families and single persons pay for their purchases by check, bank debits constitute a measure of general business activity. Monthly bank debits, adjusted for the usual seasonal variation so the figures for each month are comparable to those for previous and subsequent months, show that debits in this district have been at a relatively high level since last February. For April, the adjusted amount of debits approached the peak reached last summer following a mild business recession in the earlier part of last year.

In North Dakota, the effect on business of the floods and the cold, wet spring weather was reflected in bank debits. The April debits were down 11% from the corresponding month of last year. One less business day this year may have accounted for a relatively small proportion of the decline in debits, but most of the decrease was traced to a smaller volume of business transacted.

In the other western states of the district, bank debits declined by a much smaller amount. For Montana and South Dakota, debits in April were only 3% and 4% lower respectively than in April 1949.

The decline in bank debits in the western part of the district was offset by a rise in the eastern part. Brisk activity in construction and manufacturing was the primary source of the larger amount of debits. The increase in the state totals, however, was partly offset by the late opening of shipping on Lake Superior. Debits reported by banks on the iron ore range of northern Minnesota, northern Wisconsin, and on the Upper Peninsula of Michigan were lower than those reported from other areas, especially the industrial centers.

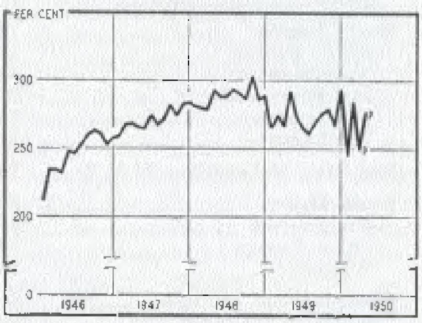
DEPARTMENT STORE SALES EQUAL '49 DOLLAR VOLUME

As may be observed on the accompanying chart, department store sales in the district during April recovered from the March slump. Although sales have been erratic this year, the level compares favorably with the 1949 volume. For instance, April sales were held down by the inclement weather but, nevertheless, were 177% above the pre-war base period, while the yearly average for 1949 was only 175% above the same base.

More specifically, department store sales in April did fall below the April 1949 volume, but they were higher than for any other month during the first three quarters of last year.

In Minneapolis, St. Paul, Duluth, and Superior, sales for the first two weeks of May averaged 12% above the volume in the corresponding weeks of a year ago. Prices have edged up in recent weeks, but they were still 2% lower than 12 months ago, according to the retail price index of Fairchild Publications. This provides proof that consumers still were buying heavily in terms of post-war standards.

9TH DISTRICT DEPARTMENT STORE SALES FROM 1946 TO DATE



ALTHOUGH sales have been erratic since the first of the year, they tend to equal last year's dollar volume.

> **▸ Manufacture of construction materials and of durable consumer goods — television, cars, etc. — accounts for renewed activity.**
>
> **▸ Some geographic areas and a few industries have not shared in the recent prosperity.**
>
> **▸ Consumers concentrated purchases of durable goods.**
>
> **▸ Employment continued to rise in urban centers.**

STRONG MARKET PREVAILS FOR DURABLE GOODS

According to preliminary figures for April, sales of women's and misses' wearing apparel were down approximately 20% from the April 1949 dollar volume. Silverware and jewelry sales were off about 13%. On the other hand, the sales of men's clothing and especially television sets were noticeably above last year's volume.

Over a longer period of time, from October through March, sales of

Index of Department Store Sales by Cities

(Unadjusted 1935-39 = 100)

	April[1]	Percent change[2] April[3]	Percent change[2] Jan.-Apr.
Minnesota			
Duluth-Superior	271	—16	— 8
Fairmont	287	— 5	—12
Mankato	286	—16	— 8
Minneapolis	316	— 7	— 1
Rochester	237	—18	—12
St. Cloud	306	—16	—14
St. Paul	274	— 5	— 2
Willmar	293	— 3	—12
Winona	279	—10	— 6
Montana			
Great Falls	307	—17	— 8
North Dakota			
Bismarck	249	—31	—18
Grand Forks	277	—33	—16
Minot	290	—18	— 9
Valley City	187	—20	—20
South Dakota			
Aberdeen	321	—15	—21
Rapid City	333	—10	—10
Sioux Falls	322	—13	—13
Yankton	270	—19	—15
Wisconsin			
LaCrosse	254	—14	— 7

[1] Based on daily average sales.

[2] Based on total dollar volume of sales. Percentage comparison is with the same period a year ago.

[3] April 1950 had only 25 trading days whereas April 1949 had 26.

piece goods, household textiles, and women's and misses' apparel were down from 10% to 15% in comparison with the volume in the corresponding months of the previous year. At the same time, sales of men's and boys' wear, toys, sporting goods, and housefurnishings were above the former year's volume.

For stores located in the Twin Cities metropolitan area and within the range of the television stations, sales of television sets represent the largest single gain of any item.

Furniture stores experienced a substantial rise in sales since the last quarter of 1949. In comparison with last year's figures, first quarter sales were 11% higher and nearly equalled the 1948 peak postwar dollar volume. The large amount of residential construction has been an important factor in the demand for housefurnishings.

NEW AUTOMOBILE SALES ESTABLISHED RECORD

The demand for new cars in the district has surpassed even demand for other durable goods. Sales were high despite the strike in the Chrysler Motor company. In comparison with figures for last year in Minnesota, 82% more new passenger cars were registered in the first quarter of this year. Registrations were 58% higher in Wisconsin and 32% higher in South Dakota.

