CURRENT ECONOMIC SITUATION AND OUTLOOK FOR THE HOUSING INDUSTRY

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-FOURTH CONGRESS

FIRST SESSION

JUNE 26, 1975

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

62-834 O WASHINGTON : 1975

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price $1.60

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CURRENT ECONOMIC SITUATION AND OUTLOOK FOR THE HOUSING INDUSTRY

THURSDAY, JUNE 26, 1975

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10:23 a.m., in room 3302, Dirksen Senate Office Building, Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey, Proxmire, and Kennedy.

Also present: Jerry J. Jasinowski, Ralph L. Schlosstein, and George R. Tyler, professional staff members; Michael J. Runde, administrative assistant; George D. Krumbhaar, Jr., minority counsel; and M. Catherine Miller, minority economist.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. We will call the meeting of the Joint Economic Committee to order.

I want to have included in the record of the transcript of this committee's meeting today, the letter that I addressed to the President on the date of June 18, that was signed by the following Senators and Representatives: Senator Bentsen, Senator Kennedy, Senator Javits, Congressman Patman, Congressman Reuss, Congressman Moorhead, Congressman Gillis Long, and Congresswoman Margaret Heckler.

That letter, of course, apparently had little or no influence; it addressed to the President the hopes that he would not veto the Emergency Housing Act of 1975—he of course, did veto it.

[The letter referred to follows:]

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C., June 18, 1975.

THE PRESIDENT,
The White House.

DEAR MR. PRESIDENT: We are deeply disturbed by press reports that you intend to veto the Emergency Housing Act of 1975. We hope these reports are wrong, but if they are not, we strongly urge you to reconsider your decision.

The housing industry continues to be caught in the grips of a severe depression.

Unemployment in the construction industry was 21.8 percent in May and has been above 10 percent since last June. Of course, the national figures mask much more serious problems in many parts of the nation. Construction unemployment is 40 percent in Phoenix, 49 percent in Miami, 30 percent in Los Angeles, 32 percent in Newark and 37 percent in St. Paul.

Housing starts, despite a slight improvement in May, are still running at 48 percent of the level of housing starts in May 1973, and 76 percent of the depressed level in May 1974.

Today, millions of American families find it simply impossible to own their own houses. A recent Joint Economic Committee study concluded that only 20

percent of our nation's families could afford to buy the median-priced existing home, and a mere 15 percent could afford to buy the median-priced new home.

These statistics clearly show that demand for housing will have to be strengthened before a real housing recovery is possible.

It is our firm conviction that the Emergency Housing Act of 1975 will help to strengthen demand.

The Emergency Housing Act of 1975 will create 800,000 jobs, stimulate 400,000 new housing starts, and prevent 100,000 unemployed homeowners from losing their most valuable possession.

Mr. President, having studied our nation's economic problems and its prospects for recovery very closely, as members of the Joint Economic Committee, we again urge you to sign the Emergency Housing Act of 1975.

We are convinced that it can be a crucial spur to economic recovery and not result in higher rates of inflation.

Respectfully,

HUBERT H. HUMPHREY,
Chairman.
LLOYD M. BENTSEN, Jr.
EDWARD M. KENNEDY.
JACOB K. JAVITS.
WRIGHT PATMAN.
HENRY S. REUSS.
WILLIAM S. MOORHEAD.
GILLIS W. LONG.
MARGARET M. HECKLER.

Chairman HUMPHREY. We all know that on Tuesday, President Ford vetoed the Emergency Housing Act; I consider this another misstep continuing the consistent policy of neglect by the administration for the housing industry. The veto has been rationalized on the grounds that this industry has recovered from its depression, that it does not need the help provided by the Emergency Housing bill; and that the help would be inflationary—enlarging the Federal deficit.

I have to say that in my judgment nothing could be further from the truth. The housing industry continues to be in its worst postwar depression. We will see further downturns in that industry. I am hopeful that there are signs of improvement, but I would be less than honest if I did not say that it looks to me as if there are still many difficulties ahead. Housing starts in May are at a 28-year low for that month. The price of housing has been pushed by inflation beyond the reach of many Americans, in fact, most Americans. A recent Joint Economic Committee study found that only 20 percent of our families could afford to buy the average priced existing home and a slight 15 percent could afford to buy the average priced new home. Unemployment in housing construction is close to 40 percent in many regions. Mortgage rates are still close to 9 percent, a level at least 2 percent too high to spark the necessary housing boom.

The stock of unsold homes including condominiums is about 600,000 units. It is down only 20,000 or 25,000 units since the February record level.

Now, I could go on with these regrettable statistics but the fact is that the administration has declared that the housing industry is on the road to recovery based on a 1-month spasmodic increase in May in housing starts and permit-issuance figures. I suppose any upward movement looks good from the bottom of a depression, but a 1-month rise is scarely cause for jubilation.

This is particularly true if we recall in the case of the May statistics that, first, housing starts in May, traditionally a big construction month, were actually 25 percent below May 1974 figures. And second,

building permits issued in May, traditionally a strong leading indicator for the housing industry, were 20 percent below the May 1974 level.

In short, the housing industry continues to be caught in the grips of a severe depression with no end in sight. And our hopes for economic recovery rest with recovery in the housing industry. To quote the President from last Tuesday, "a swift recovery in housing is a prime objective of national economic policy."

It was, of course, with this point in mind that Congress passed the Emergency Act—designed to: create 800,000 jobs; stimulate 400,000 new housing starts; and prevent 100,000 unemployed homeowners from losing their homes.

Despite his veto, the President did come forward with a positive proposal to stimulate housing—he released about $2 billion in funds provided by the Brooke-Cranston Act—funds to be used for acquiring mortgages in the secondary mortgage market, and thereby freeing-up funds for homeowners to borrow.

He presented this proposal with a flourish.

Let's set the record straight.

Congress authorized that program with a total of $7.75 billion in funds almost 1 year ago. It was our intent to have the funds used then. But, by Christmas, the President had released only one-quarter of the funds; after extensive criticism last winter by Congress he released an additional one-half of the funds.

So, it has taken him almost 1 full year to release housing funds Congress wanted used 1 year ago in order to avoid the present housing recession.

He is taking credit for a step which is far too little and far too late.

We are conducting this hearing with several purposes in mind. Of particular concern to me is the likely impact this veto will have on hopes for a recovery in the housing industry—and, in turn, for recovery in our entire economy.

We have with us today: Mr. Michael Sumichrast, Chief economist National Association of Home Builders; Mr. Leon Weiner, president, National Housing Conference, Inc.; Mr. Edwin Alexander, president, National Savings & Loan League; and Mr. Norman Strunk, executive vice president, U.S. League of Savings Associations.

Now, we will start with Mr. Sumichrast and Mr. Weiner, and we will then ask some questions. We may have Mr. Tyler and the other staff briefly pursue some questioning today because of the votes that we have in the Senate. Thank you.

Please go right ahead.

STATEMENT OF MICHAEL SUMICHRAST, VISITING PROFESSOR OF REAL ESTATE AND URBAN DEVELOPMENT, AMERICAN UNIVERSITY, AND CHIEF ECONOMIST AND STAFF VICE PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. SUMICHRAST. Mr. Chairman, it is a pleasure to be here today and to have this opportunity to share with you some of my judgments about the current housing situation and future prospects for the industry. At the present time, I am visiting professor of real estate and urban development at American University and chief economist and staff vice president, National Association of Home Builders. The

views which are expressed in my remarks are my own and do not necessarily reflect those of either AU or NAHB. I will make a short statement and I have a lot of tables, Mr. Chairman, and charts that I attached to this testimony.

Chairman HUMPHREY. We are very grateful for the detail of your testimony and I will see that all of it is made a part of the official transcript of our record here.

Mr. SUMICHRAST. First, current housing situation, measured by the number of housing starts, a marginal improvement has taken place since the December 1974 low. Sales and subdivision traffic also have improved.

However, this improvement has been less than expected, and less than what is needed for an overall economic recovery. The best illustration of the present situation is the fact that nearly every month this year the NAHB Economics Department has been forced to revise downward its 1975 housing starts estimates.

Thus, before becoming overly bullish about a housing recovery, some sobering facts must be considered.

Discounting the World War II period and the Depression, the current rate of starts is only slightly above what it was between 1923 and 1927. Of course, at that time the United States had 100 million fewer people than today.

The current improvement in starts has been from the lowest March on record, to the lowest April on record, to the lowest May in 28 years for starts and the lowest May on record for permits.

First quarter 1975 starts were at a 991,000 unit seasonally adjusted annual rate, the lowest since third quarter 1946. In that year, this country had 71 million fewer people, it was heavily involved in changing over from a war to a peacetime economy, and residential construction was just beginning to get underway again.

At present, the end of the prime building season is rapidly approaching, with little indication that housing production will pick up substantially.

Little real improvement has taken place in consumer confidence. NAHB surveys indicate that consumer caution in local areas is greater than at any time since we have been making these surveys.

As a result of last year's high unemloyment, record interest rates, and lack of money, the new for-sale housing inventory increased rapidly as units already under construction came on the market. Sales almost literally stopped in the latter part of last year. The inventory is still very high. NAHB's most recent builders economic council survey shows that nearly one-half of the builder respondents consider their single family inventories to be above normal, and nearly 70 percent said their condominium inventories were above normal.

The Census Bureau reported 386,000 units in the unsold inventory of new single family homes in April, down 5.6 percent from this year's 409,000 unit high registered in February. This decline is not sufficient to improve starts, because we have an additional 200,000 to 250,000 new unsold condominium units in the inventory. These units have shown little movement since the beginning of the year.

Mr. Chairman, we do not really know how many unsold condominiums we have, these are estimates and they are not very precise.

The current, close to 9 percent, mortgage interest rate is too high and is a major deterrent to housing recovery. This rate must drop—or be pushed down—to more reasonable levels, to below 8 percent, before any long-term recovery can occur.

Unemployment in the construction industry continues to increase. In May, the construction unemployment rate was 21.8 percent, the highest in the post-World War II period. The residential construction unemployment rate was estimated by me to be over 40 percent. More that one-half million of the current 961,000 unemployed construction workers have added to the unemployed in the last 12 months. In addition, several hundred thousand workers have left the work force, probably for good.

The construction bankruptcy rate—measured by the number of firms which failed and by total liabilities of these firms—is still increasing. Last year, total liabilities of bankrupt construction firms reached an all-time high.

Liquidity is still a major problem, affecting cash flows and builders' payments to subcontractors and suppliers.

Construction loans are still hard to obtain, and when available, only on a selective basis at a very high price.

Apartment construction is largely nonexistent. The starts improvement in recent months has been solely in single family units. We cannot return to the levels of 2–3 years ago without any substantial increase in rental units.

Starts in structures of five units or more were only 16.6 percent of total starts in May—totally inadequate for a solid recovery. Of the May 187,000-unit annual rate in this category, we estimate that less than one-third is in rental units. The rental market cannot continue to be underbuilt for any extended period of time without widespread shortages, or rent controls, or cost increases—or all three.

The $2,000 tax credit is responsible for a good part of the increase in sales, as well as for the increase in starts. However, this situation is only temporary. Our surveys indicate that 25 percent of the single-family units qualifying under this program were sold in the first 3 weeks after the program became law. In addition, respondents expected to sell an additional 45 percent within the following 60 days. Thus, while the program without any question has been successful, it will add little toward a recovery in the latter part of this year.

FUTURE PROSPECTS

As already indicated, future prospects for a quick housing recovery are not very promising. Certainly, no sharp rebound is possible.

For one thing, the current mortgage rate is too high for most people to afford. For another, apartments cannot be built under present conditions. Then, the housing industry has no assurance that the administration will provide any substantial support for subsidized housing, even considering the section 8 program.

Moreover, builders and investors will not start much speculative construction after being burned so badly.

NAHB's 1975 housing starts estimate calls for a slow and painful improvement throughout the year. But even this improvement is partly based on the administration's promise of 200,000 starts under the section 8 program. But from what is known about this program, a 200,000-unit level will be difficult, if not impossible to achieve.

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In the absence of any stimulative legislation, such as the Emergency Housing Act of 1974, it is questionable whether the industry will be able to achieve 1.2-million starts in 1975.

The attached material to my testimony includes a table showing forecasted starts. Clearly, the forecasted levels leave little to cheer about. This time around, housing will not add much to GNP growth. And an economic recovery is impossible without an improvement in residential construction. This fact is especially true because of the further erosion of activity in the nonresidential sector.

Nonresidental construction is still declining. The value of new construction put in place in this sector was at an average seasonally adjusted annual rate of $87.2 billion for the 3-month period ending in April 1975. This is 4.5 percent under the $91.3 billion for the 3-month period ending in January.

The weakest area of this sector is in nonresidential building construction which declined 8.3 percent to a rate of $27.4 billion in April from $29.9 in January.

FEDERAL RESERVE POLICY

The Federal Reserve Board's credit expansion policy seems adequate to me at the present time. But concerning the degree of M_1 growth, I feel more comfortable with the upper limit of 7½ percent, than I do with the lower 5½-percent limit, because at this time, the housing industry must have assurance that short-term rates will stay at their current levels so that savings will continue to flow into thrift institutions. Housing is highly sensitive to credit, and needs a continual supply of loanable funds.

My quarrel with the Federal Reserve Board concerns its constant interference in the money markets, rather than the outlined level of credit expansion. In the last 4 years, the Board has tightened and expanded too much in too short a timespan.

The construction industry cannot operate under these conditions. It needs stability. Builders cannot cost their products—whether a hotel, office building, factory, or house—in a climate of constant change.

Much of housing's current problem stems from the action of the financial regulatory agencies in July 1973 of decreasing to one-fourth percent the difference between the interest payment on savings between commercial banks and thrift institutions can pay. This administrative action which changed regulation Q, should be revoked.

ADMINISTRATION HOUSING POLICIES

The administration's housing policies, in short, are largely nonexistent, in my opinion. The major problem is that those responsible for creating policies do not understand construction, unfortunately leaving the impression that they have neither the desire to understand nor to learn about our industry. As a result, recent and current administration policies would appear to be centered on how to restrain construction in the guise of combating inflation. This country, thus, is one of the few—and possibly the only one—which attempts to solve housing problems by nonbuilding.

The fact that programs such as 203(b), which in other times make money for the Federal Government, are not working, is illustrative of the disinterest and demoralization of the Government agencies involved.

HUD's applications for insurance under its program 203(b) have taken a nosedive in the past few years. Sections 235 and 236 have been largely discontinued. The housing industry has received little if any support from HUD on issues which cost consumers thousands of extra dollars as a result of the environmental obsession. They do not understand it either. HUD has opposed such programs as the Cranston-Brooke Act, the $2,000 tax credit, and the Emergency Housing Act of 1975.

Administration spokespersons have constantly distorted the issue of the $22.9 billion committed to housing through various programs. This money is not handout money. As a matter of fact, part of it is not even Federal money. The advances to S. & L.'s—always counted in the $22 or $23 billion commitment—are retained earnings which each savings and loan association puts into a common pool. These funds belong to S. & L.'s and not to the Federal Government.

In any case, these funds are not giveaways. The money is lent to people to buy houses, and it will be repaid.

One of the attached tables shows the current status of these programs. Only 16.1 percent, or $3.7 billion, of all the funds had been delivered by the end of May 1975. Federal Home Loan Bank Board advances have been closed out, and some of the other programs are inoperative because of the high interest rates attached to them.

The Brooke-Cranston bill, owing to its lower interest rate, is the only present operational program. Some $2.2 billion under this program remains to be committed.

As a final note on these programs, it is very likely that the Federal Government, as it did in 1970, in somewhat similar programs, will make money on these programs. So, claims that this money is Federal funding—when it is actually loaned at interest—and that it costs the Government a lot of money, are simply not true.

To sum up briefly: It will be an uneasy year. It will be a painful year for us. No robust recovery for housing is in prospect. Assistance still will be needed for this year and beyond for the low- and moderate-income families if the industry and Nation is to fulfill congressional commitments.

Thank you very much.

[The tables and charts attached to Mr. Sumichrast's testimony follow:]

TABLE 1.—TOTAL PRIVATE HOUSING STARTS BY MONTH, 1946–75: AT SEASONALLY ADJUSTED ANNUAL RATES

[In thousands of units]

Month	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
January	1,040	1,052	1,385	1,196	1,883	1,928	1,388	1,484	1,358	1,757	1,441	1,151	1,170	1,657	1,460
February	1,085	1,074	1,200	1,137	1,834	1,638	1,516	1,460	1,417	1,664	1,444	1,168	1,107	1,667	1,503
March	1,167	1,032	1,379	1,171	1,976	1,481	1,483	1,506	1,411	1,684	1,401	1,173	1,108	1,620	1,109
April	1,057	1,039	1,501	1,292	1,945	1,352	1,412	1,498	1,433	1,708	1,408	1,147	1,154	1,590	1,289
May	1,028	1,090	1,450	1,319	2,052	1,359	1,408	1,425	1,412	1,730	1,375	1,174	1,191	1,498	1,271
June	985	1,174	1,441	1,341	2,042	1,419	1,353	1,380	1,498	1,704	1,325	1,175	1,236	1,503	1,247
July	972	1,252	1,419	1,384	2,051	1,257	1,438	1,346	1,559	1,632	1,289	1,191	1,337	1,547	1,197
August	1,007	1,355	1,329	1,500	2,121	1,334	1,443	1,324	1,563	1,625	1,313	1,193	1,374	1,430	1,344
September	958	1,532	1,303	1,603	1,821	1,456	1,483	1,348	1,618	1,580	1,234	1,191	1,451	1,540	1,097
October	974	1,571	1,190	1,662	1,605	1,386	1,513	1,342	1,610	1,490	1,266	1,204	1,472	1,355	1,246
November	957	1,557	1,196	1,785	1,561	1,324	1,475	1,383	1,730	1,434	1,212	1,612	1,593	1,416	1,246
December	991	1,447	1,218	1,824	1,900	1,330	1,476	1,343	1,807	1,431	1,184	1,146	1,598	1,601	1,063
	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
January	1,183	1,361	1,244	1,603	1,361	1,370	1,067	1,380	1,769	1,085	1,828	2,494	2,486	1,437	999
February	1,226	1,278	1,456	1,820	1,433	1,378	1,123	1,520	1,705	1,305	1,471	2,390	2,376	1,881	1,000
March	1,312	1,443	1,534	1,517	1,423	1,394	1,056	1,466	1,561	1,319	1,910	2,334	2,309	1,511	985
April	1,166	1,524	1,689	1,448	1,438	1,352	1,091	1,554	1,524	1,264	1,986	2,249	2,096	1,580	986
May	1,228	1,483	1,641	1,467	1,478	1,265	1,304	1,408	1,583	1,290	2,049	2,221	2,313	1,467	1,126
June	1,382	1,404	1,588	1,550	1,488	1,194	1,248	1,405	1,528	1,385	2,026	2,254	2,087	1,533	----------
July	1,335	1,450	1,614	1,562	1,529	1,086	1,364	1,512	1,368	1,507	2,083	2,252	2,120	1,314	----------
August	1,312	1,517	1,639	1,569	1,432	1,119	1,407	1,495	1,358	1,399	2,158	2,382	2,058	1,156	----------
September	1,429	1,324	1,763	1,455	1,482	1,046	1,421	1,556	1,507	1,534	2,041	2,481	1,861	1,157	----------
October	1,415	1,533	1,779	1,524	1,452	843	1,491	1,569	1,381	1,580	2,128	2,485	1,692	1,106	----------
November	1,385	1,622	1,622	1,486	1,460	961	1,538	1,630	1,229	1,647	2,182	2,421	1,721	1,017	----------
December	1,365	1,564	1,491	1,484	1,656	990	1,308	1,548	1,327	1,983	2,295	2,366	1,441	808	----------

Source: Bureau of the Census, U.S. Department of Commerce, (1) "Construction Reports, Housing Starts 1959 to 1971," C–20 supplement, (2) "Construction Reports, Housing Starts," series C–20; data compilation by NAHB Economics Department.

TABLE 2.—TOTAL PUBLIC AND PRIVATE HOUSING STARTS, 1900-75

[In thousands of units]

Year	Total public and private	Private			Percent distribution		
		Total	Single family	Multi-family	Total	Single family	Multi-family
1900	189	189	123	66	100	65.1	34.9
1901	275	275	177	98	100	64.4	35.6
1902	240	240	171	69	100	17.3	28.7
1903	253	253	175	78	100	69.2	30.8
1904	315	315	207	108	100	65.7	34.3
1905	507	507	336	171	100	66.3	33.7
1906	487	487	316	171	100	64.9	35.1
1907	432	432	291	141	100	67.4	32.6
1908	416	416	286	130	100	68.7	31.3
1909	492	492	328	164	100	66.7	33.3
1910	387	387	251	136	100	64.9	35.1
1911	395	395	249	146	100	63.0	37.0
1912	426	426	258	168	100	60.6	39.4
1913	421	421	264	157	100	62.7	37.3
1914	421	421	263	158	100	62.5	37.5
1915	433	433	262	171	100	60.5	39.5
1916	437	437	267	170	100	61.1	38.9
1917	240	240	166	74	100	69.2	30.8
1918	118	118	91	27	100	77.1	22.9
1919	315	315	239	76	100	75.9	24.1
1920	247	247	202	45	100	81.8	18.2
1921	449	449	316	133	100	70.4	29.6
1922	716	716	437	279	100	61.0	39.0
1923	871	871	513	358	100	58.9	41.1
1924	893	893	534	359	100	59.8	40.2
1925	937	937	573	365	100	61.2	39.0
1926	849	849	491	358	100	57.8	42.2
1927	810	810	454	356	100	56.0	44.0
1928	753	753	436	317	100	57.9	42.1
1929	509	509	316	193	100	62.1	37.9
1930	330	330	227	103	100	68.8	31.2
1931	254	254	187	67	100	73.6	26.4
1932	134	134	118	16	100	88.1	11.9
1933	93	93	76	17	100	81.7	18.3
1934	126	126	109	17	100	86.5	13.5
1935	221	216	182	34	100	84.3	15.7
1936	319	304	239	65	100	78.6	21.4
1937	336	332	266	66	100	80.1	19.9
1938	406	399	316	83	100	79.2	20.8
1939	515	458	373	85	100	81.4	18.6
1940	603	530	448	83	100	84.5	15.7
1941	706	620	533	86	100	86.0	13.9
1942	356	301	252	49	100	83.7	16.3
1943	191	184	136	47	100	73.9	25.5
1944	178	175	139	36	100	79.4	20.6
1945	326	325	[1] 290	[1] 35	100	89.2	10.8
1946	1,023	1,015	[1] 937	[1] 78	100	92.3	7.7
1947	1,268	1,265	[1] 1,152	[1] 113	100	91.1	8.9
1948	1,362	1,344	[1] 1,180	[1] 164	100	87.8	12.2
1949	1,466	1,340	1,229	[1] 201	100	85.9	14.1
1950	1,952	1,908	[1] 1,689	[1] 220	100	88.5	11.5
1951	1,491	1,420,	[1] 1,275	[1] 145	100	89.8	10.2
1952	1,504	1,446	[1] 1,304	[1] 142	100	90.2	9.8
1953	1,438	1,402	[1] 1,251	[1] 151	100	89.2	10.8
1954	1,551	1,532	[1] 1,397	[1] 135	100	91.2	8.8
1955	1,646	1,627	[1] 1,494	[1] 132	100	91.8	8.1
1956	1,349	1,325	[1] 1,195	[1] 130	100	90.2	9.8
1957	1,224	1,175	[1] 980	[1] 195	100	83.4	16.6
1958	1,382	1,314	[1] 1,048	[1] 266	100	79.8	20.2
1959	1,554	1,517	1,234	283	100	81.3	18.7
1960	1,296	1,252	995	258	100	79.5	20.6
1961	1,365	1,313	974	339	100	74.2	25.8
1962	1,492	1,463	991	472	100	67.7	32.3
1963	1,635	1,604	1,012	591	100	63.1	36.9
1964	1,561	1,529	971	558	100	63.5	36.5
1965	1,510	1,473	964	509	100	65.4	34.6
1966	1,196	1,165	779	386	100	66.9	33.1
1967	1,322	1,292	844	448	100	65.3	34.7
1968	1,545	1,508	899	608	100	59.6	40.3
1969	1,500	1,467	811	656	100	55.3	44.7
1970	1,469	1,434	813	621	100	56.7	43.3
1971	2,085	2,052	1,151	901	100	56.1	43.9
1972	2,379	2,357	1,309	1,048	100	55.5	44.5
1973	2,058	2,045	1,132	913	100	55.4	44.6
1974	1,353	1,338	888	450	100	66.4	33.6
1975 [1]	1,211	1,200	914	286	100	76.2	23.8

[1] Estimate.

Source: Bureau of the Census, U.S. Department of Commerce, (1) "Housing Construction Statistics, 1889 to 1964," p. 18, table A-1, (2) "Construction Reports, Housing Starts 1959 to 1971," C-20 supplement, (3) "Construction Reports, Housing Starts," series C-20; data compilation, analysis, and estimates by NAHB Economics Department.

TABLE 3.—PEAKS AND TROUGHS IN HOUSING STARTS CYCLES, AT SEASONALLY ADJUSTED ANNUAL RATES

[In thousands of units]

Period	Months between high and low	High	Low	Difference	Percent change	3-month averages: High	Low	Difference	Percent change
August 1950 to July 1951	11	1,889	1,154	735	−38.9	1,881	1,182	699	−37.2
December 1954 to March 1957	27	1,703	1,068	635	−37.3	1,664	1,080	584	−35.1
December 1958 to December 1960	24	1,604	1,041	563	−35.1	1,589	1,148	441	−27.8
December 1965 to October 1966	10	1,656	843	813	−49.1	1,522	931	591	−38.8
January 1969 to Janury 1970	12	1,769	1,108	661	−37.4	1,678	1,252	426	−25.4
January 1973 to December 1974	23	2,486	880	1,606	−64.6	2,409	960	1,449	−60.1

Source: Bureau of the Census, U.S. Department of Commerce, (1) "Construction Reports, Housing Starts, 1959 to 1971," C20 supplement, (2) "Construction Reports, Housing Starts," series C20; data compilation and analysis by NAHB Economics Department.

TABLE 4.—BEC SPRING SURVEY—1975, LOCAL OUTLOOK AT PRESENT TIME

[Percent of respondents]

	Good	Fair	Poor
General business picture	24	56	21
Consumer confidence	9	48	43
New home sales	14	46	39
Condominium sales	3	12	85
Apartment rental activity	42	42	16
Labor availability	78	20	3
Materials availability	77	21	2

Source: NAHB BEC survey, spring 1975.

TABLE 5.—REPRINTED FROM NAHB'S ECONOMIC NEWS NOTES, HOUSING STARTS BULLETIN, JUNE 1975: HOUSING INDICES

[Units in thousands]

Date	Units under construction end of period [1]		Housing completions		New 1-family homes		Vacancy rates		Med sales price new 1-family homes sold			FHA 203b sales price per square foot [2]	Mortgage interest rates	
	1 unit	2 units or more	1 unit	2 units or more	Sold	For sale, end of period	For sale	For rent	Census C25 all homes	FHA 203b [2]	Census C27 [2] price index		FHA/VA	FHLBB
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1970	381	541	802	617	485	227	1.0	5.3	$23,400	$22,462	117.4	$17.42		8.45
1971	505	749	1,014	692	656	294	1.0	5.4	25,200	23,355	123.2	17.87		7.74
1972	640	947	1,143	828	718	416	1.0	5.6	27,600	24,217	131.0	18.71		7.60
1973	583	1,016	1,174	840	620	456	1.0	5.8	32,500	24,224	144.8	19.57	8.16	7.95
1974	518	676	932	760	501	407	1.2	6.2	35,900	26,131	158.1	22.56	8.80	8.92
			Seasonally adjusted rates											
			At annual rates		Monthly									
1974:														
April	582	941	917	810	556	450			35,700				8.67	8.67
May	603	930	889	771	569	444			35,700				8.80	8.74
June	608	909	1,053	752	524	436	1.1	6.3	35,100	25,625	157.3	21.09	8.89	8.85
July	616	883	934	721	509	430			36,800				8.94	8.96
August	610	853	919	674	466	425			35,700				9.00	9.09
September	599	808	899	663	495	414	1.2	6.2	36,200	27,311	161.4	21.52	8.93	9.19
October	575	770	908	719	433	409			36,200				8.79	9.17
November	552	721	893	763	435	404			37,300				8.75	9.27
December	516	673	852	754	382	400	1.3	6.0	37,400	28,819	163.9	22.56	8.65	9.37
1975:														
January	486	630	964	571	404	404			37,200				8.59	9.33
February	470	613	770	550	412	409			38,000				8.56	9.12
March	478	586	721	571	464	395	1.2	6.1	38,700	NA	170.1	NA	8.55	9.06
April	500	570	724	449	580	386			39,500				8.44	9.00

[1] Annual data denote units under construction last month in year.
[2] Data available by quarter and year only.
NA—Not available.

Source: (cols. 1-4) Census Bureau, U.S. Department of Commerce, "Housing Completions," series C22; (col. 5-6) Census Bureau, U.S. Department of Commerce, "New One-Family Homes Sold and For Sale," series C25; (cols. 7-8) Census Bureau, U.S. Department of Commerce, "Housing Vacancies," series H-111; (col. 9) same as cols. 5-6; (col. 10) Division of Research and Statistics, Housing Production and Mortgage Credit-FHA, U.S. Department of Housing and Urban Development, "FHA Trends of Home Mortgage Characteristics;" (col. 11) Census Bureau, U.S. Department of Commerce, "Price Index of New One-Family Homes Sold," series C27; (col. 12) same as col. 10; (col. 13) Office of Economic Analysis, Assistant Secretary for Policy Development and Research, U.S. Department of Housing and Urban Development, monthly news release, "FHA-VA Mortgage Interest Rates;" (col. 14) Federal Home Loan Bank Board, monthly news release, "Average Contract Interest Rates."

TABLE 6.—CONSTRUCTION EMPLOYMENT, UNEMPLOYMENT, AND UNEMPLOYMENT RATES, 1973–75

[Seasonally adjusted—In thousands]

Month	Employment	Unemployment	Unemployment rate
1973:			
January	3,985	398	9.1
February	4,020	405	9.2
March	4,049	396	8.9
April	4,081	406	9.0
May	4,117	401	8.9
June	4,300	385	8.2
July	4,216	443	9.5
August	4,191	393	8.6
September	4,159	421	9.2
October	4,171	406	8.9
November	4,174	406	8.9
December	4,190	371	8.1
1974:			
January	4,214	420	9.1
February	4,251	381	8.2
March	4,148	394	8.7
April	4,079	449	9.9
May	4,064	431	9.6
June	4,044	467	10.4
July	3,878	467	10.7
August	3,952	502	11.3
September	3,991	543	12.0
October	4,085	559	12.0
November	3,904	608	13.5
December	3,774	659	14.9
1975:			
January	3,587	634	15.0
February	3,635	688	15.9
March	3,535	781	18.1
April	3,470	832	19.3
May	3,447	961	21.8

Source: Bureau of Labor Statistics, U.S. Department of Labor, "Employment and Earnings"; data compilation by NAHB Economics Department.

TABLE 7.—CONSTRUCTION FIRM FAILURES AND LIABILITIES, 1955–74

[Dollars in thousands]

Year	Failures	Liabilities
1955	1,404	$83,180
1956	1,834	100,803
1957	2,105	110,312
1958	2,162	115,115
1959	2,063	121,882
1960	2,607	201,369
1961	2,752	193,005
1962	2,703	243,805
1963	2,401	231,354
1964	2,388	262,392
1965	2,513	290,980
1966	2,510	326,376
1967	2,261	323,680
1968	1,670	212,459
1969	1,590	171,717
1970	1,687	231,533
1971	1,545	222,357
1972	1,375	193,530
1973	1,419	309,075
1974	1,840	526,598

Source: Dun and Bradstreet, Inc., "Business Economics, Monthly Failures"; data compilation by NAHB Economics Department.

TABLE 8.—CONSTRUCTION FIRM FAILURES AND LIABILITIES, JANUARY-MARCH COMPARISON, 1955-75

[Dollars in thousands]

Year	Failures	Liabilities
1955	308	$21, 137
1956	417	23, 133
1957	562	29, 536
1958	555	30, 536
1959	536	26, 774
1960	629	42, 190
1961	747	46, 457
1962	758	61, 124
1963	632	72, 660
1964	615	57, 875
1965	635	65, 337
1966	579	54, 813
1967	686	83, 339
1968	476	60, 076
1969	372	40, 685
1970	422	70, 597
1971	435	70, 855
1972	394	70, 022
1973	314	59, 892
1974	440	130, 713
1975	643	131, 246

Source: Dun and Bradstreet, Inc., "Business Economics, Monthly Failures;" data compilation by NAHB Economics Department.

TABLE 9.—FINAL TABULATIONS: NAHB BEC QUESTIONNAIRE ON THE UP TO $2,000 TAX CREDIT, APR. 21, 1975

	Percent of units reported			
	Single family	Townhouses	Condominiums	Total
1. Item:				
Inventory	100	100	100	100
Sold	30	19	9	23
Expect to sell within 60 days	49	51	26	43
Sold and expect to sell	79	70	35	66
2. Will you start new units?				
Yes				57
No				43
3. Is the community experience the same as yours?				
Yes				88
No				12
4. Comments:				
This is good legislation and will move inventory				29
This will do nothing or very little to help inventory				20
Legislation needs clarification				30
In addition, need lower interest rates				21

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TABLE 10.—ESTIMATED 1975 ACTUAL HOUSING STARTS

[In thousands of units]

	Total public and private	Private starts: Total	Private starts: Single family	Private starts: Multi-family
January	56.9	56.1	39.8	16.3
February	56.2	54.7	40.0	14.7
March	81.1	80.2	62.5	17.7
1st quarter	194.2	191.0	142.3	48.7
April	99.2	98.7	78.4	20.3
May	116.2	115.2	92.4	22.8
June	118.2	117.3	93.4	23.9
2d quarter	333.6	331.2	264.2	67.0
1st half	527.8	522.2	406.5	115.7
July	123.2	122.4	96.4	26.0
August	128.6	126.6	95.9	30.7
September	114.1	113.0	86.6	26.4
3d quarter	365.9	362.0	278.9	83.1
October	117.5	116.8	88.2	28.6
November	107.0	106.5	75.8	30.7
December	92.9	92.5	64.8	27.7
4th quarter	317.4	315.8	228.8	87.0
2d half	683.3	677.8	507.7	170.1
Year	1,211.1	1,200.0	914.2	285.8

Source: NAHB econometric model of United States and Canadian housing starts and materials requirements by regions, States, and Provinces.

TABLE 11.—1975 PRIVATE HOUSING STARTS, SEASONALLY ADJUSTED ANNUAL RATES

[In thousands of units]

	Total	Single family	Multifamily
January	999	739	260
February	1,000	733	267
March	985	775	120
1st quarter	995	749	246
April	986	770	216
May	1,126	886	265
June	1,215	950	285
2d quarter	1,019	869	240
July	1,265	980	285
August	1,310	990	320
September	1,325	995	330
3d quarter	1,300	988	312
October	1,360	1,020	340
November	1,405	1,030	375
December	1,435	1,050	835
4th quarter	1,400	1,033	367

Source: NAHB econometric model of United States and Canadian housing starts and materials requirements by regions, States, and provinces.

TABLE 12.—3 MONTHS ENDING APRIL AND JANUARY 1975, VALUE OF NEW NONRESIDENTIAL CONSTRUCTION PUT IN PLACE, AT SEASONALLY ADJUSTED ANNUAL RATES

[In billions of dollars]

	3 months ending		Change	
	April 1975	January 1975	Amount	Percent
Total	$8/.2	$91.3	−$4.1	−4.5
Private	48.2	50.9	−2.7	−5.3
Nonresidential buildings	27.4	29.9	−2.5	−8.4
Industrial	8.1	8.7	−.6	−6.9
Office	5.6	6.1	−.5	−8.2
Other commercial	8.1	9.4	−1.3	−13.8
Religious	.8	.9	−.1	−11.1
Educational	.6	.6	0	0
Hospital, institutional	3.2	3.3	−.1	−3.0
Miscellaneous	.9	1.0	−.1	−10.0
Farm nonresidential, public utilities	19.8	19.9	−.1	−.5
All other private	1.0	1.1	−.1	−9.0
Public	39.0	40.4	−1.4	−3.6

Source: Bureau of the Census, U.S. Department of Commerce, "Construction Reports, Value of New Construction Put in Place," series C30, April 1975; data compilation and analysis by NAHB Economics Department.

TABLE 13.—FLOW OF FUNDS INTO INSURED SAVINGS AND LOANS AND MUTUALS

[Dollar amounts in millions]

Date	Net new savings		With dividends credited		
	S. & L.'s	Mutuals	S. & L.'s	Mutuals	Total
1970	$5,294	$941	$10,843	$4,515	$15,358
1971	20,653	5,693	27,332	9,648	36,980
1972	23,884	5,451	31,956	10,067	42,023
1973	10,507	−442	19,943	4,815	24,758
1974	4,668	−2,833	15,595	2,909	18,504
1974:					
January	2,018	46	2,121	257	2,378
February	1,697	341	1,777	521	2,298
March	1,751	308	4,052	1,240	5,292
April	−340	−645	−200	−441	−641
May	420	−182	519	6	525
June	16	−370	2,615	745	3,360
July	−581	−733	−470	−521	−991
August	−1,218	−837	−1,118	−646	−1,764
September	−1,068	−689	1,384	319	1,703
October	312	−260	427	−74	353
November	1,091	225	1,191	450	1,641
December	571	−37	3,297	1,053	4,350
1975:					
January	3,094	250	3,201	471	3,672
February	3,114	708	3,213	909	4,122
March	3,690	1,029	6,331	2,052	8,383
April [1]	2,671	395	2,784	626	3,410
May	[2] 3,650	[1] 930	[2] 3,775	[1] 1,140	4,915
June [1]	2,700	500	5,600	1,700	7,300
6 months flow:					
1974	5,562	−502	10,884	2,328	13,212
1975	18,919	3,812	24,904	6,898	31,802
Percent change 1974–75	240.1	(3)	128.8	196.3	140.7

[1] Preliminary.
[2] Estimate.
[3] Not statistically measurable.