Notwithstanding the high sales, dealers still were not able to satisfy the demand. Customers again were forced to wait for deliveries. It is said some anxious car buyers have paid premiums for prompt deliveries. As a result of the strong market, prices of used cars have turned upward following a long decline.

The trend of sales by types of commodities leads to the conclusion that consumers have been buying heavily of durable goods while curtailing their purchases of soft goods.

EMPLOYMENT OUTLOOK APPEARS FAVORABLE

Construction and the manufacture of durable goods have spearheaded the renewal of the business boom. In the past several weeks, these industries absorbed a substantial number of workers and the prospect is for the hiring of more labor during the coming weeks. Adverse weather in April held back outdoor operations, now in full swing.

In April, employment in Montana in all industries, exclusive of agriculture, set another record, according to the recent report released by the Division of Unemployment Compensation Commission. The outlook was for a further rise in employment as work is resumed on the construction of dams, highways, and buildings; in lumbering and logging; and in metal mining and processing.

As a result of the high level of employment in the basic industry, more labor will be needed in the wholesale, retail, and service trades. According to the Division of Unemployment Compensation Commission, the state has an adequate supply of skilled and unskilled labor to meet this demand.

In the Twin Cities metropolitan area, employment in April approximately equalled the number employed a year ago. Employment was 1.6% higher in St. Paul while in Minne-

Sales at Ninth District Department Stores*

	% Apr. 1950 of Apr. 1949	% Jan.-Apr. 1950 of Jan.-Apr. 1949	Number of Stores[1] showing Increase	Number of Stores[1] showing Decrease
Total District	90	95	27	256
Mpls., St. Paul, Dul.-Sup.	93	99	6	23
Country Stores	84	90	21	233
Minnesota (City and Country)	92	98	11	84
Minnesota (Country)	85	91	5	65
Central	89	93	1	8
Northeastern	83	94	0	5
Red River Valley	73	83	0	4
South Central	80	88	0	13
Southeastern	88	92	2	10
Southwestern	88	92	2	25
Montana	90	93	7	27
Mountains	90	90	1	11
Plains	91	96	6	16
North Dakota	74	84	0	48
North Central	77	91	0	10
Northwestern	82	92	0	5
Red River Valley	73	84	0	18
Southeastern	71	77	0	13
Southwestern	(2)	(2)	....	....
Red River Valley-Minn. & N. D.	73	84	0	22
South Dakota	85	85	2	44
Southeastern	85	86	0	14
Other Eastern	85	84	2	24
Western	85	86	0	6
Wisconsin and Michigan	86	92	7	49
Northern Wisconsin	89	97	4	12
West Central Wisconsin	88	93	2	26
Upper Peninsula Michigan	80	87	1	11

Note: April 1950 had only 25 trading days whereas April 1949 had 26.

*Percentages are based on dollar volume of sales.

[1] April 1950 compared with April 1949.

[2] Not shown, but included in totals. Insufficient number reporting.

apolis it was down a fraction of a per cent.

During the first half of 1949, employment in the industrial centers declined due to general liquidation of inventories, which resulted in a sharp reduction in the volume of new orders received by manufacturers. Orders placed with manufacturers in the past several months have been equal to or larger than sales in the respective months of last year. Consequently, there is no general liquidation of inventories occurring at the present time. END

Northwest Business Indexes

(Adjusted for Seasonal Variations—1935-39 = 100)

	Apr. '50	Mar. '50	Apr. '49	Apr. '48
Bank Debits—93 Cities	334	318	328	319
Bank Debits—Farming Centers	393	363	395	394
Ninth District Department Store Sales	277p	250p	292	293
City Department Store Sales	293p	270	298	301
Country Department Store Sales	261p	231p	286	285
Ninth District Department Store Stocks	315p	307p	305	340
City Department Store Stocks	297p	272	281	298
Country Department Store Stocks	329p	335p	325	374
Country Lumber Sales	127p	140	154	135
Miscellaneous Carloadings	130	125	127	132
Total Carloadings (excl. Misc.)	67	95	110	123
Farm Prices (Minn. unadj.)	221	221	231	274

p—Preliminary

MORTGAGE CREDIT TAILORED TO FAMILY INCOMES

Continued from Page 48

lation to market values were increased.

This liberalization of mortgage credit continued during the war and especially in the postwar period. It has been pushed a long ways even though it has not yet reached the limit. For instance, the rate on FHA insured mortgages recently was reduced from 4½% to 4¼%. The net yield on these mortgages now is approximately only one point above the yield on high-grade corporate bonds. Should the net yield be reduced to the yield on high-grade securities, private lending institutions would reap no benefit from investments in mortgages over these securities.

DIFFERENT VIEWS HELD ON LENDING PRACTICES

Appraisals of these changes in methods and techniques of mortgage lending have led to two divergent points of view. One view holds that federal legislation liberalizing mortgage credit has created new risks for private lending institutions. While labor and materials have been in short supply, and thereby at high prices, credit has been maintained at a low cost. Private lending institutions have been forced to accept a low fixed rate of return for a period of 20 to 25 years. The purchasers of homes now have a smaller equity in their properties, since the amount of the required down payment has been reduced.

Furthermore, the monthly payments have been reduced to an approximate level of rent through longer mortgage terms. This liberalization of mortgage credit has diluted mortgage portfolios held by private institutions so that, in a period of business recession with sharply declining real estate prices, the number of defaults may create serious difficulties for these institutions.