Source: Office of Economic Research, Federal Home Loan Bank Board; Research Department, National Association of Mutual Savings Banks; estimates, data compilation, and analysis, NAHB Economic Department.

TABLE 14.—HUD SUBSIDIZED HOUSING PRODUCTION FROM INCEPTION OF MAJOR PROGRAMS, ANNUALLY, 1962–74

[In thousands of units]

Program	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
HUD, total new subsidized production	27.4	34.2	44.6	49.9	52.4	70.1	162.8	190.3	401.1	386.0	277.1	135.2	58.9
College housing							.6	.9	2.1	3.9	3.5	1.4	.3
Total low and moderate income production	27.4	34.2	44.6	49.9	52.4	70.1	162.2	189.4	399.0	382.2	273.6	133.7	58.5
Total new starts	27.2	33.9	43.5	48.2	48.5	64.9	137.1	166.9	369.9	351.5	237.4	116.7	45.4
Single family							.6	28.1	116.1	133.2	82.8	26.4	3.0
Sec. 235							.6	28.1	116.1	133.2	82.8	26.4	3.0
Multifamily	27.2	33.9	43.5	48.2	48.5	64.9	136.4	138.8	253.8	218.3	154.6	90.3	42.4
LRPH	22.3	23.5	24.6	32.2	30.2	32.6	66.4	67.0	95.4	68.5	40.0	26.7	15.4
Conventional	22.3	23.5	24.6	31.9	29.0	27.4	39.3	26.7	31.6	18.8	12.6	6.8	5.6
Turnkey				.3	1.1	4.6	22.8	33.1	51.9	40.4	18.6	13.5	8.0
Leased					.1	.5	4.4	7.2	11.9	9.3	8.8	6.5	1.8
Sec. 202	2.0	2.7	3.8	5.0	5.8	6.9	6.6	7.4	3.0	.9	.4		
Rent supplement				.3	.3	2.6	16.9	17.9	22.9	10.9	8.7	5.7	3.0
Sec. 221(d)(3) BMIR	3.0	7.8	15.1	10.8	12.1	22.9	45.4	33.4	16.5	5.4	.6	.5	
Sec. 236								10.2	105.2	107.6	80.7	47.8	20.5
Uninsured State projects							1.1	2.9	10.8	24.9	24.1	9.6	3.5
Total rehabilitation starts	.1	.3	1.1	1.7	3.9	5.2	25.1	22.4	29.1	30.7	36.2	17.0	13.1
Single family				[1]	.4	1.2	4.2	9.5	13.2	14.2	11.3	8.3	6.8
Multifamily	.1	.3	1.1	1.7	3.5	4.0	20.9	12.9	15.8	16.5	24.9	8.8	6.3

[1] Only 7 units for entire year.

Source: Division of Research and Statistics, Housing Production and Mortgage Credit-FHA, U.S. Department of Housing and Urban Development, "HUD-Subsidized Housing Production," series RR:300S; data compilation by NAHB Economics Department.

TABLE 15.—HUD SUBSIDIZED HOUSING PRODUCTION, FEBRUARY COMPARISON, 1968–75

	1968	1969	1970	1971	1972	1973	1974	1975 [1]
HUD, total new subsidized production	10,528	8,780	18,033	24,685	17,089	12,738	5,979	4,410
College housing	NA	48	64	0	0	125	0	0
Total low and moderate income production	10,528	8,732	17,969	24,685	17,089	12,613	5,979	4,410
Total new starts	9,775	7,404	16,619	22,384	15,129	11,296	4,528	3,611
Single family	0	973	6,926	11,791	7,946	4,737	311	60
Sec. 235	0	973	6,926	11,791	7,946	4,737	311	60
Multifamily	9,775	6,431	9,693	10,593	7,183	6,559	4,217	3,551
LRPH	4,148	3,198	3,839	4,339	2,652	1,874	1,367	2,075
Conventional	2,267	1,848	2,092	1,389	1,865	322	379	1,102
Turnkey	1,751	1,169	1,496	1,839	684	1,357	661	821
Leased	130	181	251	1,111	103	195	327	242
Sec. 202		647	489	0	0	0	0	0
Rent supplement	1,433	1,000	901	885	223	589	400	48
Sec. 221(d)(3) BMIR	4,194	1,187	1,950	376	72	204	0	0
Sec. 236	0	0	1,818	4,571	3,900	3,892	2,450	961
Uninsured State projects	0	399	696	422	336	0	0	467
Total rehabilitation starts	753	1,328	1,350	2,301	1,960	1,317	1,451	799
Single family	196	675	916	1,157	1,125	663	395	372
Multifamily	557	563	434	1,144	835	654	1,056	427

[1] Latest data available.

Source: Division of Research and Statistics, Housing Production and Mortgage Credit-FHA, U.S. Department of Housing and Urban Development, "HUD Subsidized Production", series RR-300S; data compilation by NAHB Economics Department.

TABLE 16.—FHA SINGLE FAMILY AND MULTIFAMILY PROPOSED APPLICATIONS, 1971–75

[At seasonally adjusted annual rates—in thousands of units]

Month	Single family	Multi-family
1971:		
January	371	308
February	349	317
March	360	280
April	221	297
May	374	298
June	378	309
July	383	315
August	359	313
September	344	317
October	358	326
November	296	334
December	472	348
1972:		
January	325	326
February	323	316
March	260	203
April	227	158
May	217	134
June	217	132
July	223	113
August	206	85
September	136	112
October	150	97
November	162	89
December	131	195
1973:		
January	124	130
February	100	109
1973—Con.		
March	93	118
April	68	94
May	89	48
June	103	61
July	93	23
August	70	47
September	94	44
October	50	17
November	57	14
December	30	14
1974:		
January	46	9
February	62	15
March	71	23
April	71	20
May	89	49
June	91	53
July	106	31
August	83	47
September	97	49
October	127	59
November	105	50
December	127	52
1975:		
January	72	59
February	64	58
March	72	54
April	86	59

Source: Division of Research and Statistics, Housing Production and Mortgage Credit-FHA, U.S. Department of Housing and Urban Development, "Monthly Summary of FHA Operations;" data compilation by NAHB Economics Department.

TABLE 17.—STATUS OF FEDERAL SPECIAL ASSISTANCE RESIDENTIAL MORTGAGE PROGRAMS, END OF MAY 1975

[In millions of dollars]

	GNMA FHA/VA tandem plan [1]		FHLBB special advances [2]	FHLMC special assistance at 8¾ percent [3]		GNMA conventional Brooke-Cranston [4]		Total all programs	
	Committed	Delivered		Committed	Delivered	Committed	Delivered	Committed	Delivered
1974:									
January									
February	$245.7							$245.7	0
March	180.4							180.4	0
April	802.1	$3.3						802.1	$3.3
May	679.7	13.6		$500.0	0			679.7	13.6
June	309.1	38.3	$337.4	1,000.0	0			1,146.5	38.3
July	536.6	80.6	409.2	1,500.0	0			1,945.8	80.6
August	655.3	142.0	502.8		$17.3	0		2,658.1	159.2
September	678.2	178.5	481.1		86.1	0		1,159.3	264.6
October	754.2	239.5	388.9		87.7	$350.4	0	1,493.5	327.1
November	284.0	246.6	502.2		91.9	350.6	0	1,136.8	338.6
December	264.2	256.1	429.0		212.9	1,509.0	0	2,202.2	469.0
Total	5,389.4	1,198.5	3,050.6	3,000.0	495.8	2,210.0	0	13,650.0	1,694.3
1974:									
January	157.2	304.3	290.6		70.0	3,675.4	$9.4	4,123.2	383.6
February	80.5	226.7	64.1		91.8	46.3	43.8	190.9	362.2
March	173.9	218.8	26.6	[5] −892.4	82.8	[5] −393.0 5.2	100.7	−1,080.0	402.3
April	850.1	133.7	27.9	0	165.0	0	144.2	878.0	442.9
May	1,045.0	182.1	([6])	0	51.7	0	171.0	1,045.0	404.9
Total	2,306.6	1,065.5	409.2	−892.4	461.2	3,333.9	469.2	5,157.3	1,995.9
Total 1974–75	7,696.0	2,264.0	3,459.8	2,107.6	957.0	5,543.9	469.2	18,807.3	3,690.2

[1] $6,600,000,000 was made available in January 1974, $3,300,000,000 in May 1974.
[2] $3,000,000,000 was made available in May 1974.
[3] $3,000,000,000 was made available in October 1974 $3,000,000,000 in January 1975.
[4] $4,000,000,000 was made available in May 1974, interest rate based on monthly average of yields on 6 long term bills and bonds.
[5] Commitments retired through repurchase.
[6] Program closed in April.

Source: NAHB Mortgage Finance Department.

CHART 1

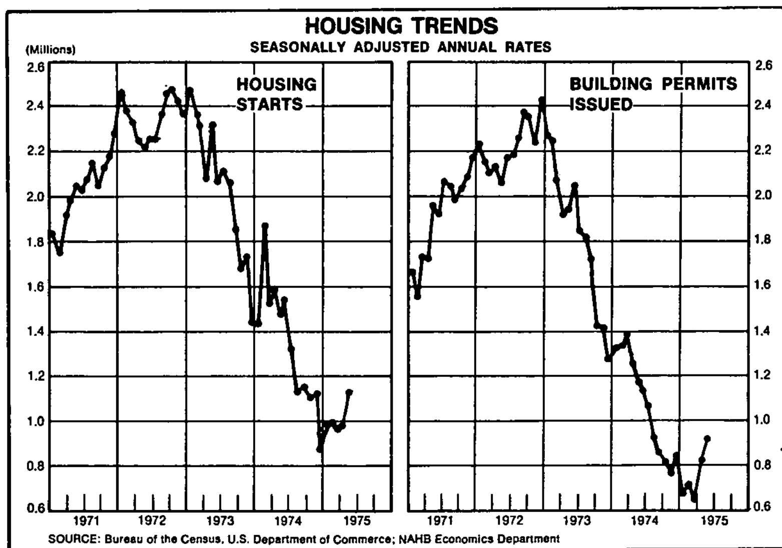
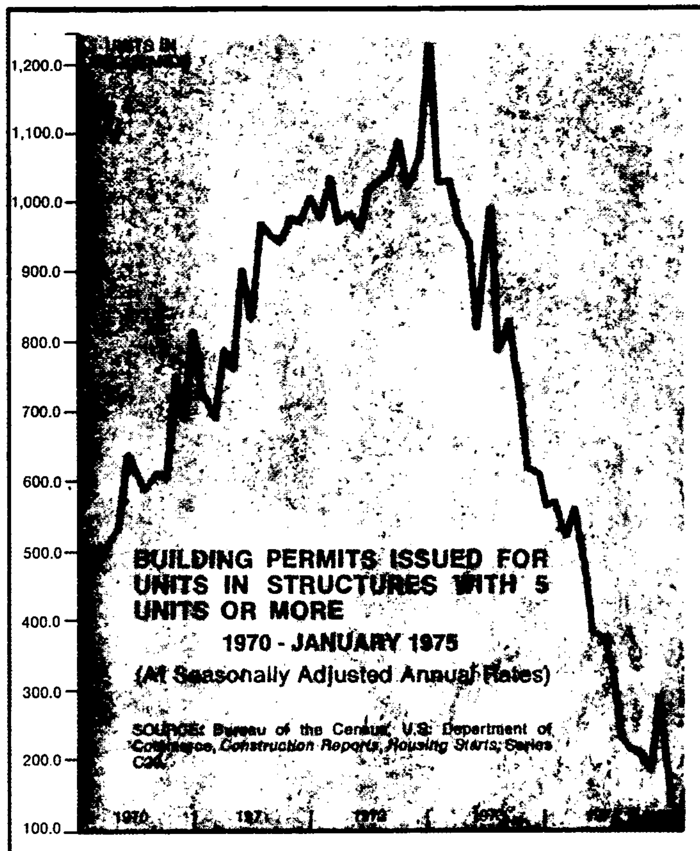
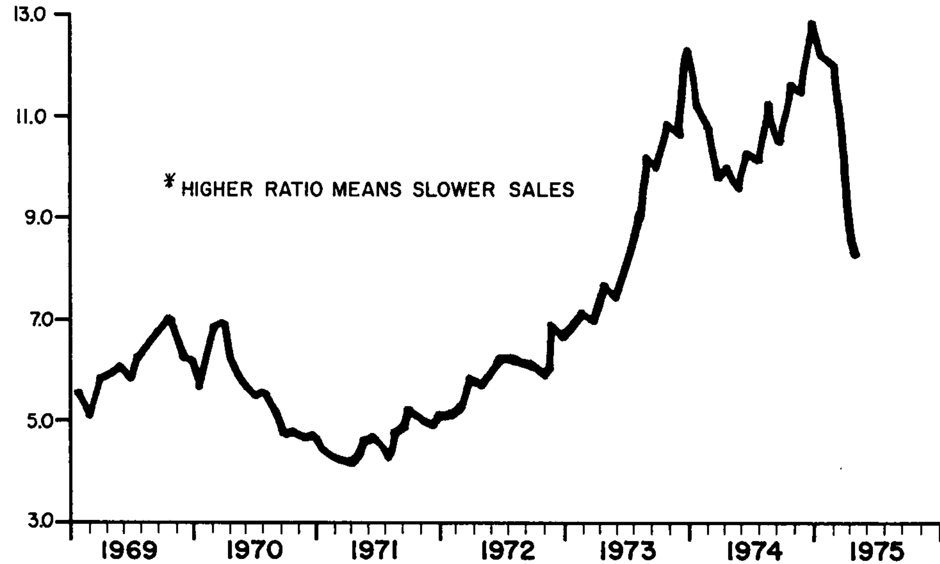


CHART 2



RATIO OF HOMES FOR SALE TO HOMES SOLD
(SEASONALLY ADJUSTED)



SOURCE: BUREAU OF THE CENSUS, U.S. DEPARTMENT OF COMMERCE, CONSTRUCTION REPORTS, NEW ONE-FAMILY HOMES SOLD AND FOR SALE, SERIES C25; PREPARED BY NAHB ECONOMICS DEPARTMENT.

CHART 3

62-834 O - 76 - 4

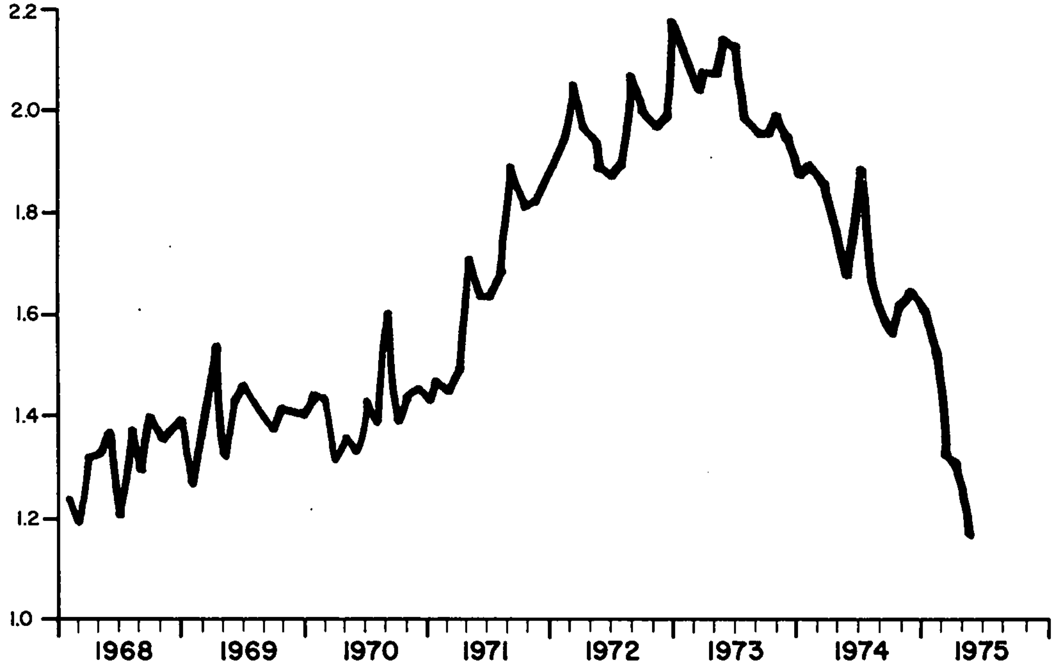
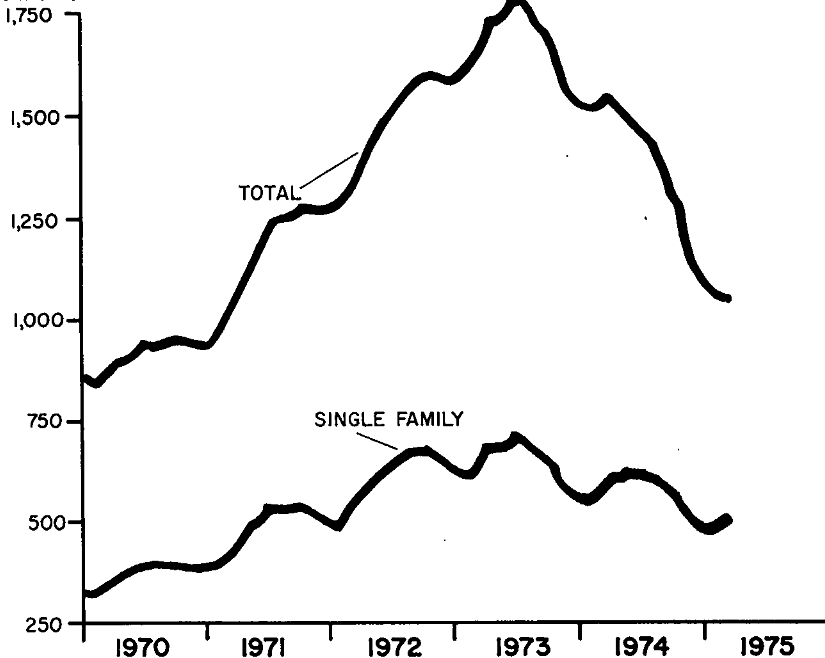


CHART 4

NEW PRIVATELY OWNED HOUSING UNITS UNDER CONSTRUCTION 1970–75

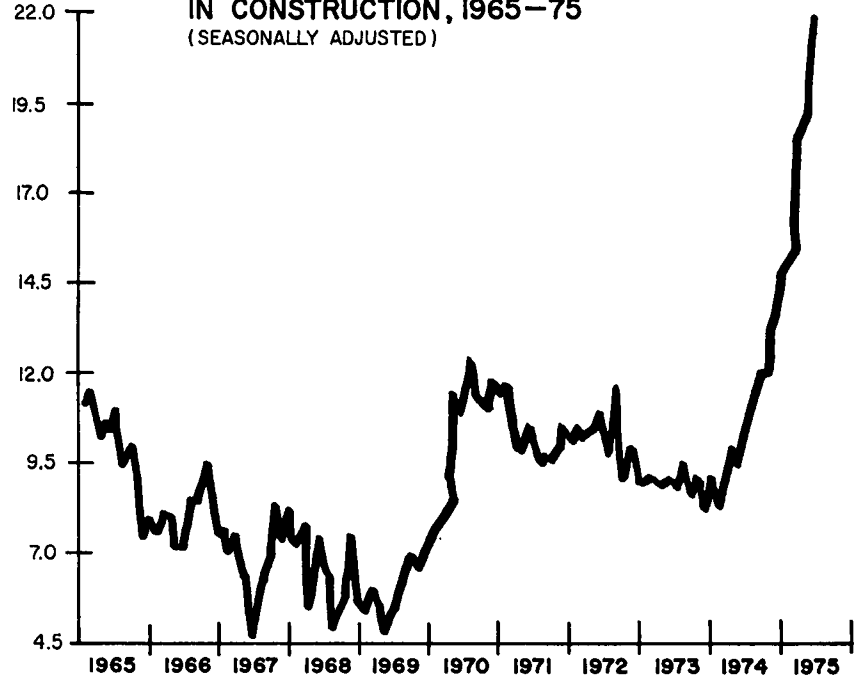
AT END OF MONTH—NOT SEASONALLY ADJUSTED



SOURCE: BUREAU OF THE CENSUS, U.S. DEPARTMENT OF COMMERCE, CONSTRUCTION REPORTS, HOUSING COMPLETIONS, SERIES C22; PREPARED BY NAHB ECONOMICS DEPARTMENT.

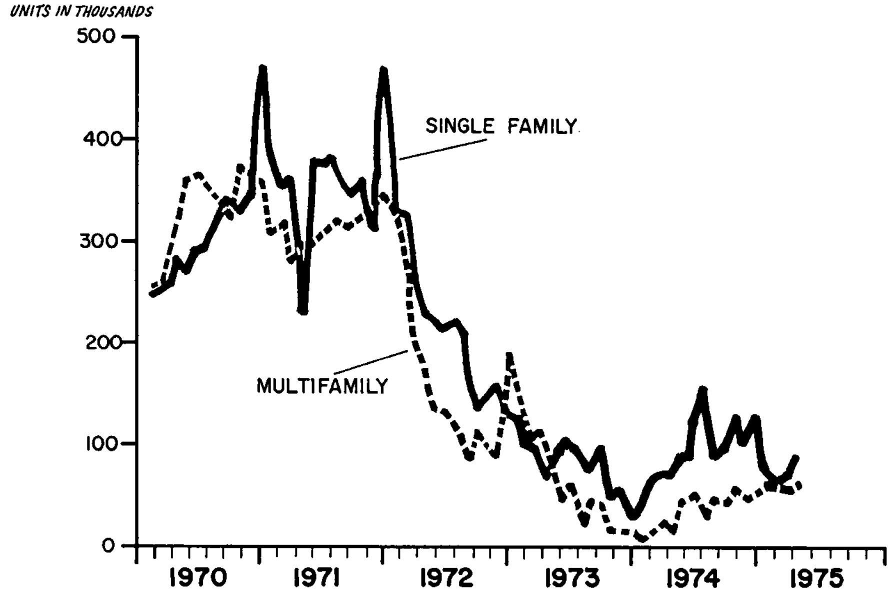
CHART 5

Chart 6



FHA SINGLE FAMILY AND PROJECT APPLICATIONS, 1970—75

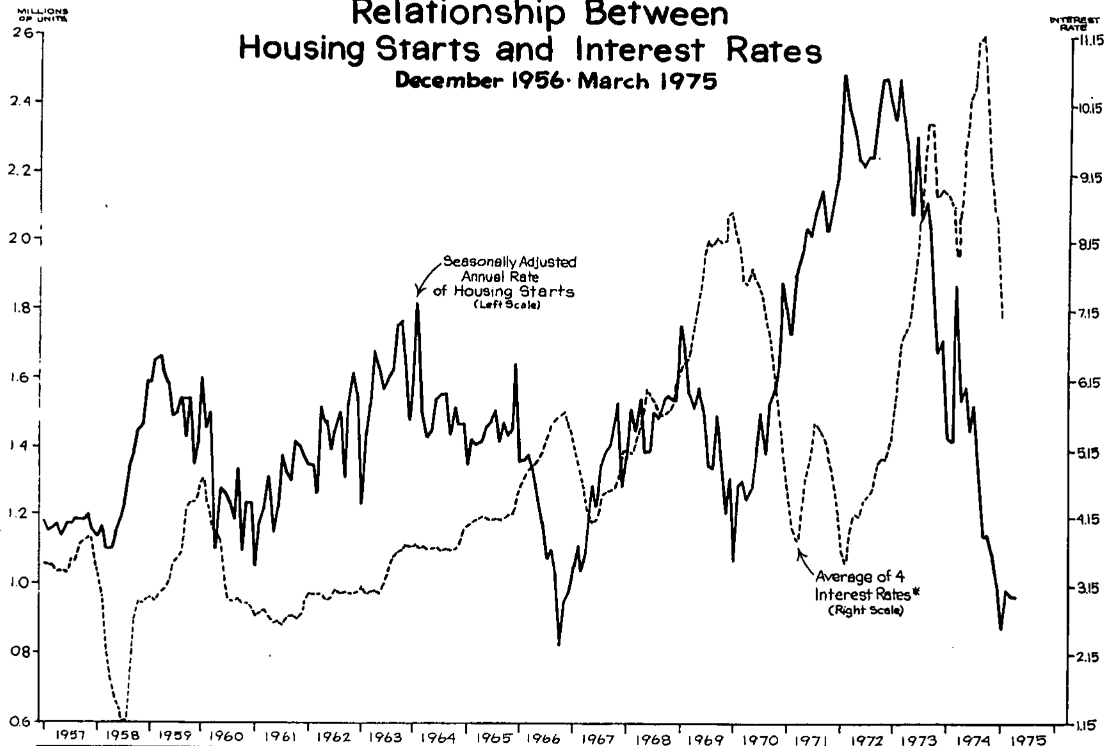
(SEASONALLY ADJUSTED RATES)



SOURCE: U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, MONTHLY SUMMARY OF FHA OPERATIONS; PREPARED BY NAHB ECONOMICS DEPARTMENT.

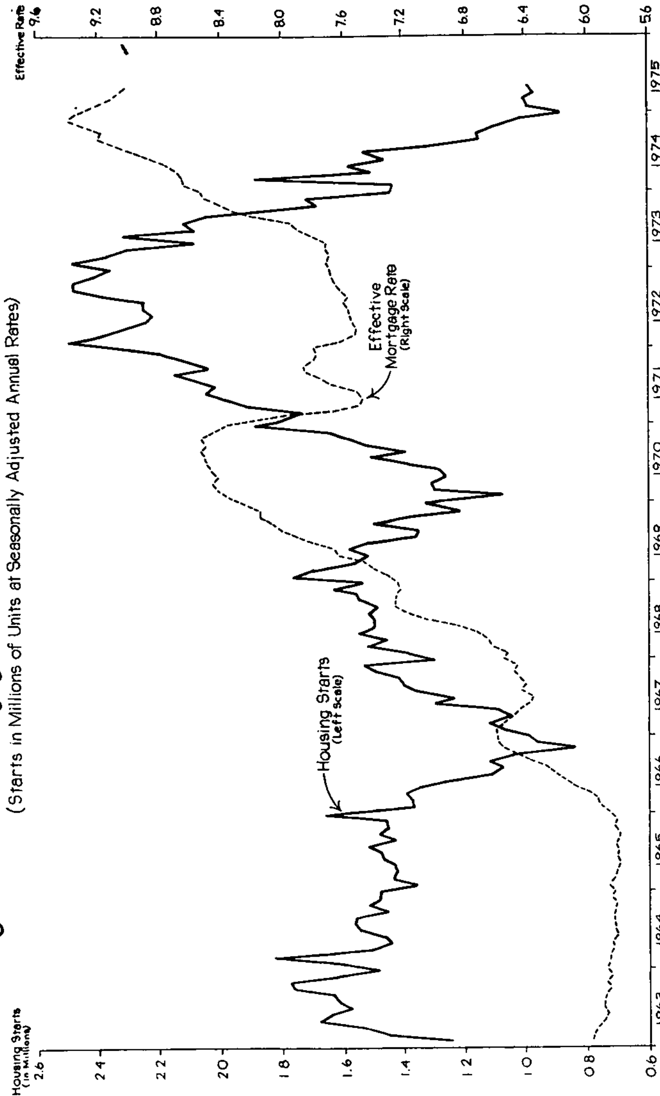
CHART 7

Chart 8



* Average of Prime Commercial Paper 4-6 Months, Prime Bankers Acceptances 90 Days, Federal Funds Effective Rate, U.S. Government 3-Month Bill Yields.
Source: Bureau of the Census, U.S. Department of Commerce, (1) *Construction Reports, Housing Starts 1959 to 1971*, C20 supplement, (2) *Construction Report, Housing Starts*, Series C20; Federal Reserve Board, *Federal Reserve Bulletin*.

CHART 9



Chairman HUMPHREY. Thank you very much, Mr. Sumichrast, that is very helpful testimony and I might add also, rather frank and candid.

Mr. Weiner, we would like to hear from you in a moment.

May I just interrupt you for a moment first—I was able to obtain HUD document to the Secretary from the Undersecretary, an abstract of secretarial correspondence. This document is dated June 4, 1975. I do not imagine that HUD knows we have it. The latest developments in housing production and marketing are described here in this internal HUD document. I am going to have the entire text of the doucment made a part of our record.

It gives the April records of housing starts and permits issued, unused building permits, private housing starts for the previous month, the same month a year ago, the percentage change from a month a year ago, and the percentage change from a year ago. Then, in an area called comment, one paragraph reads as follows:

While it is still too early to measure the tax credit's impacts on sales, speaking here of the housing tax credit, and on starts, conflicting reports on its use and effects are available from many sources. This is another area requiring a wait and see attitude.

Now, listen to this:

However, unless some dramatic improvements in consumer attitudes and strong improvement in sales and rental markets occur within the next few months, it appears that the housing production in 1975 may be headed for the lowest starts rate since 1966's 1,195,000 units and may even equal that.

In other words, this is an official document analyzing this months analyzing data within the Department of Housing and Urban Development on housing starts and housing construction. The analysis in this paper says that unless there are dramatic developments within the next few months, housing production in 1975 may be headed for the lowest level since 1966 and may even be lower.

Now that is HUD's evaluation despite what I heard on the "Today Show" this morning, from the Secretary of Housing and Urban Development.

Mr. SUMICHRAST. Well, Mr. Chairman, there are still a couple of people left in HUD that know what this industry is about, probably two or three, maybe.

Chairman HUMPHREY. Well, that is encouraging.

Mr. SUMICHRAST. Yes, at a rather low level though.

Chairman HUMPHREY. Now, listen to this from the same document: "the May 1, 1975, opinion survey of HUD field offices found little improvement in the outlook for future builder activity. Only 16 percent of the offices believed builders plans to start new one-family homes were advancing compared with 19 percent on March 1, and April 1, and 20 percent on May 1, of 1974. Almost 63 percent reported no change in builders' plans," and then they go on and on and on.

The point is that, here is the confidential HUD evaluation done only for the top department people; the summation of it is that there is no expectation of any improvement. In fact, it said, our housing situation could be as bad or worse than it was in 1966, and that consumer confidence has not shown any appreciable improvement—it is as bad or worse than it was.

This document came to the Secretary on the fifth day of June. Unless something dramatic has happened between the fifth day of June and today, which is the 26th day of June, then the information that we received in the veto message and the information that we received this morning on the "Today Show" does not jibe with the intradepartmental confidential correspondence, of which I have a copy. I think it is up to the Department of Housing and Urban Development to tell us which story we should believe.

We will have this included as a part of the record.

[The material referred to follows:]

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—ABSTRACT OF SECRETARIAL CORRESPONDENCE

To: The Secretary
From: A/S for Policy Development and Research.
Subject: PD&R Housing Production Trends and Outlook.

The latest developments in housing production and marketing are (in thousands of units at seasonally adjusted annual rates, except as noted):

	Latest month	Previous month	Same month a year ago	Percent change from—	
				Month ago	Year ago
April data:					
Private housing starts	990	974	1,580	1.6	−37.3
Private housing permits	897	706	1,296	27.1	−30.8
Unused building permits (actual)	233	229	348	1.7	−33.0
March data:					
Private housing completion	1,246	1,319	1,813	−5.5	−31.3
Units under construction (actual)	1,068	1,086	1,506	−1.7	−29.1
Sales of new 1-family homes	449	408	564	10.0	−20.4
New homes for sale (actual)	386	395	443	−2.3	−12.9
Mobile home shipments	199	219	409	−9.1	−51.3
Existing home sales (index: 1972 equals 100)	100	97	109	3.1	−8.3

COMMENT

Along with increased savings flows and lending activity, housing permits provided the brightest news in April. This was particularly true in the extremely depressed multifamily sector, which also experienced a modest increase in starts. However, this sector has been so depressed that a small increase appears to be large when translated into percentage terms. Further, builders still hold unused permits for almost 154,200 units in two or more unit structures; since only 21,800 such units were actually started in April, the unused permit inventory is sufficent for 7 months of starts at that level. Thus the April increase in permit issuances may be a one month phenomenon.

Sales of new and existing single family units began moving slowly upward before the much publicized tax credit for certain new homes became available. While it is still too early to measure the tax credit's impact on sales, and on starts, conflicting reports on its use and effects are available from many sources. This is another area requiring a wait-and-see attitude. However, unless some dramatic improvements in consumer attitudes and strong improvement in sales and rental markets occur within the next few months, it appears that housing production in 1975 may be headed for the lowest starts rate since 1966's 1,195,800 units, and may even equal that mark.

Housing production

April single family starts were virtually unchanged from the three previous months. The preliminary April figure of 754,000 units started, at a seasonally adjusted annual rate was not statistically different from 757,000 in March, 733,000 (revised) in February of 739,000 in January. However, the April figure was 22.7 percent below the rate of 975,000 units in April 1974. The annual starts rate for units in 2 to 4 unit structures was also statistically unchanged February through April, but the April rate of 46,000 units was up 18.0 percent above January's rate of 39,000 units, but down 44.6 percent from the 83,000 unit rate in April 1974. Multifamily starts, on the other hand, had a real increase of 11.8 percent in April to a rate of 190,000 units from 170,000 units in March. However, the April rate was 13 to 14 percent below the rates in January and February of this year. and 63.7 percent below the 523,000 unit rate in April 1975.

Regionally, the April starts rates were up 12.7 percent from March in the Northeast to 124,000 units, unchanged in the South at 396,000 units, down slightly in the North Central at 228,000 units, and up slightly in the West at 242,000 units.

Actual private starts of 98,600 units in April were 23,3 percent greater than the 80,000 units started in March, but 38.2 percent fewer than the 159,500 units started in April 1974. April 1975 starts of 66,100 units inside SMSAs were up 25.2 percent from March but down 41.7 percent from a year earlier. April 1975 starts of 32,400 units outside SMSAs were up 22.7 percent from March and down 29.7 percent from April 1974.

Total public and private starts in the first 4 months of 1975 are reported at 292,200 units. Total starts in the first third of 1974 numbered 483,900 units; the 1975 production is 39.6 percent below that of a year ago.

Single family permits issuances in April 1975 rose 16.7 percent to a seasonally adjusted annual rate of 610,000 units from 523,000 units in March, but were down 16.1 percent from the 727,000 unit rate in April 1974. The authorization rate for units in 2 to 4 unit structures rose 50.0 percent from 44,000 units in March to 66,000 units in April, but was 19.5 percent below the 82,000 unit rate in April 1974. The seasonally adjusted annual rate of unit authorizations for structures with 5 or more units was 221,000 units, up 59.0 percent from 139,000 in March, but still 54.6 percent below the 487,000 unit rate in April 1974.

In the Northeast region, the April permits rate was 136,000, up 29.5 percent from March, but down 24.9 percent from a year earlier. The North Central rate in April was 223,000, 37.7 percent above March and only 8.2 percent below April 1974. The April permits rate in the South was 285,000 units, 29.0 percent above March but 44.8 percent below the previous April. The West April 1975 rate was 253,000 units, up 16.1 percent from March but 29.1 percent below April 1974.

Unused permits in the hands of builders at the end of April included 79,000 for single family units, compared with 75,900 in March and 105,200 in April 1974. Builders held permits for 13,300 units in 2 to 4 unit structures, up from 12,100 at the end of March, and down from 21,700 units at the end of April 1974. Unused permits for multifamily units declined slightly to 140,900 at the end of April 1975 from 141,400 at the end of March, but down greatly from 221,400 units at the end of April 1974.

Completions of privately-owned housing units continued to drift downward (on a seasonally adjusted, annual basis) during March 1975. The annual rate of 1,246,000 was the third lowest rate reported since seasonally adjusted figures were first released in 1968. The drop in the completion rate over the past year reflects the continued adjustment to the slowed pace of sales and rentals. Since March 1974, single family structure completions rates declined by 26.3 percent to 703,000 units, structures with 2 to 4 units off by 48.0 percent to a 53,000 unit rate, and structures of 5 or more units dropped by 35.3 percent to a 490,000 unit rate. The latter was up 3.2 percent from the 475,000 in March 1975, but was offset by declines in one unit and 2 to 4 unit completions over the month.

Actual completions for the month of March 1975 totaled 93,200, a slight increase from February's 89,600, but a drop of 30.2 percent from the March 1974 figure of 133,600. The South accounts for 45 percent of the March completions, the West had over 21 percent, the North Central states more than 17 percent, and the Northeastern region over 16 percent, continuing the distribution pattern observed in the recent past.

New, privately-owned, housing under construction at the end of March included 477,100 single family units, up from 470,200 units at the end of February, but down 13.2 percent from 549,600 units at the end of March 1974. There were 53,600 units under construction in 2 to 4 unit structures, up slightly from 52,600 at the end of February but down 30.2 percent from 76,800 units at the end of March 1974. Units under construction in multifamily structures totaled 537,700 at the end of March 1975, down 4.5 percent from 563,300 units at the end of February and down 38.8 percent from 879,000 units at the end of March 1974.

The May 1, 1975, opinion survey of HUD field offices found little improvement in the outlook for future builder activity. Only 16 percent of the offices believed builders' plans to start new one-family homes were advancing, compared with with 19 percent on March 1 and April 1, and 20 percent on May 1, 1974. Almost 63 percent reported no change in builders' plans, compared with 57 percent on April 1, but 21 percent reported declining plans, down from 26 percent on April 1 and 24 percent a year ago. There was a slight improvement in the outlook for moderate priced homes, with 27 percent of the offices reporting advancing plans, up from 23 percent on April 1.