The opposite view holds that federal legislation on mortgage lending has reduced the risks to private lending institutions. Mortgage portfolios of such institutions now possess a degree of safety and shiftability never known before. Between 40% and 45% of the total mortgage indebtedness on one to four family dwellings is now protected by FHA insurance or VA insurance or guarantee. [1]

Under this procedure, the risk involved in mortgage lending has been shifted from private lending institutions to an agency of the federal government. These mortgages have been given a degree of liquidity through a secondary market created by the Federal National Mortgage association. The conventional mortgages held by savings and loan associations also have acquired a degree of shiftability through the Home Loan Bank system. In a period of financial emergency, commercial banks in the Federal Reserve System may be permitted to discount any sound asset at the central banks.

[1] Ernest M. Fisher, **Changing Institutional Patterns of Mortgage Lending,** Page 10. An address delivered at the joint session of American Finance Association and American Association of University Teachers of Insurance on Mortgage Financing, Commodore Hotel, New York City, 2:00 p.m., December 28, 1949.

Furthermore, it is pointed out that private lending institutions universally have adopted the amortization principle. The vast majority of the conventional mortgage loans are amortized on a monthly basis. Taxes and insurance premiums are often included in the payments. With each successive payment, the mortgagor increases his equity in the property and thereby reduces the risk to the lending institution.

This line of reasoning leads to the conclusion that, even though mortgage credit has been liberalized, the mortgage portfolios have not placed lending institutions in a vulnerable position.

CROSS SECTION OF MORTGAGE LOANS BASIS OF STUDY

Both views outlined above emphasize certain features of present-day mortgage lending and minimize the significance of others. To evaluate these mortgage practices in view of a possible business recession with a sharp decline in real estate prices, it is necessary to study the characteristics of a representative sample of mortgages held by the various lending institutions. Such a procedure was adopted in this study.

A cross section of postwar mortgage loans was obtained by selecting a sample of mortgages made by Twin Cities lending institutions and individuals in 1947, 1948, and 1949 on Twin Cities properties. The officers in charge of mortgage departments of commercial banks, a savings bank, savings and loan associations, insurance companies, and an investment trust supplied detailed information from a carefully selected sample of mortgages in their portfolios. Similar information was secured from a sample of most mortgages held by individuals through a search of the records in the Register of Deeds office. [1]

MOST MORTGAGES MADE ON RESIDENTIAL PROPERTY

The majority of mortgages in the sample were on residential properties and by far the largest number of these mortgages were on single unit houses. This distribution correlates with the relative proportion of the various types of properties in a metropolitan area.

Of the 1,498 mortgages studied in the sample, 87% were made on single unit houses and of the slightly over $10 million loaned on these mortgages, 84% was loaned on such properties.

The second most frequent type of property mortgaged was the duplex. Of the total number of mortgages studied, 8% were made on such properties and almost 7% of the credit was loaned on them. A smaller number of mortgages were made on larger multiple dwelling structures. Even though a few large mortgages on apartment houses were in the sample, only 3% of the total credit was loaned on such properties.

A few very large mortgages on commercial and industrial properties were included in the study. Nevertheless, the amount of credit loaned on such properties was small in comparison with the amount loaned on residential properties.

The number of mortgages held by individuals apart from those held by institutions constituted 10% of the total number in the sample. The property mortgaged was almost without exception residential property.

MOST MORTGAGES STILL OF CONVENTIONAL TYPE

Experience has proved that the one-family house usually is a better risk than the duplex or larger multiple dwelling structure which represents primarily income property to the owner. This may have influenced loaning officers to accept more mortgages on single unit houses. But of greater importance in an evaluation of the risk assumed by lending institutions in mortgage financing are the types of mortgages held in their portfolios.

On the basis of the sample of mortgages comprising this study, the conventional mortgage which is not insured or guaranteed by a federal government agency is still the principal type of mortgage held on Twin Cities property. Substantially over one-half, or 65% of the total number of mortgages in the sample, were of this kind. In the financing of single unit homes where FHA insured loans and VA insured or guaranteed loans are prominent, neverthless 62% of the mortgages were of the conventional kind. Some lending institutions sold a proportion of their FHA and VA loans to the Federal National Mortgage association.

A majority of the insured or guaranteed mortgages held by lending institutions were VA loans. Of such mortgages, 56% were VA insured or guaranteed, 33% were FHA insured, and 11% were a combination VA and FHA loans.

With a few exceptions, the mortgages drawn up by individuals and held by them were of the conventional kind. Individuals also held a few VA mortgage loans, but invariably they were purchased from lending institutions.

MORTGAGE LENDING SHOWS INFLUENCE OF LEGISLATION

Amortization has become the rule in mortgage lending. Of the conventional mortgages included in the study, 92% were fully amortized, 6% were partially amortized, and 2% were nonamortized. A larger proportion of the mortgages held by individuals were not amortized as compared with those held by institutions. In numerous cases, the mortgages were made within the family circle.

The rate of interest on mortgages reflects the influence of federal legislation on such lending. The vast majority of conventional mortgages carried a rate ranging from 4% to 5%, comparable to the rate on FHA loans. The VA loans available to veterans carried a 4% rate, which is the legal maximum.

A few conventional mortgages carried a rate of 2½%, 3%, and 3½%. These loans were held by individuals and had been drawn up within the family circle. On the other hand, individuals also held a few mortgages with rates of interest ranging from 5½% to 7%. On the basis of the fragmentary evidence available, it appeared that in these cases the holders had underwritten risky ventures. Some lending institutions also held a few mortgages carrying these higher rates of interest.

The FHA insured mortgages generally carried maturities ranging from 15 to 25 years. A small number were made with shorter maturities. The VA insured or guaranteed mortgages generally carried a maturity of 25 years. However, a large number also had maturities of 15 years and 20 years and a relatively small number had 10 years.

Although the rate of interest on conventional mortgages tended to equal the rate on FHA and VA loans in order to meet competition, the maturities on these loans were not lengthened to equal those on federal government insured or guaranteed. Publicly supervised institutions are limited in the length of maturities on conventional mortgages they may accept. For example, national banks are prohibited by law from making loans for a period in excess of 10 years. Furthermore, such loans may not exceed 60% of the appraised value of the real estate offered as security, and a minimum of 40% of the principal must be amortized over the life of the loan.

In contrast with the long maturities of the mortgages insured or guaranteed by a federal government agency, over half of the conventional mortgages in this study carried a maturity

[1] A card or schedule was prepared for recording the desired information from the mortgages. Each institution cooperating in this survey was given a supply of these cards.

A definite procedure was devised for the selection of a representative sample of mortgages. The instruction suggested that the individual tabulating the information start at the beginning of the mortgage or ledger card file and count the mortgages made in 1947 on Twin Cities properties until the fifteenth mortgage or ledger card was reached. This one was to be pulled out of the file and the information recorded on the provided card. This procedure was to be continued until every fifteenth mortgage originally made in 1947, 1948, and 1949 had been covered or until 40 mortgages had been recorded on the cards for each of the three years.

The information on the cards was edited before the tabulations were made. On a few cards, discrepancies were discovered which apparently were due to errors in recording the information. These cards were excluded from the study. A total of 1,498 cards were included in the tabulations.

Some institutions included a few mortgages in the sample that had been made prior to 1947 to obtain a representative sample. Of the total number of mortgages in the sample, 59, or 4% of the total, were made in 1945 and 1946. On the basis of the date of origin, the mortgages were distributed evenly through 1947, 1948, and through the first three quarters of 1949. A smaller number of the mortgages in the sample were made in the fourth quarter of 1949, since the data were collected in the latter half of that quarter.

of 10 years. Approximately one-fourth of these loans had a maturity of 15 years and only 7% had a maturity of 20 years. On the other extreme, about 13% of the conventional mortgages had maturities as short as five years.

The partially amortized mortgages generally were made with shorter maturities than the fully amortized ones. Only a few of them were made for a term as long as 15 years. Most of these mortgages were held by institutions that are prohibited by law from entering into loans with maturities in excess of a specified number of years. The nonamortized mortgages were made with very short maturities; most of them were for seven years or less, although a few carried maturities as long as 10 years.

Provisions for renewal have lost their function on fully amortized loans. Nevertheless, a small number of VA loans and conventional loans, fully and partially amortized, contained such provisions. No information was secured disclosing the specific nature of these provisions.

NEW MORTGAGE PRACTICES HAVE CHANGED RISKS IN MORTGAGE LENDING

The principle of amortization steadily reduces the amount of indebtedness outstanding on mortgage loans. With the first payment made by the mortgagor, a small payment is made on the principal of the loan. In periods of declining real estate prices, so long as the payments hold the amounts outstanding on the loans below the market values of the respective properties, the necessity of foreclosing on the properties due to lapse of payments does not arise. Borrowers who can no longer meet their payments will find it to their advantage to sell their properties rather than turn them over to their creditors.

The reduction in the risk involved in mortgage lending through amortization in the past decade has been partly offset by the liberalization of mortgage terms — through smaller down payments or no down payments and through lengthening of the maturities of the loans. To what extent amortization has reduced the risk involved in postwar loans can be established objectively only through a study of the rate of reduction on the principal of these loans.

The first payments made on the mortgage loans in the sample were broken down into the proportion allocated to interest payment, to repayment on principal, to premium on hazard insurance, and to other charges. The amortization is now almost entirely on a monthly basis. The FHA and VA loans by statute require such frequent payments. All but 3% of the full amortized conventional loans required monthly payments. Most of the others required semiannual payments and a few annual payments.

On two-thirds of the FHA loans included in this study, the amount repaid on the principal ranged from $10 to $25 on the first payment, and on almost another one-fourth the amount ranged from $20 to $30. On the VA loans, the repayment on the principal was somewhat larger than the amount repaid on the FHA loans. The amount repaid on the principal ranged from $10 to $20 on the first payment for over one-third of these loans and from $20 to $30 for another one-fourth of such loans. On more than 10% of the VA loans, the first payment on the principal was in excess of $30 and on only 3% of the loans was the amount on the first payment less than $10.

The terms of postwar mortgage loans fell into a number of patterns which represent a large majority of the loans. It was possible to segregate these patterns of terms and calculate the rate of payment on the principal over a period of years.