Actual mobile home shipments by manufacturers to dealers and land developers were reported by Elrick and Lavidge at 16,270 units in March, up 10.9 percent from 14,670 units in February but down 51.2 percent from 33,340 units in March 1974. Shipments in the first quarter of 1975 totaled 42,600 units, down 50.8 percent from the 86,520 units shipped in the first quarter of 1974. The estimated retail value of the 1975 shipments was $451.4 million, down 42.4 percent from $783.8 million for shipments in the same period of 1974.

Housing markets

Actual sales of new, one-family homes during March 1975 rose 30 percent to 43,000 units from 33,000 units in February. Compared with March 1974, when sales totaled 53,000 units, the 1975 sales were down 18.9 percent. The median price of homes sold was $38,300, up from $37,800 in February 1975, and $36,000 in March 1974.

The ratio of houses for sale to houses sold during the month dropped appreciably, from 12.0 for February to 10.6 for March, indicating a better balanced flow from stock for sale to sales. On the other hand, the median number of months from construction start to sale moved up from February's 5.0 months to March's 5.3 months, indicating increased carrying costs for the builder in bringing his product to market. Completed, single family houses for sale at the end of March stood at 143,000, less than 40 percent of the total of 386,000 new single family houses being offered for sale, which include 187,000 under construction, and 56,000 for which permits have been issued, but on which construction has not yet started.

Existing home sales in March rose again, continuing up from the low rate experienced in January. The Northeast and the South were two points above the average 1972 sales rate, while the North Central and the West were each two points below the 1972 rates. The West's rate was 3 percent above March 1974, but the other regions were down from a year earlier; the South by 6 percent, the Northeast by 7 percent, and the North Central by 16 percent.

The median price of existing homes sold in the United States in March 1975 was $34,240, up from $33,850 in February, and up by 9 percent from $31,350 in March 1974.

The market continues to weaken for new unfurnished rental apartments in buildings with 5 or more units. Of such units completed in the three months of November and December 1974 and January 1975, only 56 percent were rented within three months of completion. This was the lowest absorption rate ever experienced in any 3 month period since the series began in 1969. Comparable rates for the same period in the previous four years varied from 62 to 65 percent.

Chairman HUMPHREY. Mr. Weiner.

STATEMENT OF LEON N. WEINER, PRESIDENT, NATIONAL HOUSING CONFERENCE, INC.

Mr. WEINER. Thank you, Mr. Chairman, members of the committee. I appear here before you as the president of the National Housing Conference, and I want to thank you for the opportunity to present our views on some important matters being examined here today.

The National Housing Conference is a nonpartisan, broadly based national citizens' organization. It has worked for 44 years for housing and community development programs beneficial to the families and individuals of the towns, cities and rural areas of our Nation. I think that the members of this committee are well familiar with the Conference.

Now, I am not going to read my text but make a few brief remarks.

Chairman HUMPHREY. We will include the text in its full for the official record here.

Mr. WEINER. Thank you, sir.

One of the comments we wanted to make is we prepared the text for the committee 2 days before the veto message and the failure to override, yesterday; so that the tenses and a few of the things that we refer to may need to be changed.

I would like to address a question to the committee, if I may, because it is a matter of deep concern to me. The Congress of the United States in 1968 passed a piece of legislation calling for the National Housing Goals Report which was to be issued annually, on January 15 of each year, and then on February 15 of each year. That housing goals report was to contain, within the provisions of that 1968

act, the President's message to the Congress indicating what had happened in the previous year in housing, what the problems were, and what direction the Congress and the Nation ought to take, to fulfill these housing goals.

What has happened?

The report for 1974 is dated December 31, 1974, not February 1974—and, incidentally, did not become available generally until February of 1975.

What are some of the conclusions in that report?

And I might say to you that one of the first paragraphs in the introduction says that,

A series of largely unprecedented events has led to substantial delay in the publication of this report.

Let me unquote for a moment and say that it had been delayed previously, each year, later and later. The report prior to the sixth annual report—the fifth—did not show up until September or October, if my memory serves me right, of that year.

Chairman HUMPHREY. And it was supposed to show up in February.

Mr. WEINER. On February 15.

Chairman HUMPHREY. So you get a lag of 9 to 10 months.

Mr. WEINER. And let us see what that lag does, because we have here almost a year's lag—if we could look at it for a moment.

I quote further.

As work progressed on this report in 1974, draft upon draft of projections of housing, as well as recommendations, were successively scrapped in the face of rapid, substantial changes in economic conditions affecting housing, and both administrative and legislative initiative.

I remember in September of 1973, when the Secretary of HUD and the President of the United States announced that new program known as revised section 23, which was a modification of an old program, with a goal of 200,000 units—150,000 of new construction. And if you look at the record, you find that by the end of 1974, we had less than 500 units that had been committed to contract under that program for new construction—out of 150,000 that had been announced in September of 1973.

But let us look at the report again. Remember, this is dated December 31, 1974.

On that date they said—and I am reading again from the report—

Housing production during calendar year 1974 is expected to total approximately 2.1 million units, including the completion of 1.7 million units conventionally built and shipments of about 400,000 mobile homes.

What are the facts?

The facts are that the housing production for 1974, as we finally saw the figures, actually was 1,350,000 units—a difference of over 350,000 units, or 25.9 percent inaccurate. Now, mind you, the year had almost ended before the report was issued; but as of that date, this report says that we will achieve production that was 25 percent in error.

Chairman HUMPHREY. In other words, this is in the calendar year.

Mr. WEINER. That is correct, sir. Although I must admit, as I read the report—I want to modify my statement—I am thoroughly confused and I have been in housing a long time—I am a third generation builder and developer. I have been involved in housing in the public

sector and in the private sector all of my life, yet I have the problem of understanding the difference between starts, completions and in production, which are three categories that are used in the tables, and what is on a calendar year and what is on a fiscal year. By the time one takes the five permutations that exist in there, there may be some distortion. I can only read the text and try to say to you what I think it says.

I'd like to call your attention to another statement in the report, "However, for the first 6 years of the decade, total new housing production aggregated 13,909,000 units, or 5 percent above the targets set for these years."

Now, let me submit to the committee that the goal that was established by the Housing Act of 1968, which was 26 million units, was changed in the housing goals report, subsequent to the congressional action. I call this to the committee's attention because it is now June 26, 1975, and we have yet to see the report that was to have been issued on February 15, 1975. Therefore, we have seen no direction regarding the administration's policy on housing, except for the veto message, which is the first single, clear, definitive message that we have heard in this area.

And I believe there needs to be some real examination of whether or not this report is significant. Otherwise, let us say that we are not going to have housing goals; we are going to abandon them, and we are going to let the chips fall where they may.

I want to make one or two other quick comments regarding the question about whether or not there is a housing need.

This is a decade of high household formation, reflecting high post World War II birthrates and changing lifestyles. The last two annual figures available show a net annual increase of 1.6 million households per year. Add to that the loss of about 700,000 units per year due to demolitions, natural catastrophes, governmental action and so on. About 100,000 units per year are absorbed for second home purposes, and another 100,000 are needed for vacancies in order to accommodate migration and mobility. And that 100,000 units figure is a fairly small one.

There is, therefore, if you add those figures, a total need of approximately 2.5 million new units per year, even if you were to allow for 200,000 or 300,000 mobile home units. And let me make the point that when the original housing goals were adopted in 1968, mobile homes were not included. Conventional style building of single and multifamily units was contemplated. And it is only with the second annual report that suddenly mobile homes began to be counted. I am not decrying mobile homes. I believe they have a purpose and function in providing shelter; but if they were to be included, we should have raised that 26 million units to a much more reasonable figure.

Senator KENNEDY. Mr. Weiner, just for my clarification, what did you say had to be replaced just to stay even? Is that the 800,000?

Mr. WEINER. 700,000 units are due to demolitions, catastrophes——

Senator KENNEDY. 100,000 are second homes?

Mr. WEINER. Yes, second-home purposes.

Senator KENNEDY. And another 100,000 for——

Mr. WEINER. For vacancy rates for mobility and migration.

Senator KENNEDY. That is 900,000 you have, just to stay even.

Chairman HUMPHREY. I must go vote now.

Senator KENNEDY [presiding]. Please proceed.

Mr. WEINER. And therefore, if you deduct 2–300,000 mobile home units there is still an annual need for new housing units equal to about twice the 1.1 million unit volume that is reflected in the figures for May. And incidentally, in the first portion of the year, we were proceeding at a rate that was slightly less than one million units, 991,000.

Now, it seems to me that the need for new housing units—not to count the use of the existing inventory and the upgrading of the existing inventory and all of the other things that we need in order to have a total housing policy—has been completely ignored by the administration. It accepts a level of housing starts at less than half the number needed—and talks about "strong indications of recovery," based on the rather minuscule increase from April to May, which we saw in the veto message.

Senator KENNEDY. Could you provide Mr. Weiner, the numbers that are actually low-income housing which are destroyed, and which are actually being replaced?

Mr. WEINER. We will try to get them together.

All I can give you now is a general indication that where you have governmental action, like urban renewal or code enforcement, it is directed mostly toward the lower sector of the housing, where you have got obsolescence and so on.

Do you have those figures, Mr. Sumichrast?

Mr. SUMICHRAST. No, but I think that 1 percent of the inventory is being taken out of inventory every year. About half of this—it is about 780,000 units—about half of these are in demolitions, and demolitions typically are associated with low-income people. The rest are changing use, floods, fires, and the like.

Senator KENNEDY. What you will probably see is that low-income housing is being lost. And then if you look on the other side, on the number of units that are being built for low-income groups on the other side, that is diminished. And that particular ratio, I think, is something that is important.

Thank you; you may continue.

Mr. WEINER. As a matter of fact, there was a 25-percent increase in April in the rate of home purchases reported as one of the strong indicators that the industry is getting back on its feet. Now it is interesting to note—and incidentally, the stimulus of that, we believe, is due as much to the 5-percent tax credit that was passed and adopted into law as anything else, and Mr. Sumichrast has already made that point—that of the 55,000 new homes sold in April 46,000 were from previous inventory, and there was a marked upward shift in the medium sales prices to $39,500. So, of the single family sales that were increased in April, it was at the higher income level or the higher price level, rather than for the low- or moderate-income level, which has not received any kind of relief in the way of new housing.

Now, I would like to make two other comments with regard to the things that we have suggested in our testimony.

Senator KENNEDY. We will have to recess, because I have got about 4 minutes to make that vote. We will come right back. A staff member, Mr. Tyler, will continue in my absence.

Mr. WEINER. Fine; thank you.

Senator KENNEDY. Now, do not say anything too important until we come back.

Mr. WEINER. We have one thing in our testimony we would like to call attention to, and that is we recommend that serious consideration be given to the question of lowering regulation Q ceilings and to increase the spread to at least a half, between the commercial and the thrift institutions.

While the fear of crowding out has subsided, it has not disappeared. It is undoubtedly a factor in the maintenance of high mortgage interest rates. The savings institutions are still afraid that rising interest rates could return and subject them to another round of net deposit outflow or disintermediation. As a matter of fact, they still continue to attract funds in 1- to 4-year certificates of deposits, on which they pay 5.5 to 7.5 percent interest rates. This creates a floor to the mortgage interest rates which has been estimated at 8 or 8.5 percent. Obviously, if the thrift institutions have to pay that kind of price for the money and have to have the adequate requirements for their operating funds and their profits, it becomes impossible to see that the long-term rates will begin to fall. We are, therefore, suggesting that the regulation Q ceilings be lowered, and we say that it is within the power of the Federal Reserve Board, the FSLIC, and the RDIC to accomplish this. In the absence of such an action, we feel there is little hope for a significant reduction in mortgage interest rates.

Also, we are deeply concerned with the new housing bill that is on the floor of the Congress this morning, because we do not know what its contents are. We are mindful of the fact that the proposal of the President outlined in his veto message, was for providing additional funds to be used through Ginnie Mae, under what we have come to know as the Cranston-Brooke provisions in the act of 1974.

We are opposed to the aspects permitting the Secretary, at her discretion, or HUD, at its discretion, or the President, at his discretion, or the Office of Management and Budget, at its discretion, to make those funds available. We point out the fact that those $2 billion that were supposedly released as the result of that veto message have been available for more than 8 months, and could have been released in that time and could have helped provide housing production during that period.

And if the new act that is coming up before the Congress once again provides action on a discretionary basis instead of providing the kind of relief that is triggered by the level of housing starts, we believe that we are in for the same kind of a policy which does not give us any relief until there is a confrontation. It was the confrontation of having to veto the legislation that produced the release of those funds.

That pretty well concludes my remarks, other than the few changes we would like to make in the details of our prepared statement.

[The prepared statement of Mr. Weiner follows:]

PREPARED STATEMENT OF LEON N. WEINER

Housing: Present and Future

Mr. Chairman, on behalf of the National Housing Conference, I want to thank you for the opportunity to appear before the Joint Economic Committee to present our views on the important matters being examined here today: the current housing situation, future prospects for a quick recovery in housing, the adequacy of the Federal Reserve System's credit expansion target, and the adequacy of Administration housing policies.

The National Housing Conference is a non-partisan, broadly based national citizens' organization. It has worked for 44 years for housing and community development programs beneficial to the families and individuals of the towns, cities, and rural areas of this Nation.

Certainly, with housing starts running at less than half of the number needed to meet our annual need; with the Administration's lack of any productive subsidized housing policy over the past two years; with the current rate of residential construction unemployment estimated at about 42%, together with the overall economic plight of the Nation which is reflected in an unemployment rate of 9.2%, we are heartened that this Committee is looking into the important issue of housing at these hearings.

THE CURRENT SITUATION

The current housing situation spells economic recession and inflation.

Compared with the 2.1 to 2.4 million housing starts totals for 1971–73, the May '75 1.1 million starts rate is a depression for homebuilding. And the annual building permits rate of 909,000 in May indicates little, if any, improvement in coming months.

There was an annual building rate of slightly less than one million housing units during the first quarter of this year. It led to an April unemployment rate of 22% in construction, representing 961,000 construction workers. About an equal number of workers engaged in production, distribution and transportation of building materials and components are also unemployed as a result of the depression in residential construction. When consideration is given to the secondary effects of reduced purchasing power and economic demand resulting from construction and related industry unemployment, it is obvious that the depression in homebuilding means continued deep recession in the total economy.

It also means that there will be a continuing inflationary impact as housing shortages breed price and rent rises. This is the decade of high household formation, reflecting high post-World War II birth rates and changing life styles. The last two annual figures available show net annual increases of about 1.6 million households per year. Add to that, the loss of about 700,000 units per year due to demolitions and natural catastrophes, about 100,000 units per year that are absorbed for second home purposes, and another 100,000 needed for vacancies to accommodate migration and mobility, and there is a total need for about 2.5 million units per year. Even if 200,000 to 300,000 mobile home units are used for part of the need, there is still a current need for an annual volume of new housing units equal to at least twice the 1.1 million reflected in the May starts rate.

The Housing and Urban Development Act of 1968 established an average annual housing goal of 2,600,000 units of which 600,000 were to be for persons of low and moderate incomes. This excluded any mobile homes production. Since the Nation has fallen far short of meeting this housing goal, there is an accumulated unmet need which requires a higher volume of production during the last third of the 1968–78 housing decade. Moreover, the 600,000 unit goal for persons of low and moderate incomes must be revised sharply upward. It should include units for middle income families who have been priced out of the market due to the current high interest rates and high housing costs.

The effects of only 1.35 million starts in 1974 and an average annual rate of about 1 million in the first few months of 1975 are being reflected in the housing market. Over the 12 months ending in April, the slow moving rent component of the consumer price index—retarded by leases—increased 6%. Over the same period, the average price of an *existing* home sold increased 10%. The average price of a new home sold increased 11%, as land and financing costs made the largest contributions to cost increases. The land factor reflects both the relative scarcity of available homes and the growth of environmental restrictions.

PROSPECTS FOR A QUICK RECOVERY

Any hopes for a quick recovery of residential construction, based on current data, are dispelled upon examination of the underlying data. The improvement in the housing starts rate was concentrated in the one-family homes segment. This reflected a 25% April pick-up in the rate of home purchases, apparently including many homes that were eligible for the 5% tax credit up to a maximum of $2,000. Of 55,000 new homes sold in April, 46,000 were from previous inventory, and there was a marked upward shift in the median sales price—to $39,500. The conscious-

ness about the tax credit, created by news stories and industry advertising, no doubt spurred a good deal of latent demand into purchases. The sales stimulated builders to increase their building permit purchases significantly, so that the annual rate of total units in permits issued rose from 677,000 in March to 837,000 in April and 909,000 in May.

Based on historical relationships between permits and starts (including non-permit starts), however, a 900,000 level of permits would support only about a 1.1 million starts level. This outlook is also supported by the fact that 90% of the May rise was accounted for by the single-family segment. The seasonally adjusted annual rates of permits and starts for single-family homes were 656,000 and 886,000, respectively. Permits, thus, suggest no further increase in the starts rate.

Furthermore, as the initial psychological "lift" of the tax credit wears off, single-family sales will be subject to the same type of market environment that prevailed earlier this year. It includes reported median sales prices of $39,500 for new homes sold and $36,700 for unsold new homes—suggesting a minimum $35,000 mortgage amount for the majority of new home sales transactions. The market environment also includes effective market mortgage financing rates of about 9%, and some mortgage financing under previous government tandem plans at 7¾ to 8¾%.

At those interest rates, the debt service on a $35,000 mortgage will range between roughly $250 and $275 per month. When other expenses, such as fuel, utilities, taxes, insurance and maintenance and repair are added, total monthly housing expenses run to $400 or $425 per month, requiring an income of $19,000 to $20,000, which precludes 75 to 80% of American families from new home purchases (based on a 25% housing expense-to-income ratio). Those with incomes high enough to afford the new home are generally well housed, have mortgages at lower interest rates, and are not inclined to buy new homes in an economy with an over 9% unemployment rate. Consequently, we should not look for a single family starts rate of over 900,000.

Starts in structures of two or more units have been running at an annual rate of about 200,000, a level also reflected in the latest permit figures. A rise above this level is unlikely because of the continued large overhang of unsold condominium units, the practical elimination of Real Estate Investment Trusts and many commercial banks from multifamily construction financing, the 1974–75 bankruptcies of some large developers, and long-term mortgage rates that are still prohibitive for mass market rentals. There is also little prospect of any help from government programs. At the end of the first week of June, under its new Section 8 Housing Assistance Payments program, HUD's official written figures indicated that HUD had approved only 10 projects with a total of 1,630 units, of which less than 400 were for new construction. The outlook, therefore, is for multi-family starts to remain at a 200,000 to 250,000 level. When added to a 900,000 unit single family starts rate, the outlook is for a continued range of a 1.1 to 1.2 million annual starts rate in coming months.