Typical FHA mortgage loans were drawn up for $8,000, at a 4½% rate of interest, and for a term of 20 or 25 years. Of the first payment made on these loans, $15 was most frequently applied on the principal. Typical VA mortgage loans were drawn up for $8,500 at a 4% rate

Annual Reduction of Principal Outstanding on Typical Mortgage Loans

End of:	F.H.A. Loans	V.A. Loans	Conventional Loans
First year	2.1%	2.0%	6.4%
Second year	4.5%	4.2%	13.7%
Third year	7.0%	6.2%	21.5%
Fourth year	9.6%	8.9%	29.6%
Fifth year	12.4%	11.4%	38.1%
Sixth year	15.2%	14.0%	47.1%
Seventh year	18.2%	16.8%	56.5%
Eighth year	21.4%	19.6%	66.4%
Ninth year	24.6%	22.6%	76.8%
Tenth year	28.1%	25.7%	87.7%

of interest, and for a term of 25 years. Of the first payment, the most frequent amount allocated to repayment on the principal was $15.

From the standpoint of private lending institutions, of greater importance are the conventional mortgage loans where the firms do not transfer the risk through insurance or guarantee to a federal government agency. Typical conventional mortgages were drawn up for $3,500 at a 5% rate of interest, and for a term of 10 years. The first payment on the principal was most frequently $20.

The percentage of the principal repaid on these typical mortgages at the end of successive years was compiled as shown in the accompanying table. For example, on the FHA loan, slightly over 2% of the principal was repaid by the end of the first year, 4½% by the end of the second year, etc.

As may be observed by a comparison of the percentages in the table, the principal on a typical VA loan was repaid at a slightly slower rate than on FHA loans. At the end of 10 years, 25.7% of the principal was repaid on a typical VA loan, while 28.1% of the principal was repaid on a typical FHA loan.

In a real estate recession the price of real estate may decline faster than the reduction of the principal on these loans. When mortgagors who have not acquired much of an equity in their property find it difficult to maintain their payments due to loss or reduction in income, the property may be turned over to the creditors.

Should cheaper quarters become available elsewhere during such a period, it may be a temptation for these families to give up their homes. Under such circumstances, it may be necessary for private lending institutions to draw on the insurance or guarantee of the federal government agencies.

The principal on a typical conventional mortgage was paid off at a much faster rate than on insured or guaranteed mortgages, since they were made for a shorter term of years. Approximately 6½% of the principal was repaid by the end of the first year and 88% was repaid by the end of the tenth year. On these loans the principle of amortization still reduces sharply the risks in mortgage lending to private institutions.

FAMILIES IN LOWER MIDDLE INCOME GROUP OBTAIN MORTGAGE CREDIT

It is equally pertinent to study postwar mortgage lending from the standpoint of mortgagors. Some information was compiled from the ledger cards on the mortgagors whose mortgages were included in the sample. Personnel in real estate firms and in lending institutions provided additional information to round out the picture.

The appraisal values placed on properties set a maximum amount of credit that may be loaned on the properties. The Federal Housing administration and the Veterans administration determine the appraisal values of properties where they insure or guarantee the mortgages. For conventional mortgages, private lending institutions place their own appraisal values on the properties.

Some real estate brokers still do a large business in the sale of houses on contracts for deed. This is the most frequent procedure followed by purchasers of homes who do not have sufficient savings for the required down payments to secure mortgage credit. After such buyers have acquired a sufficient equity in their houses, they apply at lending institutions for mortgage loans to pay off the real estate broker or the original seller in order to secure the deeds to the properties and reduce the charges.

A small number of mortgages were granted by lending institutions to individuals who purchased their houses on contracts for deed. In these instances the sellers left some of their money in the properties. As soon as they were paid in full, the deeds to the properties were transferred to the purchasers.

Among the several factors employed to arrive at an amount of credit which can safely be loaned on various types of properties, the annual income of the mortgagor is a primary one. In the survey, the annual incomes of mortgagors at the time the mortgages were drawn up were provided by the lending institutions. This information was not available for mortgages held by individuals. The records of the Register of Deeds contained no information on mortgagors.

The annual income of the mortgagor does not always reflect his financial ability to meet the mortgage payments. Frequently other members of the family are periodic or steady income earners—this adding to the mortgagor's financial ability to meet these payments. On the other hand, large family expenditure or other indebtedness reduces his ability to meet these payments. The loaning officers have this information, but it frequently was not recorded on the ledger cards.

Over one-fifth of the mortgages in the sample held by lending institutions were made to individuals with annual incomes of less than $3,000. Another one-third of the mortgages were made to individuals with annual incomes ranging from $3,000 to $4,000. Less than half, or 44% of the mortgages, were made to individuals with incomes in excess of $4,000.

A larger proportion of the VA loans was made to individuals in the lower income classes than of the other types of loans. Nearly one-third of these loans were to individuals with annual incomes of less than $3,000, while only 22% of the conventional mortgages and 14% of the FHA loans were made to this class. Mortgagors in the annual income bracket ranging from $3,000 to $4,000 held 42% of the VA loans but only 30% of the FHA loans and 29% of the conventional loans.

The Veterans administration insurance or guarantee on mortgages was designed for veterans in the lower income classes. Likewise, the Federal Housing administration insurance on mortgages gives preference to individuals in the lower income classes who buy the low priced houses. According to this study of postwar mortgages, larger amounts ranging from $1,500 to $2,000 were loaned on VA mortgages than on other types of mortgages to individuals in the annual income bracket from $2,000 to $3,000. From $1,000 to $1,500 more was loaned on FHA mortgages than on conventional mortgages to individuals with this level of income.