ADEQUACY OF FEDERAL RESERVE MONETARY EXPANSION

The M_1 measure of the money supply during May was increasing at an annual rate of 7 to 7½%, or at the upper end of the Fed's target range, and in June shot up to about a 20% growth rate. This growth rate, combined with a weak demand for business loans has pushed short-term interest rates down significantly. Over the past year, the prime rate has come down from 11¾ to 7 and even 6¾%; the short-term Treasury Bill rate, from about 8% to about 5 to 5½%.

Households have reacted to these developments by shifting from market security investments into savings. The savings and loan associations have had an estimated net savings inflow of over $19 billion in the first five and a half months of the year, more than three times the amount in the comparable 1974 period. Mutual savings have had a $3.8 billion net inflow, compared with a small outflow in the 1974 period.

Nevertheless, as reported by the Federal Home Loan Bank Board, in May the average effective interest rate was 8.9% on a conventional new home mortgage and above 9% for a conventional existing home mortgage. These rates are the results of five months of decline, but the pace of this decline suggests further relief is also likely to be miniscule.

New triple A telephone company bonds which were selling to yield as high as 10% last fall are now selling at 8.65%.

The contrast between the much greater decline in the short-term than in the long-term financial markets suggests: (1) that the Fed monetary policy can be

reflected effectively in the short-term sector, but not in the long-term capital markets; and (2) it is time to focus on other factors which are sustaining long-term rates at relatively high levels.

A major factor has been the climate of fear of a resurgence of economic overheating and "crowding out" of capital markets that was created a few months ago by Administration spokesmen. The specter was raised that government borrowing would be so great as to strain the capital markets and cause a resumption of upward movements of interest rates. This was an illogical outlook in an economy with unemployment rising to over 9% and manufacturing plants being utilized at 68% of capacity. Capital markets were tight a couple of months ago because corporate borrowers were restructuring their short-term debt into long-term debt. Since then, with less Treasury borrowing than had been anticipated, and with inventory and accompanying bank loan liquidation, the market situation has become easier.

While the fear of "crowding out" has subsided, it has not disappeared. It is undoubtedly a factor in the maintenance of high mortgage interest rates. The savings institutions are still afraid that rising interest rates could return and subject them to another round of net deposit outflow or disintermediation. Consequently, they continue to attract funds in one to four year certificates of deposit on which they pay 5½ to 7½% interest rates. This creates a "floor" to mortgage interest rates, which has been estimated at 8 or 8½%. With the Treasury Bill rate now down at the 5 to 5½% level, and with no resurgence of short-term business loan demand in sight, it is time that savings interest rates were lowered. This could be done by lowering the Regulation "Q" ceilings on interest rates payable on savings. It is within the power of the Federal Reserve Board, FSLIC and FDIC to lower the Reg "Q" ceilings. In the absence of such action, there is little hope for a significant reduction in mortgage interest rates.

Looking down the road, it is essential to eliminate both the fear and the reality of tight money-high interest rate crunches which have brought about five sharp declines in housing, followed by general economic recessions, in the past twenty years. As long as demands for capital funds are restrained only by restrictive monetary policy when the economy heats up, the funds will flow to users producing goods and services that can pay higher interest rates than home buyers and renters. Although such general monetary policies are regarded as part of a free market system of credit allocation, it really constitutes selective allocation. Repeated experience has shown that housing suffers an unduly, concentrated adverse impact, which then spreads to the rest of the economy.

To assure a more adequate flow of housing credit, restraint has to be imposed upon some of the non-housing demands. The restraints can be brought about through selective credit regulation, to help allocate credit resources to support an adequate volume of housing production and other national priority objectives. Such restraints would also have an anti-inflationary effect and reduce pressures for interest rate increases.

Greater equity than under the present so-called unregulated allocation of credit could also be achieved if other sectors of the economy than construction had to absorb some of the restraining effects. By having smaller reductions in demand in a number of sectors, instead of 40 to 50% declines in housing and related supplier industries, total unemployment in the economy would probably be less, since large layoffs are not made in an industry when declines in demand for its product or service are relatively small. More selective credit allocations are necessary to avoid extreme instability in housing production and to meet national housing needs.

CURRENT ADMINISTRATION HOUSING POLICIES

Administration housing policies have been and continue to be inadequate. A deliberate phase-out of Federally-assisted housing programs, initiated in January 1973, has coincided with previously described credit policies. The result has been a 1975 housing production level equal to about one-third of an appropriate national housing goal target for 1975.

Fortunately, the Farmers Home Administration rural housing program continues to provide an opportunity for low- and moderate-income home ownership in rural areas. It is a demonstration that an assisted home ownership program can be operated successfully.

More than 450,000 home ownership units were produced under the Section 235 program to house low- and moderate-income families. In some of the HUD area office jurisdictions, where there was good administration and counselling of purchasers, the program proved to be highly successful. In other areas, mal-admin-

istration, and fraud led to failures. A careful examination of the record, established in Congressional Committee hearings and court proceedings, leads to a conclusion that poor program management, rather than inherent weaknesses led to the failures which became the excuse for terminating the Section 235 program. The Congress is to be commended for persisting in its efforts to force the Administration to use the available $264 million in Section 235 housing assistance payments authority. Those efforts should be continued until the program is reestablished. It could result in a fast resumption of low-income housing contruction.

Another program which proved highly successful in producing low-income housing a few years ago was the public housing program with the "turnkey" method of construction. Despite a few horror cases, there are close to 1.2 million low-income families living in public housing. In the Housing and Community Development Act of 1974 the Congress provided that at least $75 million in housing assistance payments authority should be used for new public housing projects, not projects which had been approved under previous authority. The Administration has not carried out this directive. Moreover, instead of placing complete reliance for the production of subsidized housing on the untried and untested Section 8 program, legislation should be enacted to reallocate some of the contract authority from Section 8 to the tested public housing and turnkey program for persons of low income. H.R. 4485 contained a provision to accomplish this.

The 1974 Act also reestablished the Section 202 program of direct loans for housing for the elderly and the handicapped. The intent was clear that long-term financing should be provided. In combination with authorized Section 8 housing assistance payments, the Section 202 program could begin to meet the housing needs of low-income elderly and handicapped people. The Administration has stymied this program by choosing to use the authorized loan funds only for construction financing. It is the inadequacy of long-term financing that is the primary problem.

To provide low-income housing, the Administration is banking on the new Section 8 Housing Assistance Payments program. The Administration is placing its main emphasis on leasing of existing units under this program. Secretary Hills has said that it is not primarily a production program. She has indicated that new production should come via the tandem plan—which helps to finance middle-income housing production. In time, as developers learn how to use the complex Section 8 program, and after some of the bugs have been ironed out, it hopefully may also provide a respectable volume of new construction housing for low-income occupancy. It will not produce many housing starts, however, in the next twelve months.

The tandem plan, which has been the major positive housing assistance program of the Administration, has been helpful. Things would be much worse without it. It has failed, however, to raise housing above the current inadequate production levels.

Through GNMA, FNMA and FHLMC, some $18.8 billion was committed to lenders for the purchase of mortgate loans at interest rates of 7¾ to 8¾%. The total included $10.9 billion for FHA or VA mortgages and $4.9 billion for conventional mortgages. The first $3.3 billion for FHA-VA was made available in January 1974 and an additional $6.6 billion in May 1974. An additional $5.9 billion (including the $4.9 billion for conventional mortgages) was made available in October 1974 and later installments under the Emergency Home Purchase Assistance Act of 1974.

By June 1975 only about $3.7 billion in FHA, VA and conventional mortgages had been delivered to the government agencies. The funds are being used at a relatively slow pace because the interest rates are too high to support effective purchasing demand by the great majority of American families. The Administration could make the funds available for lower interest rate mortgages, but has not done so.

Furthermore, it has really not made available the full amount of funds announced. The first $9.9 billion for FHA–VA lonas was related to 300,000 units, on the assumption that every loan would be for the maximum permissible amount of $33,000. When 300,000 commitments had been made, there was still an unused balance of about $2.2 billion which has not been released. There is an urgent need to release these funds and resume GNMA/FNMA tandem purchases of FHA-insured multifamily mortgages and single family FHA/VA mortgages.

Similarly, an additional $2.14 billion of conventional mortgage loan commitment authority has not been released. These funds should be released for the purchase of conventional mortgage loans at a reasonable interest rate, including multifamily mortgages under the proposed authorization in H.R. 4485.

Finally, it should be mentioned that the tandem plan operation is helping to sustain high mortgage interest rates through the sale of mortgage-backed securities, which are government guaranteed and backed by mortgages acquired under the tandem plan. They are practically as safe as government bonds and require no servicing and have been sold to provide yields of about 8½%. It would take about a 9% mortgage to beat it. About $1.3 billion of such securities have been sold by GNMA in 1975. Savings and loan associations and mutual savings banks have been major buyers of these securities which provided an outlet for funds which could not be placed in new mortgage loans without lowering interest rates.

Operation Push-Out for Assisted Housing in HUD Pipeline

There are about 300,000 units in housing projects which are already in the HUD pipeline and have funds available under assisted programs. This includes 124,000 units under Section 236 and 121,000 units of low rent public housing If HUD continues its present slow processing on these units in the HUD pipeline, construction on most of them will be delayed until next year or even later. HUD doesn't even project the start of 120,000 of the units until after FY 1976!

HUD can get a quick construction start on this assisted housing by reviving the Operation Push-Out program which HUD used successfully in 1971. Many of these projects have been in process for a year or two. They have completed environmental and other clearances, so they can be started quickly under a revived Operation Push-Out. HUD should use Operation-Out again to provide expeditious processing and cut red tape on these projects in the HUD pipeline. HUD should give top priority to getting these units under construction at the earliest possible date. It should fix a target for every project so all of them would start this year. Special task forces should be sent from Washington to HUD offices to assure that these targets are met. There should be reassignments and additions to the production staff to get the job done.

In 1971 when HUD utilized these techniques in an Operation Push-Out, it was able to get commitments issued quickly and achieve a high volume of housing starts on multifamily projects. This will be more readily achievable on the projects which have been in the HUD pipeline for a long time and need an extra push now to get construction started. All of these projects are under existing programs which have demonstrated their ability to produce. The 300,000 units in the HUD pipeline will provide 600,000 full-time jobs for a year. They will also increase the Gross National Product by over $12 billion so that Federal tax revenues will be increased by over $2 billion.

Additional Measures to Stimulate Housing Construction

Since World War II, housing has been the crucial industry which has been the bellwether to lead the economy out of every recession. Without an additional stimulation of housing construction, only about 1,100,000 units will be started this year. This will continue the present unemployment and retard recovery from the current recession.

To reach the middle income families who have been priced out of the market by high interest rates and high housing costs, we recommend a program which will provide mortgage financing for this income group at an effective interest rate of 6%. This could be done through an interest subsidy program of the type provided in H.R. 4485. It would make 6% mortgage financing available for three years, with a gradual increase in the interest rate for an additional three years. An alternative program could be done through financing from a Federal bank of the type recommended by the Chairman of this Committee. This assistance would again bring suitable housing within the financial reach of families whose incomes do not exceed 120% of the median income in the area.

The program we are recommending would not result in an increase in the Federal budget. For example, H.R. 4485 would have produced at least 800,000 jobs for a year in construction and related industries. That Act's total expected cost would be offset by a $3 billion increase in Federal tax revenues as a result of a $15 billion increase in the Gross National Product resulting from increased residential construction. Moreover, there would be Federal savings of hundreds of millions of dollars from reduced unemployment compensation, food stamps and other aids to the unemployed. The money authorized in that Act was already included in the Congressional Budget for FY 1976.

Thank you.

Mr. TYLER. All right; thank you. First, let me say that I am George Tyler. I am on the staff of the committee; and this is Jerry Jasinowski.

There are several questions that I think we would like to ask for the record, and then perhaps we can get on to the other two witnesses. By then, I hope Senator Humphrey and the others will be back.

For both of you: President Ford claimed in his veto message that the Government is providing, and I quote, "unprecedented support to the housing industry."

I see from Mr. Sumichrast's table 14 that the number of assisted housing units was down to about 59,000 last year from almost 400,000 in the early 1970's. The administration's major new housing program, section 8, appears to be in a bureaucratic morass. It offers little, if any, hope for significantly increasing housing starts in the near term.

Is it your opinion, gentlemen, that the Government is now offering what President Ford called "unprecedented support" for housing?

Mr. SUMICHRAST. Obviously I do not think so. I think it is the overall problem of not doing anything, really, other than being pushed. When you look at over the last year, the programs, and actually the last 2 years, any suggestion or any programs which we have put on the table were not well received by the administration. Whatever happens, they have been pushed into this. The tandem plan, they finally accepted that because they could not, I guess, fight it anymore.

But the section 8 program is the main program of the administration right now. The section 8 program would help some slum lords, I am sure. It will paint some houses and help the existing image. I do not think it will this year provide any housing starts in any substantial numbers. I would guess that we may be lucky to see maybe 10,000, 20,000 new starts under section 8. So there is no program.

Mr. TYLER. 10,000 to 20,000! And how many housing starts has it been claimed that section 8 will be responsible for?

Mr. SUMICHRAST. The original estimate was 200,000 in 1975. There are 40,000 under contract as of today, 10,000 are new, but only under contract. This compared to actual starts are two entirely different problems.

Mr. TYLER. How many houses are actually under construction today under section 8.

Mr. SUMICHRAST. As far as we know, there are no housing units under construction under section 8 at the present time.

Mr. TYLER. I thought you said 400 units.

Mr. WEINER. May I modify it?

Mr. SUMICHRAST. Yes, go ahead.

Mr. WEINER. Our testimony said that at the end of the first week in June, under section 8 housing assistance payments programs, HUD had only approved 10 projects with a total of 1,630 units, of which less than 400 were new construction. These were the official written figures as of June 6. There may have been more since HUD's reporting procedures need refinement. The term that we used, "approved," is misleading. They may have approved more, but they were not recorded as of June 6. The term that Mr. Sumichrast used, saying that there were 10,000 new units, is probably the updated official figure.

Also the word "approved" is too lightly taken. There is a very complex process in which they approve an application. You file a whole series of documents. They approve an application. Then they approve a proposal, and then they process that, and then you sign a contract, which is the housing assistance payments contract. Those cotnracts signed, thereby enabling the new construction to start, is absolutely negligible. The figure I have here is 400, and I question whether it is that high for units ready to start with a shovel in the ground.

Mr. TYLER. Well, as Mr. Sumichrast says, the administration is predicting 200,000 housing starts under section 8 this year. They will have signed contracts for how many by the end of the year?

Mr. WEINER. Originally there were 400,000 units called for under this program, of which three-quarters, 300,000, was to be new construction. That was the original discussion, as recently as January or February of this year. We are now told that section 8 is not a production program. That statement has been made publicly again and again and again, including statements in Business Week and statements made at meetings.

Now, there is a drive that we have been aware of in HUD to make section 8 work. There is a sincere effort to make section 8 work.The fact remains that section 8 is still a new program. It is cumbersome. It has many unsolved problems ranging all the way from market rents to the question of where are you going to get the permanent financing.

It has been described as a catchall and cure-all, and as a single panacea for solving all of our low and moderate income family programs and needs, and it is very obvious to anyone that has had any experience in the field that it cannot fulfill all of the functions of all of the programs, all of which are needed in order to accomplish our national goals and our objectives.

However, section 8 can be a useful tool, and it ought not to be derided or torn apart simply because it is slowly and carefully feeling its way. It will not produce any significant numbers of new housing units in the way of new starts in 1975. Even in 1976 new construction will be negligible, unless there is a complete change of attitude regarding the local housing assistance plans. And that little monster has not been resolved yet in terms of where it is going.

So that I think that it would be difficult to make any projection as to how many units of new construction we could expect in 1976.

Mr. SUMICHRAST. Let me just add one more thing, and that is that conceptually HUD has moved from a production oriented agency through the studies done by Mike Moskow, into the existing inventory. The basic shift has been from a production into a homeownership program or a rental program, and these are income support programs. You give people money, you support their incomes, and you hope that they will find better accommodations. And I think section 8 is developing in that direction too now.

There is a clear indication that section 8 is really helping the existing units where a lot of activity is being generated, and I think it is conceptually a different kind of approach than we had in 1968, 1969, 1970, and 1972.

Mr. TYLER. Would it then be a correct statement to say that section 8 is being utilized to the extent it has any effect on the housing market, to increase the level of grants for rental payments rather than to directly stimulate new housing construction?

Mr. SUMICHRAST. The housing allowance will have that effect. I do not know whether section 8 will have that effect. It could be in the area of the existing homes.

There is another problem with the current HUD policies. That is, you asked the question, and when you look over the money, $22.9 billion, which has been always heralded and written in the newspapers as big spending money and so forth. I remember very clearly, and Leon does too, when the first tandem plan was discussed, and the projected costs. The experience of the tandem plan shows that there was literally no cost to Government. And this is the kind of approach which I think is very beneficial. It does not cost very much money, but yet it is being always heralded as a handout, as a very high level support.

Well, that just simply is not true. That is my point.

Mr. TYLER. I think you raise an interesting point about the tandem plan. On one hand the administration says it is heavily assisting housing, yet the record reveals that not to be true. The President said" unprecedented" support for housing was now being provided. That was based apparently on the $18 billion or so now of public funds in the various tandem plans.

How much of that $18 billion is actually Federal budget outlays?

What is the tax revenue loss or actual budgetary outlay involved there?

Mr. SUMICHRAST. There are $4 billion in advances which is not Federal money. The rest of it is what you call Federal money, but once again you have got to look at it this way. What is an 8½- or 9- or 9½-percent mortgage worth in the declining market? In 1970, the sale of these mortgages brought a premium which in turn brought money to the Federal Government.

Now, in the sense that much of the money has never been used, and a commitment fee has been paid to the Federal Government, that commitment fee is clear profit, really, in that sense, because the money was never——

Mr. WEINER. Excuse me.

From the guy paying it, it is a pure loss.

Mr. TYLER. The actual subsidy now involved is around $60 million, I understand, this year, out of that entire $18 billion in tandem money. Is that correct?

Mr. SUMICHRAST. That must be an estimate, I would imagine.

Mr. TYLER. Yes, Mr. Sumichrast, that is an estimate, in fact, from the President's veto message. And next year the total Federal budget outlay in the tandem programs will be only $200 million.

Now, is President Ford misleading us when he is saying we have unprecedented support for housing because we have $18 billion in public funds involved in the tandem program when, in fact, the actual Government subsidy is a minuscule portion of that?

Mr. SUMICHRAST. Well, in that sense it is totally and utterly misleading, and I take exception to it because the people read it and they are saying, my God, here is another farmer's bill, and it is costing us $20 billion.

Well, that just absolutely and positively is not true. Now, whether it is $200 million or zero, I do not know. I hope it will be zero. It could be plus as it was in the 1970 experience. You know, you get the $200 million if you assume what will happen to the interest rates; if you assume a very sharp decline, then you have a profit. If you do not assume a decline, then you have a loss.