The differential in the amount loaned on insured or guaranteed loans and on conventional loans ceased on those made to individuals with annual incomes from $4,000 to $5,000. The amounts loaned on fully amortized conventional mortgages greatly exceeded the amounts loaned on VA and FHA loans to individuals with annual incomes of $7,000 and above.

The relationship between the amount of credit granted on mortgages and the annual income of mortgagors is shown on the accompanying chart. Between the lower and upper lines on the chart, 80% of the mortgages fell in this survey. The center line indicates the average amount of credit granted at each annual income level. For instance, at $3,000 the average amount of credit granted was $5,500. A relatively small number of mortgages were granted with an amount of credit in excess of three times the annual income of the mortgagors.

The total monthly payments on these loans were tailored to the mortgagors' annual incomes. In most instances, those with annual incomes of $3,000 or less made payments of less than $60 a month. Where the annual income was between $3,000 and $4,000, the monthly payments averaged approximately $10 higher. There was a considerable variation in the size of the payments, for some included real estate taxes and premiums on insurance, while others did not include such charges.

The proportion of the total number of mortgages in the survey granted by lending institutions to individuals in the various annual income brackets is shown on the second chart. This shows that 24% of the mortgages were granted to individuals with annual incomes of less than $3,000.

The proportion of mortgages granted to such individuals was substantial in relation to the total number of families in these lower annual income brackets. On the basis of the results published in 1949 by the Board of Governors of the Federal Reserve System in its "Survey of Consumer Finances," 51% of the family units in 1947 and 46% of the family units* in 1948 in this nation had annual incomes of less than $3,000.

Although the results of the 1949 survey are not published at this time, the rise in consumer incomes leads to the conclusion that the number of families with annual incomes of

*A family unit consists of all persons living in the same dwelling who are related by blood, marriage, or adoption and single persons living by themselves or with persons unrelated to them.

less than $3,000 declined further last year. Since some family units consist of single persons who are living by themselves or with persons unrelated to them, they invariably are not potential home owners.

The demand for mortgage credit is tied closely to the purchase of homes. Of the 1,498 mortgages in the sample, 65% were drawn up for this purpose. The refinancing of a home was the second most frequent purpose listed in the study. In some cases the houses were purchased originally on contracts for deed, and on others extensive repairs and modernization were undertaken after the purchasers had occupied the premises for some time. A relatively small number of mortgages were drawn up for repairs and modernization where the properties had been free of indebtedness.

To summarize, the demand for new houses is determined, in a large measure, by the terms offered on mortgage loans to prospective home owners. A further liberalization of mortgage credit at a time when the construction industry is operating close to full capacity would only result in a capitalization of part of that credit into the prices of the houses.

END

DISTRICT HOLDS $1.9 BILLION IN SAVINGS BONDS

Continued from Page 50

will probably place a heavy drain on the cash position of the Treasury. To the extent that holders of maturing issues reinvest their proceeds in new savings bonds, the Treasury's huge refunding job will be lightened.

APRIL BANKING DEVELOPMENTS

FARMERS withdrew deposits and demanded bank credit during April as the usual seasonal requirements for funds were heightened by the lateness of the spring season.

Total loans in district country member banks increased $9 million, reflecting mainly farm demand for credit to purchase seed, machinery, and feed. With pastures two to five weeks late, farmers have had to buy feed for livestock. In addition, they are purchasing machinery in order to have the best equipment to catch up on spring operations in a hurry when weather conditions are ripe.

In the 20 reporting city banks, total loans increased $5 million. Commercial, industrial, and agricultural loans rose $1 million. This increase contrasts sharply with the declining business loans of a year ago, when business conditions generally were sluggish and inventories were being liquidated. In addition this month, real estate and consumer loans continued their long steady rise.

Total deposits in country member banks declined $20 million, reflecting mainly withdrawals of farmers' deposits. In the city banks, deposits due to banks declined as country banks drew on their correspondent balances. The first half of May, however, reversed this downturn in bankers' deposits.

Other demand deposits in city banks during April rose $12 million. Rather sharp increases in deposits of individuals, partnerships, and corporations and of states, counties, and municipalities were partly offset by a decline in U. S. government deposits.

Government securities holdings in country member banks dropped $10 million as banks sold governments to meet deposit withdrawals and the increase in loans. In city banks, government security portfolios dropped $14 million. Bills and

Assets and Liabilities of Twenty Reporting Banks
(In Million Dollars)

	Mar. 29, 1950	Apr. 26, 1950	May 10, 1950	$ Change Mar. 29-Apr. 26
Assets				
Comm., Ind., and Ag. Loans	$ 219	$ 220	$ 217	+ 1
Real Estate Loans	78	80	82	+ 2
Loans on Securities	11	11	12	......
Other (largely consumer) Loans	154	156	162	+ 2
Total Gross Loans and Discounts	$ 462	$ 467	$ 473	+ 5
Less Reserves	7	6	7	— 1
Total Net Loans and Discounts	$ 455	$ 461	$ 466	+ 6
U. S. Treasury Bills	13	2	12	—11
U. S. Treasury C. of I.'s	104	86	79	—18
U. S. Treasury Notes	119	133	126	+14
U. S. Government Bonds	427	428	428	+ 1
Total U. S. Gov't Securities	$ 663	$ 649	$ 645	—14
Other Investments	125	128	127	+ 3
Cash and Due from Banks	382	392	393	+10
Miscellaneous Assets	15	16	16	+ 1
Total Assets	$1,640	$1,646	$1,647	+ 6
Liabilities				
Due to Banks	$ 278	$ 259	$ 283	—19
Demand Deposits, Ind., Part., Corp.	760	781	785	+21
Demand Deposits, U. S. Gov't	78	48	46	—30
Other Demand Deposits	144	165	156	+21
Total Demand Deposits	$1,260	$1,253	$1,270	— 7
Time Deposits	255	255	255	......
Total Deposits	$1,515	$1,508	$1,525	— 7
Borrowings	6	18	2	+12
Miscellaneous Liabilities	17	17	17	......
Capital Funds	102	103	103	+ 1
Total Liabilities and Capital	$1,640	$1,646	$1,647	+ 6

certificates registered declines. However, the drop in CI's was offset by a rise in notes, reflecting refunding operations on April 1 in which matured $1\frac{1}{4}\%$ CI's were exchanged for 15-month $1\frac{1}{4}\%$ notes.

On May 5, the Treasury announced that owners of $1\frac{1}{4}\%$ Treasury certificates maturing June 1 and July 1 will be offered new 13-month $1\frac{1}{4}\%$ Treasury notes. This refunding decision affirms the short term rate at $1\frac{1}{4}\%$. On May 12 the Treasury announced a call for two issues of Treasury bonds. Called for redemption September 15, 1950, are $2\frac{1}{2}\%$ Treasury bonds of 1950-52, dated September 15, 1938, and 2% bonds of 1950-52, dated April 15, 1943.

Reserve positions of Ninth district member banks were under pressure during most of April. City banks increased their borrowings $12 million. At the end of the month, city bank borrowings totaled $18 million. In the first two weeks of May, however, this figure fell to $2 million. Country banks borrowed $1 million during April and also drew down their excess reserves and balances in other banks. END

Assets and Liabilities of All Ninth District Member Banks*

(In Million Dollars)

	Mar. 29, 1950	Apr. 26, 1950	$ Change Mar. 29, 1950 Apr. 26, 1950	$ Change Apr. 27, 1949 Apr. 26, 1950
Assets				
Loans and Discounts	$ 944	$ 959	+ 15	+ 60
U. S. Government Obligations	1,648	1,624	— 24	+ 79
Other Securities	257	261	+ 4	+ 56
Cash and Due from Banks and Res	755	746	— 9	— 65
Other Assets	30	32	+ 2	+ 2
Total Assets	$3,634	$3,622	— 12	+132
Liabilities and Capital				
Due to Banks	$ 316	$ 296	— 20	+ 35
Other Demand Deposits	2,133	2,126	— 7	+ 62
Total Demand Deposits	$2,449	$2,422	— 27	+ 97
Time Deposits	941	941	....	+ 4
Total Deposits	$3,390	$3,363	— 27	+101
Borrowings	7	20	+ 13	+ 18
Other Liabilities	23	23	....	+ 3
Capital Funds	214	216	+ 2	+ 10
Total Liabilities and Capital	$3,634	$3,622	— 12	+132

*This table in part estimated. Data on loans and discounts, U. S. government obligations and other securities are obtained by reports directly from the member banks. Balances with domestic banks, cash items, and data on deposits are largely taken from semi-monthly reports which member banks make to the Federal Reserve Bank for the purpose of computing reserves.

Reserve balances and data on borrowings from the Federal Reserve Banks are taken directly from the books of the Federal Reserve Bank. Data on other borrowings are estimated. Capital funds, other assets, and the other liabilities are extrapolated from call report data.

FARM ACT OF '49 MODERNIZED PARITY PRICES

Continued from Page 52

1949. One had to do with the "adjusted" base period in the new parity formula. This has been discussed. The second major change was in the two major farm price indexes—the prices paid "parity" index and the prices received index. A brief explanation of these changes is of interest in that these price series are basic to parity price compution.

Prior to January 1, 1950, approximately 175 items used in farm production and farm family living were included in the prices paid "parity" index. These items were "weighted" in the index according to a typical pattern of expenditures in family living and farm production that prevailed in the period 1924-29. For example, if say 44% of the total expenditures were for family living, this should be the "weight" or emphasis of such expenditures on the over-all index number.

Patterns of farm family spending, however, have changed materially since the late 1920's. Horse power has been replaced by gasoline power. More gas and oil and less oats are used. Farms are now highly mechanized. They are electrified in a large part.

To reflect these changes the parity index has now been modernized. Some 335 items used in farm production and family living now are included in the prices paid "parity" index. Wages of farm labor, an important cost item, have been added to the index for the first time. Also added for the first time are such costs as electric service, baby chicks, feeder cattle, and telephone service.

The pattern of farm spending in recent years has also been taken into account in weighting the index. For example, costs of most horsedrawn equipment have now been dropped from the index calculation. Payments for interest and taxes under the new weighting schedule make up a smaller proportion of the total index compared with the old index computation because these costs are relatively smaller now.

In the revised prices paid "parity" index, the following weighting was used for the principal items:

Commodities used for family living	44.0
Commodities used in farm production	41.2
Taxes on farm real estate	3.8
Interest per acre	3.0
Cash wage rates	8.0

The weighting was done by using average quantities estimated to have been purchased per farm during the period, 1937-41. Prior to 1935, the weights are based on the pattern of spending that prevailed on farms in the period of 1924-29.

All in all, the addition of farm wages plus the other changes raised the prices paid "parity" index about 3% above the old or unrevised index. For example, on April 15, 1950, the old index was 244% of the 1910-14 base. The revised index was 251 or 3% higher.