Mr. TYLER. Yes, that's correct. Now, of that $18 billion, most or all of which is very shallow subsidy, how much of that has actually been released to thrift institutions or homeowners? Two billion to three billion?

Mr. WEINER. Well, the figure that has actually gone out was——

Mr. SUMICHRAST. You are talking about how many were actually delivered, how much money was delivered? It is 16 percent. It is $3.——

Mr. WEINER. $3.7 billion.

Mr. SUMICHRAST. Of $22.9 billion.

Mr. WEINER. $3.7 billion has actually been delivered to the Government agencies.

I would like to make one other point that I think is not understood.

Mr. TYLER. Yes, sir.

Mr. WEINER. There is a mythology around which is incorporated in the new housing bill that is in the Congress today. In 1974 there was a severe crunch because the thrift institutions through disintermediation and so on were losing funds. There were no mortgage funds available. The assistance that was given then to the housing industry, by making Federal funds available in the manner which you have just discussed with Mr. Sumichrast is the same proposed today, but, the situation is different. The thrift institutions have shown a tremendous increase in their inflow, over $19 billion during these first 6 months. The shallow subsidy provisions of the Housing Act that has just been vetoed would have provided, at a relatively low cost in terms of total budget impact, the ability to help those thrift institutions invest those funds immediately, without governmental intervention except for the subsidy portion.

And I think that making the funds available now is going to put Government into competition with the thrift institutions who are not now going to be able to put out the funds as easily because of this competition. This was not understood in that message, and unfortunately, I am afraid it is not understood right now in the Congress.

Mr. TYLER. It could actually increase mortgage rates.

Mr. WEINER. It could create a very serious problem of competition.

Now, maybe it is good for the housing industry that there is that much money around; maybe it is going to force the rates down. But I would suggest to you that that is one difficult way to go, and certainly not a correct one, if we are going to keep our thrift institutions strong and alive, and capable of doing the job that they have done traditionally, and that we hope they will continue to do.

Mr. SUMICHRAST. Let me make one more comment on this misstatement, and it is that is very important. This question has never really been raised, and that is that the real hero in the whole $22.9 billion are the S. & L.'s because they have taken their return earnings, which they have accumulated over the last generation, and they have put it on the line, and they can do it only once in 20 years.

And then they have really made the largest contribution to the survival of whatever we have had in the last year. They are risking their money.

Mr. TYLER. Thank you. Accepting the President's estimate in his veto message on the housing bill that the actual subsidy involved in the tandem plans would be $200 million this coming fiscal year, in how many years in the past has the Federal budget outlays for housing exceeded that? Every year in the past decade?

Mr. SUMICHRAST. I do not really understand the question.

Mr. JASINOWSKI. If you go back and look at the costs of 235 and 236 in budgetary terms in past years, and you take that as some measure of the resources going into the housing sector, how does that compare to the $200 million, the estimated $200 million for next year?

Mr. SUMICHRAST. Well, obviously it is one-twentieth of the——

Mr. JASINOWSKI. It has been larger in every past year?

Mr. SUMICHRAST. Yes; since 1969.

Mr. TYLER. A far cry from an unprecedented level of support.

Mr. SUMICHRAST. That is right.

Mr. JASINOWSKI. Let me pursue a question that relates to the size of the budget resources being expended on housing, and address it to both of you: the President and his representatives have said that the major reason he vetoed the housing bill is that it is inflationary. That is an argument used in all of his vetoes.

My understanding of the kind of Federal actions that can cause inflation are either some actions that increase costs in an unprecedented way, or an increase in Federal outlays when you are near full employment of a large magnitude.

Now we have a $1.4 trillion economy, so the $200 million estimated expenditure for next year does not seem very large, and I do not see how the housing bill could be inflationary.

I wonder if both of you would respond to that and indicate if you agree with the President or disagree that the housing bill is inflationary.

Mr. SUMICHRAST. Well, of course, I am very concerned about the debt. I look at it and I shudder to think what may happen to us as we are really in a situation where we should be repaying some of the debts, and whatever adds to the total overhang is obviously not beneficial.

What you have really got to look at, at the present time, is what alternatives do you have to create some more revenues, and one of the problems is we are not getting our revenues because a lot of people are not working. That is one of the major problems. And when you take the 40-percent unemployment rate in residential construction, these people are not generating anything other than taking the unemployment benefit out of our pockets, which is jointly paid into the pool.

So the question is really, how do you create the return of these people to payrolls so they can pay taxes?

Now, there are very few alternatives. The raking of leaves is probably the least desirable public policy because it creates nothing other than it pays $5,000 or $6,000 to an individual. It does not have the leverage of an investment such as in construction. With little front money, construction can create a lot of jobs and sell a lot of materials. Construction is the highest leverage industry there is. There is nothing comparable to it. So with little money, you create a lot of employment.

Let us say you spend $500 a house. You create a $35,000, $36,000 unit, which creates a lot of employment, directly and indirectly, and sells a lot of materials, including appliances, furniture, and so forth. So the ripple effect is enormous.

These people employed in turn pay Federal, State, and local taxes. This is the best way to get out of the dilemma where we are at the present time. And as I say, there is no other industry which responds to it so quickly and in such a large fashion. The leverage is enormous.

Mr. JASINOWSKI. In response to that, Mr. Sumichrast, the staff has estimated that the housing bill would have stimulated about 400,000 housing starts annually, which would have actually increased tax revenues by about $3 billion or so annually. So it is quite possible that the net impact of the housing bill would have been to reduce the deficit by about $1 billion. I think it is important to get those numbers on the record to emphasize your point.

Mr. SUMICHRAST. The numbers are fairly well known and developed. I do not think there is much mystery about it. They are developed with the help of the Treasury Department for us, and I am sure you have the same inputs.

Mr. JASINOWSKI. Unfortunately, they are not in the morning paper, though, as we talk about the veto. They are well known in these circles, but they are not generally well known in Washington, and perhaps in Congress.

Mr. Weiner, would you respond to the inflation question?

Mr. WEINER. I think you and Mr. Sumichrast have really covered the whole thing. Our testimony indicated that we thought that H.R. 4485 would produce at least 800,000 jobs a year in construction and directly related industries. Our estimate was that the act's total expected cost would be offset by a $3 billion increase in Federal tax revenues as a result of the $15 billion increase in the gross national product.

But let me just add two very simple things to this statement. I have noticed that you reference was to 400,000 units that were contained in the act that was just vetoed.

Mr. JASINOWSKI. Yes.

Mr. Weiner. I also noticed the President in his veto message said that in some respects he called the new bill or the proposed bill inequitable. In some areas of the country, families with $25,000 of income could qualify for benefits, while in other areas of the country, families with $6,000 of income could not qualify.

I call your attention to title III of the Emergency Housing Act of 1975, known as H.R. 4485, which contained, among other things, a device in order to get section 8 off the dime by converting the use of existing moneys with no budgetary impact to turn key housing which would have produced low-income or public housing.

Also there was a provision to stimulate 235, which was addressed to the low- or moderate-income families. To ignore that and to think only in terms of 400,000 units, I think is a mistake. The 400,000-unit figure was only related to the middle-income portion of that bill, and the new bill coming before the Congress does it again. They dropped out the provision to take section 8 funds and put them into turn key so we can get started on low-income housing. It dropped out the provision for

235 housing and the continuance of those funds and those programs, all of which, by the way, were included in the Congress budget estimate for this year. And I think it is a sham and a delusion to talk about inflationary pressures.

One final thing with regard to inflation. There is nothing more inflationary than scarcity. With the effective demand that we have indicated and the need for 2.5 million new units, the market looking for those units must find a shortage which is reflected in the skyrocketing price for used houses. I am not talking about new house construction, which is a different category, but used houses which are scarce to find. They have been spiraling in cost, particularly those in the moderate, middle-income ranges because of their scarcity, and there is nothing more inflationary than that single factor.

And we are talking about shelter, the single most expensive portion of any family's budget.

Mr. JASINOWSKI. I think that covers my question very well, and I thank both of you.

Mr. TYLER. George Krumbhaar of the staff has a question or two, now.

Mr. KRUMBHAAR. Mr. Sumichrast, it was a matter of some concern that the $2,000 tax credit had a deleterious effect on homebuilding, because builders would be reluctant to build additional units until existing units had been sold. Since you believe that about 70 percent of these existing units will be sold by the end of the next 60 days, do you have any comments as to what effect this might have on the pace of construction after 60 days.

Mr. SUMICHRAST. Well, we asked the question in the survey, and it was interesting that there was no great desire to build, as a result, new units, at least not the first few months. In other words, there was some activity as a result of the sales, but many builders just simply are selling and getting out of business. They are going to just sell whatever they have, if they can sell it, and either get out of it, or just do very little. Nobody wants to speculate. Some builders started to build already, on the assumption that we would have the emergency housing bill. You know, it is a very interesting thing, but everybody believed that this was going to happen. And we do not have it now.

Now, eventually, of course, the $2,000 tax will have an impact on starts, but it will be terribly, terribly slow. And the major problem is the high interest rates.

Mr. KRUMBHAAR. This abstract of secretarial correspondence that the chairman spoke about this morning—one of the statistics that he mentioned was this opinion survey of HUD field offices, and he said they found little improvement in the outlook for future builder activity. Do you know of this survey? Is it a regular survey? Is it something which accurately reflects future building activity?

Mr. SUMICHRAST. Yes. I know this is done every month. I am familiar with it. I do not get the monthly information; only occasionally do I have a chance to review it. Whether it is accurate? I do not know. The regional offices, like the mortgage surveys, have problems with it; there is not enough coverage. It depends whether or not the individual feeling may or may not reflect the individual activity surveyed. It is probably as accurate as you can get, from few individuals on a very limited basis.

Mr. KRUMBHAAR. It is the only survey?

Mr. SUMICHRAST. No; we have a monthly survey. We survey a sample of 1,000 builders every month, 1,000 architects, and 1,000 engineers. So we have a very good feeling of what is happening. Every month we plug this into our econometric model. This serves, at the present time, as a dummy variable; we use it as one of the variables. So we have a better informational system than HUD has.

Mr. KRUMBHAAR. I see. But does yours confirm this opinion survey, at least the May 1 survey?

Mr. SUMICHRAST. Which was that?

Mr. KRUMBHAAR. It found little improvement for future building activity.

Mr. SUMICHRAST. That is correct. There is very little improvement in the activities, very little actual building. The plans of architects have improved somewhat, but the level was so low, it was nearly zero in the period of October and December. So improvement over that kind of a low is really not improvement.

Mr. KRUMBHAAR. When is your survey published?

Mr. SUMICHRAST. We do not publish it. I would be glad to give it to you.

Chairman HUMPHREY [presiding]. Thank you very much.

I will try to follow up here on some of the questions that still remain.

Mr. Sumichrast, if you will refer to your own table number three, if I understand it correctly, you have found that the current housing depression is the worst since World War II—is that correct?

Mr. SUMICHRAST. That is correct.

Chairman HUMPHREY. I also understand that you do not feel there has been any significant recovery from these low points.

Mr. SUMICHRAST. That is correct.

Chairman HUMPHREY. You have noted that a restrictive monetary policy falls very heavily on housing, which we all know. Housing has suffered from periods of previous restrictive monetary policy. Did I understand you to say that you thought the present rate of monetary expansion was about adequate?

Mr. SUMICHRAST. It is running, really, too high. As you know, M_1 has been running in the last 60 days at close to 20 percent, which is obviously not going to continue. What I am really worreid about is the level of interest rates. Once the bill rate goes over 6½ percent, and continues to go up to whatever level it is going to eventually go, then within a month, you have an immediate impact on S. & L.'s. They are going to start losing savings. But as soon as this happens, the first thing, within about 30 days, you will see a decline in mortgage commitments. The lenders will look at the portfolios and say, "No, we had better not make any commitments for the future." This, again, is reflected in about 4 or 5 months later, if this continues in a decline in a permit rate and follows up with the starts in another 2 months. So this is an area I am really concerned that once the bill rate gets over the 6½-percent level, you have another disintermediation, which in turn, would create another very sharp decline in the housing.

The impact is immediate, and it is very well known, and I have shown it in these two last charts, Mr. Chairman, which show the two things: The average short-term rates and the starts plotted against each other, and the mortgage rates plotted against the starts.

Housing is terribly sensitive to credit, and simply, if you do not have money, you do not build, or if the price goes beyond what people would generally pay, you will not produce.

Chairman HUMPHREY. One of the constraints on the speed of housing recovery is the very substantial decline in disposable income, real disposable income. We have been experiencing that decline rather heavily in the last couple of years. Real incomes have simply declined too much to make possible a vigorous recovery in what we call the big ticket items, such as housing—the major big ticket item.

The bill that the President vetoed was designed to deal precisely with this problem. Do you believe that the Emergency Housing Act would have effectively strengthened the real purchasing power for housing?

Mr. SUMICHRAST. Yes; when you look at the real income of, let us say, a family with five members, that family income declined from the first quarter of last year to the first quarter of this year by some $840. People have $840 less money to spend, and that is the major problem, and the housing bill would have certainly made a great contribution to that.

Chairman HUMPHREY. Is the Federal Reserve's monetary growth target of 5 to 7½ percent consistent with the rapid housing recovery?

Mr. SUMICHRAST. As I already said, I would feel better with the upper limits, rather than with the lower limit. And as I already said; our problem is really a disturbance in the market's constant.

Chairman HUMPHREY. Yes, the ups and downs.

Mr. SUMICHRAST. Mr. Chairman, the leadtime is so long from the planning to the conception to the building permit and actually completion, that you cannot operate on this yo-yo, up and down. When the prime rate went down to 12 percent, the construction loan went up as high as 20 percent, and obviously, builders went bankrupt, because nobody could pay that kind of a rate. That is a major problem. We need some sort of stable monetary policy. Every time we look around, you know, the rate last week, the short-term rate, in the early part of this month, went up quite sharply. We worried, and so did the S. & L. people. They looked at it and they said, "Well, maybe we are in another crunch."

Chairman HUMPHREY. Do you think that the monetary growth target of let us say, 7½ percent, the upper limit, to which Mr. Burns referred, would allow for a reduction in mortgage rates to 8 percent or less.

Mr. SUMICHRAST. Yes, I think it would be sufficient, considering, as I say, in some time, rather than just in a period of a very short few months. You need that kind of a growth rate for several years.

Chairman HUMPHREY. For several years?

Mr. SUMICHRAST. Yes.

Chairman HUMPHREY. Well, I think the man that ought to be asking you the questions is here, and that is Senator Proxmire. Senator Proxmire is the leading figure on housing, on the Senate side. I know he wants to make some inquiry.

Senator PROXMIRE. Well, I have two positions of responsibility—one, I am chairman of the Banking Committee, which is responsible for housing; two, I am chairman of the Appropriations Subcommittee which handles the funds for housing; and for that reason, I have been involved in this, and I am very interested in it.

You may like to know, Mr. Weiner—you said earlier that you had not brought your statement up to date, because the President vetoed the housing bill, and the House failed to pass it over his veto—one of the two reasons why Senator Humphrey and I had to go to the floor was to vote on cloture, and then to vote on the new emergency housing bill. Now, I would like your reaction to that—both of you gentlemen, Mr. Sumichrast and Mr. Weiner.

Let me just tell you in part what that new bill does. It did two things, that I will not go into any detail on. One was a foreclosure relief part, and that was pretty much the bill that passed the House. We took that in the form in which it passed. The other was the rehabilitation program, the 312 program, and we provide $100 million for that. Now here is what the rest of it would do: No. 1, it extends the expiration date of the Home Purchase Assistance Act from October 1975 to June 30, 1976; No. 2, it would make multifamily and condominium units eligible for assistance; it would limit the interest rate to 7½ percent, and then it would limit points and fees to one point—and that part, I understand, is strenuously objected to by HUD, but we shot it through before they could effectively oppose it. Then, it would provide for mandatory financing by the Federal Financing Bank. It would authorize Ginnie Mae to guarantee mortgage-backed securities without need for advance approval by the Appropriations Committee; and it would authorize an additional $10 billion. The President said $7¾ billion; we said $10 billion in purchasing authority, subject to approval by the Appropriations Committee.

Now, that just passed the Senate 94 to 0. It has gone over to the House, and we are very hopeful that the House will act on it today or tomorrow, because, if they do, it is an ongoing program. We can have people at work next week with this program. And we can certainly have, I think, additional housing starts.

But I would like to get to your views. That new bill is not what we wanted. What we wanted was the bill the President vetoed. It is a much better bill, a more comprehensive bill, but we could not pass it over his veto, and so we have to take what we can get, and I would like your reaction to what you think this would do.

Mr. Weiner. May I ask you one question, sir?

Senator Proxmire. Yes, sir.

Mr. Weiner. We talked about this while you were out. Does the bill provide, as passed, that the $10 billion that you spoke about shall be at the discretion of someone who will decide when to release those funds, someone who shall remain unnamed at the moment, because I do not know who it would be?

Senator Proxmire. Let me ask for the consent of the chairman. Could I ask Ken McLean, who is the staff director of the Banking Committee, to respond to that.

Mr. McLean. The basic program, the Emergency Home Purchase Assistance Act, is left intact, so the discretion for activating the program remains the same. The Secretary of HUD has broad discretionary authority to decide when those funds are made available. And in that connection, we understand the President has indicated that he would make additional funds forthcoming, maybe not the whole $10 billion, but I believe the figure of $7¾ billion was recommended.

Mr. WEINER. My question obviously had a followthrough. Is that the same kind of discretion that HUD had, with the Cranston-Brooke funds, including that $2 billion that were not released until the President vetoed the bill when it came onto his desk on Tuesday? Is that the same kind of discretion?

Mr. McLEAN. That is the same kind of discretion.

Mr. WEINER. OK, I just wanted to be sure.

Mr. SUMICHRAST. Is that the same kind of discretion that Brooke-Cranston had, that they did not like, the declining rate?

Senator PROXMIRE. We had a flat 7½ percent, plus one point. That was the part they did not like. They are locked in on that; there is no discretion on that.

Mr. SUMICHRAST. I see. Good. Let me respond to the first part of the question.

Chairman HUMPHREY. Well, what Mr. Weiner is saying—in other words, we have got to keep on their back—that is what you are saying?

Mr. WEINER. Yes, sir. Just one comment, I think the bill can be and will be useful. I think the fact that it is a flat 7½ percent and we are not going to have to be concerned with the rate fluctuation problem that we had, and who was setting it, and when was it going to be set, is helpful. Commitments would go out, let us say, in 1 month, and 2 months later, the rate dropped, because the interest rate fell and there was a question of what you were offering to the consumer. Incidentally, Senator Proxmire proposed that 7½ percent originally, as I recall, as far back as 4 or 5 years ago. That is an intermediate rate that we could count on in order to do business.

I think the move of including multifamily units is excellent. We certainly feel that that is going to stimulate multifamily construction. Holding the points down to one is excellent. My deep concern is on two fronts: First, that we were forced, under the circumstances, to eliminate the continuing pressure for section 235 and for the conversion of a portion of the section 8 funds to turnkey public housing, as proposed in title III of H.R. 4485.