The prices received index was

also revised to harmonize with changes in the prices paid index. In other words, for the period since 1935, the weights are based on farm sales or receipts per farm in the period, 1937-41.

The new weighting period of 1937-41 does give a little more emphasis to receipts from livestock and livestock products, but the over-all effect of the new weighting period was to reduce the prices received index from 204 to 202 (1910-14=100), a decline of 1%.

The revision or modernization of the prices received and prices paid series has thus tended to decrease the former and to increase the latter. The ratio between the two has, therefore, been lessened to a slight degree.

PARITY RATIO NOW AT FAVORABLE LEVEL

This relationship between the index of prices received by farmers for the products they sell and the index of prices paid for the goods they buy is called the parity ratio.

Currently, this ratio is approximately 96 (prices received index, 241 ÷ by prices paid index, 251 = 96).

Under the old formula used before January 1, 1950, the current ratio would have been near 100.

When the ratio is at 100, it means that the purchasing power of the farm dollar is the same as it was in the base period. It is considered favorable at that level. This parity ratio has been well above 100 during most of the 1940's. In 1947, it averaged 115. In contrast, the parity ratio was only 71 in the first half of the 1930's, and 86 in the last half.

The current parity ratio of 96 is, therefore, somewhat low judged by recent year levels, but it is still high in comparison with most peacetime years.

END

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, MAY 27, 1950

INDUSTRIAL and construction activity showed further gains in April and May. Prices of many industrial materials and of livestock and other farm products have advanced since mid-April. Sales of durable consumer goods have continued at exceptionally high levels. Common stock prices have risen further.

INDUSTRIAL PRODUCTION—The Board's index of industrial production rose 2 points further in April to 189% of the 1935-39 average and in May apparently showed a similar increase. The rise since March has reflected mainly large gains in the iron and steel, automobile, and machinery industries. Output of other durable goods and of most nondurable goods has continued at advanced levels. Minerals production, reduced somewhat, in April, has apparently recovered in May.

Steel output has been at record levels in April and May, and during the week ending May 28 was scheduled at 102% of present rated capacity. Automobile assemblies rose 10% in April, and in mid-May, following settlement of the labor dispute affecting a major producer, advanced about 20% further to a new peak rate. Reflecting the recent general strengthening of demand for producers' equipment as well as the sustained high demand for household appliances, the Board's machinery index advanced substantially further in April to 251% of the 1935-39 average, the highest since early 1949.

Output of nondurable goods showed little change in April as small declines in leather products, foods, paper, and petroleum products were offset by gains in newsprint consumption and in output of paperboard, chemicals, and rubber products. Cotton consumption and rayon deliveries were maintained in April, following small declines in March.

Coal output has declined considerably from the high levels reached shortly after settlement of the strike in early March. Production of crude petroleum, on the other hand, has increased about 5% from March to mid-May. Iron ore production, which showed much less than the usual seasonal rise in April, has increased sharply in May.

EMPLOYMENT—Employment in non-agricultural industries increased by 400,000 in April, after allowances for usual seasonal changes. One-third of the increase reflected a substantial gain in durable manufacturing industries. There were also increases in trade, transportation, and construction, and a large temporary expansion of federal census employment. Unemployment declined to 3.5 million, 1 million below February but 500,000 above year-ago levels.

CONSTRUCTION — Value of construction contracts awarded in April, according to the F. W. Dodge Corporation, continued at the record March level, as a substantial increase in private awards offset a decline in awards for public construction. Residential awards continued to increase sharply and were more than double the dollar volume in April 1949.

DISTRIBUTION — The Board's seasonally adjusted index of department store sales in April was 292% of the 1935-39 average as compared with 293 in April 1949. Sales in the first three weeks of May continued close to year-ago levels, despite lower apparel sales.

Retail sales of radios, television sets, and other durable housefurnishings continued considerably above a year ago. Sales of automobile dealers were at new record levels in May. The volume of instalment credit has continued to expand.

Shipments of railroad revenue freight showed somewhat less than the usual seasonal rise in April and the first half of May, mainly because of reduced loadings of ore and coal. The volume of manufactured goods shipped continued to increase and was substantially above that of a year ago.

COMMODITY PRICES — The general level of wholesale prices rose about 2.5% from mid-April to the third week in May. Prices of livestock and products, particularly hogs, rose sharply and grain prices generally advanced. Reflecting a continuing strong business demand, prices of steel scrap, nonferrous metals, rubber, lumber, and some other industrial materials increased further. Wool prices continued to advance and, in mid-May, cotton gray good prices, which had been declining, strengthened.

Consumers' prices rose .2% further in April, reflecting mainly continued small advances in retail food prices.

BANK CREDIT — Reductions in Treasury balances at the Reserve banks during most of April and again during the first three weeks of May supplied reserve funds to member banks. The Federal Reserve continued to sell Treasury bonds during the period, and in May also sold Treasury bills while purchasing notes and the shorter maturities of certificates.

Consumer and real estate loans continued to increase at banks in leading cities during April and the first half of May. Business loans declined further, but the reduction appeared less than might be seasonally expected.

SECURITY MARKETS — Common stock prices rose 3.5% further in the first three weeks of May and were at the highest level since June 1946. Yields on Treasury and high-grade corporate bonds showed relatively little change. Early in the month the Treasury announced the offering of 13-month 1¼% notes in exchange for certificates maturing on June 1 and July 1.