My second concern, is this discretionary problem mentioned earlier, and the kind of footdragging that could develop. Otherwise I think the measure would be a boon to getting production started.

Senator PROXMIRE. I provided a trigger in my earlier bill that the House conferees would not take. There was no way to get them to take it, let alone the President.

Mr. WEINER. I remember what Congressman Ashley said about it.

Mr. SUMICHRAST. Let me make two comments. I think the 7½ percent is a terribly good rate at the present time. I think 7 would be better, but 7½ percent is really an excellent rate.

Mr. WEINER. Very helpful.

Mr. SUMICHRAST. In the present market, there is no question about it; it will promote a lot of activity. But I would like to point out number one, the foreclosure thing, because this has been kind of talked about, and I detect a kind of very cynical point of view from most of the people discussing it.

Senator PROXMIRE. On the foreclosure?

Mr. SUMICHRAST. They say we really have no problem in foreclosure. Actually, the rate has not changed very much. It did not go really very high, but what you are really forgetting is the rate is not

really so important, because the rate, in the early thirties and forties, or even fifties, was measured against the total inventory, the total number of people, and even though the rate has increased, it did not increase at a very alarming rate.

You are still talking about several hundred thousand families. What is the man who loses his job going to do? What options does he have, other than to plead mercy from the S. & L., which may or may not work? Really, what is he going to do, when his unemployment benefits expire? What choices does he have? Where can he go? This is what I really resent on saying that, well the rate is not very high, and yet you are talking about a million people here.

Senator PROXMIRE. I could not agree with you more. What we do in this bill is to provide for foreclosure loans, $250 a month maximum, for 24 months. And I am hopeful that that would work. Now, it is part of the bill that we passed unanimously. I think it is a signal to the President that we obviously have muscle to pass it over any kind of a veto.

Mr. SUMICHRAST. This is a kind of—you know, when you read between the lines, when you look over the actions which we have had in the last several years, you detect the same kind of detachment from the problems, of HUD, specifically, because it is not really—they do not take it in the context of problems of people. They talk about numbers, they talk about money, but really, the underlying problem is unemployment, which is so terribly high in industry. They do not see the 40-percent unemployment—they do not see it in terms of human lives. And that is really what I object to.

Mr. WEINER. I think the provisions that you have outlined, Senator, are good, and certainly can be helpful and beneficial. I will say this, we have seen a number of the thrift institutions who have had mortgages that have become delinquent displaying a great deal of patience and forbearance, and working closely with families. I think the addition of this tool can be helpful, as long as the rate of repayment, which is the obligation of the family, is administered in the kind of fashion that Mr. Sumichrast is talking about.

But I think what is equally important is that there is some help for the construction industry, which has been in a depression now for 2½ years since January 5, 1973, when the moratorium was declared. Two years of foreclosure relief might not be long enough, but hopefully, 2 years will bridge the gap.

Senator PROXMIRE. I have a series of questions I would like to ask you that will be short, and I hope the responses will be short. Let me say first, I am delighted that you gave so much emphasis, Mr. Weiner, in your statement to the report, the Goals Report. I was the author of the original goals provision in the law, as you know. They have simply refused to abide by the law. They are not obeying the law. What can we do about it? One of the possibilities is to put a provision into the appropriations bill that they cannot be paid their salaries until they obey the law. We tried that. We got it through the Senate, but we could not get it through conference. What we might do is to try to do that with respect to the Executive Office of HUD. But these are harsh things that we hate to do, and we would certainly be happy to get any suggestion from you as to what we can do about this.

We have passed a law. We want them to conform to it. We have written repeatedly to the Secretary. She has said she is doing her

best and will try to conclude with the report. But it is a tough problem for us. We want to get the response from them. We do not want to affect innocent people in the process.

Mr. WEINER. May I suggest, sir, that in years past we have been informed unofficially that the holdup was not necessarily in HUD, that the report which originates in HUD has to go to the TOMB—I mean OMB, and from OMB to the White House.

Chairman HUMPHREY. You were right the first time.

[General laughter.]

Mr. WEINER. Well if you take a "T" and put it in front of OMB, you have got the word TOMB. And I am not sure that is always HUD's fault with that report either.

Senator PROXMIRE. If you can make any suggestions at any time——

Mr. WEINER. We have looked into a writ of mandamus action. We found it is not applicable under the circumstances.

Mr. SUMICHRAST. What you really need, Senator Proxmire, is an advocate in HUD and not an adversary of the housing. They are supposed to represent housing. But I think there is some serious question whether this is so, in my mind anyhow.

Senator PROXMIRE. Let me ask you, Mr. Weiner, what about conventional public housing? Should it be continued, expanded, reduced, or what?

Mr. WEINER. I believe that the turnkey method of providing conventional public housing has been highly successful. If we would go out and look at what has been produced in the last 3 or 4 years, we would be proud of it.

I think that despite Pruit-Igo, which is the old classic example of the failures that we point to and despite the current problems of rising costs, the public housing people do an excellent job, in most parts of the country.

Senator PROXMIRE. What about the section 8 program? Will it work?

Mr. WEINER. I have dealt with it in some length in the past. I have faith that it will work. I think that the Secretary and the administration want it to work. I think there are many bugs in it that have to be ironed out. They are being ironed out very slowly and will continue at a very slow pace.

Senator PROXMIRE. What bothers me is I have found that all over the country that we provide enough funds for about 5 percent of the people that are eligible for section 8.

In Madison it is about a little over 4 percent. In Milwaukee it is less than 5 percent. This is going to be an incredibly expensive program if we go ahead and provide the kind of housing allowances which really are called for, that the law indicates.

So how can we make this program work responsibly?

Mr. WEINER. Alright, I think there is still a difference between section 8 and housing allowances. I refer to housing allowances as "get lost money." You tell a family, "here is some money and go get lost—find your own housing."

Senator PROXMIRE. Exactly. And that is what I am afraid is going to happen to the section 8 program.

Mr. WEINER. Well, I believe if the pressure is maintained, to use section 8 primarily as a construction program, that it will become effective. And I think that it can be maintained.

Now, it is not an inexpensive program. As a matter of fact there are some indications that section 8 will cost per unit as much or more than any of the other programs that we had in the past. But I believe it should be only one of the tools in the arsenal for providing housing. Section 236, 235, turnkey public housing and all of the other tools that we had, should be restored and section 8 should be retained for use in the special circumstances under which it is applicable.

Senator PROXMIRE. I just want to ask a couple of more questions and I apologize for taking so long.

We just had a hearing of the Banking Committee in which we had Mr. Marston, who is a member of the Home Loan Bank Board appearing for reappointment, renomination. He argued that the principal problem in housing is not interest rates—and I get this argument constantly from the people in the financial industry, that is not interest rate, it is the cost of housing, they say the construction costs are too high. They say until we solve that problem, we are not going to really be able to do much about the housing problem.

What is your response to that?

Mr. SUMICHRAST. I will send you a paper which I have prepared on cost, which I think will explain it. The largest increase in the cost of housing has been in financing and in land development, which is directly tied to the environmental problems. In these two major areas, the financing cost has been responsible for the largest portion of the increase in cost during the construction and allied. And the other part, as I said, was the portion which is tied to land.

[The information referred to follows:]

Economics Department
National Association of Homebuilders
15th & M Streets NW
Washington, D.C. 20005

Subscription - $78 a year

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Monthly Report

Charles P. McMahon, Publisher

MAY 1975

VOLUME XXI, NUMBER 5

CURRENT HOUSING SITUATION

The 5% tax credit on new home purchases is resulting in inventory sales, creating some confusion, and gives no indication that alone it will impel a spurt of new housing starts.

Hanging heavy in the market atmosphere are expectations, realistic or not, that interest rates are going to increase and another money crunch may be ahead by fall 1975.

A preliminary appraisal of some of the results of the new home tax credit comes through from an NAHB special survey of its Builders Economic Council members, a representative group of builders across the nation.

The 343 responding builders reported that some 23% of units in their inventory which they believed qualified under the program had been sold in the first three weeks after the tax credit was signed into law. They expected to sell an additional 42% within the following 60 days.

However, nagging confusion persists over what is considered eligible inventory. Nationally, about 650,000 units are considered to be in inventory. How many of these qualify under two still-to-be-clarified regulations start of construction and lowest price ever offered remains to be determined.

S&L mortgage lending in March, at a $3 billion seasonally adjusted annual rate, remained unchanged from February.

In spite of record savings, lending institutions are making few construction loans. Rather than lend, thrift institutions are building up liquidity. It was pushed to a 5-year high by the end of March. 9.69 compared to 7.20 in September. Builders, under a strain from large unsold inventories, are reluctant to start anything on speculation.

Federal programs are doing little to help. Subsidy programs are in limbo, and Section 8 has not yet gotten off the ground. FHA nonsubsidized programs are providing only token support at a time when a lot of support is needed.

All of this suggests a bad housing year, with only snail-like recovery in prospect. This year is estimated to end up with about 40,000 fewer housing starts than in 1974, which in turn was 705, 200 units below 1973, and that year was 321,000 units under 1972.

The first quarter rate, currently below 1 million units, should move up slowly throughout the year. But this pick-up will not be enough to match last year's starts. Housing's shallow recovery will provide only mediocre support to the overall economy.

Builders responding to the NAHB Special Tax Credit Survey were asked to break down their inventory by type of sales unit eligible under the legislation. Results in the first three weeks were as follows: detached units were selling best, with 30% of this category gone; 18% of the eligible townhouses were sold; and condominiums were trailing at 9%.

Respondents' expectations for eligible inventory sales within (contd page 2, col 1)

—CHANGES IN COST— SINGLE FAMILY DETACHED HOMES, 1970-74

The increase in cost of new single family detached homes is not necessarily because of the "sticks and stones" that go into a house. In the 1970-74 period, land and financing were the largest contributors to cost increases (see Cost Tables 1-4, p. 4).

As a result, the cost of structure, or hard cost as a share of sales price, dropped from 54.3% four years ago to 48.4% in 1974.

The major single reason for this change has been the rapid and continued increase in the share of land cost. The cost of raw land increased mainly because of land use restrictions such as sewer moratoria and no-growth. Rapid increases in land development costs were caused largely by environmental restrictions. In particular, the latter has affected the cost of land over the last few years. If land development costs continue to swell at past rates, there is little hope for housing costs to behave any differently in the immediate future than they did in the years 1973 and 1974. In those years, the average sales price of new homes sold increased 16.4% and 9%, respectively. The Census Bureau's C-27 sales price index (which includes corrections for quality and size) increased 10.5% and 9.2% in the same periods.

The other major shift occurred in the construction financing share. In 1970, this cost accounted for 6.5% ($1,580) of the sales price. At the end of 1974, it had jumped to 10.5% ($3,917).

The cost for "sticks and stones" used to build the structure itself also increased. But the rate of increase (36.8%) was substantially below the 61.6% increase in land cost, and the 148% jump in financing.

Because of the drop in hard cost share (from 54.3% to 48.4%), the direct labor share in building the structure declined from 17.3% to 15.6%. And materials share dropped from 37% to 32.8%.

Dollarwise, of course, both of these categories increased: labor was up 38.6%, from $4,198 to $5,820; and materials increased 35.9%, from $8,990 to $12,220.

Hard cost or cost of structure. Cost for the 21 major items shown in Cost Table 2 include both labor and materials. Only carpentry labor is identified separately. The cost increases among these major items vary widely. In dollar terms, hard cost for a typical house increased 36.8%, from $13,188 in 1970 to $18,040 in 1974, or by $4,851.

The highest dollar increase was registered in construction lumber, up $1,021; followed by masonry, $561; concrete, $534; millwork, $457; carpentry labor, $431; plumbing, $277; hardwood flooring, $258; electric wiring, $243; heating, $218; and hardware, up $131.

The highest hard cost percentage increase was shown in hardware, up 107%; followed by masonry and lighting fixtures, up 94.1%; concrete, 58.6%; electric wiring, 58.2%; incidental cost, 57.6%; wood flooring, 51.9%; lumber, 50.1%; insulation, 40.8%; and so on. (contd. page 3, col. 1)

Current Housing Situation—from p. 1, col. 1. the first 4 months after the law's enactment show that they expect to sell 80% of their singles, 69% of their townhouses, and 33% of their condominiums.

Even more important, individual builder experience seems to be shared by nearly all builders. Respondents were asked the following question: Is community experience (in selling homes under this program) the same as yours? They answered 88% yes, and only 12% no.

A crucial concern about this program is whether it will create new starts. NAHB's survey reveals that builders generally are not sure of its impact. Slightly more than one half (57%) said that they will start new units as a result of this legislation, and 43% said that they will not. But in the flood of comments written in the questionnaires, more respondents volunteered complaints about the program than those who praised it. The majority said additional clarification is needed. Some, with little or no inventory, felt they were being put to a competitive disadvantage.

However, most of the comments (and complaints) centered around mortgage rates. Builders are still worried about high interest rates. They would like to have more 7¾% money. A typical comment from Hampton, Virginia: "Even with the tax credit, high interest rates are preventing sales."

Another from Memphis, Tenn.: "This program should help, but high interest rates and the economy are still the main problem."

Money, rates, and housing. The NAHB Spring 1975 BEC survey shows that construction financing averaged 9.55% plus 1.5 points at the time of the survey. The permanent financing rate averaged 8.70% plus 1.99 points.

Availability of money varied. Construction loans are still hard to get, while permanent mortgages for buyers are generally available.

FLOW OF FUNDS
INTO INSURED S&Ls & MUTUALS
(In Millions of Dollars)

Date	Net New Money S&Ls	Mutuals	Total
1974			
Jan	$ 2,018	$ 46	$ 2,064
Feb	1,697	341	2,038
Mar	1,751	308	2,059
Apr	-340	-645	-985
Total	5,126	50	5,176
1975			
Jan	$ 3,094	$ 250	$ 3,344
Feb	3,114	708	3,822
Mar	3,689	1,000	4,689
Apr(e)	2,600	400	3,000
Total	12,497	2,358	14,855
Percent Change 1974-75			
	143.8%	371.6%	187.0%

e-estimate
Source: Federal Home Loan Bank Board; National Association of Mutual Savings Banks; NAHB Economics Department.

This availability is a reflection of large amounts of money being deposited at savings intermediaries (see table, this page). Net new savings at S&Ls are estimated at $12.5 billion in the January-April 1975 period, 312% above the first four months last year.

The estimated seasonally adjusted annual rate of savings at S&Ls for the first four months, excluding dividends, is at $38 billion; including dividends it is at $49 billion. The largest inflow S&Ls ever had was in 1972 when the total was $23.9 billion in net new money, and $32.9 billion including dividends credited.

Such a large inflow must have an impact on lending as well as rates. By March (latest data available), the contract mortgage rate dropped for the third consecutive month and it was down to 8.83%. In comparison, the rate was as high as 9.13% in December.

The effective rate was 9.08% in March, down from 9.37% in December.

The FHA increased rate from 8% to 8½%, was unwelcome news to potential home buyers as well as builders. The increase has not solved the problem of points, and only adds further to uncertainties about the future rate movements. Things appear to be back where they were in mid-January.

Towards the end of March, prices of government securities started to decline, caused by a deluge of new and prospective offerings—mainly from the Treasury.

Added to the gloom at that time in the government securities market was a growing conviction that the Federal Reserve Board is not going to pursue a policy of easing as was the case during the last half of 1974.

The mortgage markets' immediate response was a substantial firming of yields. At the March 23rd FNMA auction, FHA/VA yields increased from 8.781% to 8.847%.

A further weakening in the government securities market and a consequential increase in the short term bill rate to over 6% in the first part of April, pushed FHA/VA yields to 8.981% at the April 7 FNMA auction.

At the April 21 auction, the yield was increased even further to 9.131%, putting it back to January 27 levels.

Prices for Treasury securities continued to plummet in the first part of April. They were under pressure mainly because of general tendencies to underestimate the impact of expected huge borrowings.

After the first week in April, some degree of stability returned to the money market, although intermediates and long term issues continued to increase, but at slower rates.

The first part of May saw at least a temporary stability. The amount of borrowing needed for the balance of this fiscal year seems to be within the bounds of what was expected earlier. Treasury has put this at $9.5 billion, substantially below earlier estimates of $15 billion. This amount would bring total first half borrowing to $38 billion.

This is a great amount of money and it will hang over the market as we go into the last half of the year. The main point here is that excluding the May-June financing Treasury has raised about 28% of the money needed for this calendar year. A great deal of uncertainty exists about the eventual impact of future borrowing for the present deficit, plus an unknown amount of funds to be requested by Congress.

Housing functions badly in a climate of instability. This segment of the economy requires long term planning, long term money, and some degree of price stability. Planning for the future (something like 1½ to 2 years) is most difficult if even next week is not certain.

This inability to plan, at least at this time, is one of the fundamental reasons why housing will not show speedy recovery but will limp along at present rates for a while. Some improvement will occur simply because of the large inflow of funds, and possibly because the Administration just may be able to straighten out the regular FHA programs and get Section 8 going. But even these actions will be slow and will add little to housing this year.

Of course, the most beneficial and immediate help would come from less expensive money.

CONSTRUCTION UNEMPLOYMENT AND EMPLOYMENT

Construction unemployment continued to climb in April. The seasonally adjusted annual rate rose from 18.1% in March to 19.3% last month the highest in the post World War II era. April's seasonal rate was almost twice the 9.9% level for the same month in 1974.

On an unadjusted basis, the April construction unemployment rate dropped slightly from 23.8% in March to 21.7%. With the advent of spring and better weather, the unadjusted rate traditionally declines.

Construction employment stood at 3.35 million workers in April, 587,000 below the 3.94 million workers in April 1974. With the bottoming out of housing starts and the continued decline in nonresidential activity, construction unemployment can be expected to climb through the rest of second quarter 1975.

Changes in Cost—from p. 1, col. 2

On the other hand, the cost for gutter installation did not change, and other items such as plumbing, heating, painting, roofing, tilework, etc., increased at a lesser rate than the overall increase.

Carpentry labor increased 30.1% and brought the share of this item down slightly from 10.7% to 10.2%. Of the 21 items shown, 9 increased as a share of total structural cost. These include: masonry, up from 4.5% to 6.4%; concrete, rising from 6.9% to 8%; lumber, from 15.4% to 16.9% and hardwood flooring, from 3.8% to 4.2%

As a share of hard cost, 11 items declined: millwork was down from 10.5% to 10.2%; roofing, from 3.1% to 2.5%; gutters, from 1% to 0.7%; drywall, from 7.3% to 5.9%; tilework, from 2% to 1.7%; floor covering, from 4.1% to 3.4%; plumbing, from 9.7% to 8.7%; heating, from 4.9% to 4.8%; painting, from 5% to 4.1%; and appliances, from 1.8% to 1.3%. The excavation share remained at 1.4%.

Land. The cost of land, as illustrated in Cost Table 1, increased 61.6%, to $7,948 from $4,925, in the four years between 1970-74.

These land cost data were used as the closest approximation to what an average price for a finished lot seems to be. More confusion (and rightly so) exists about finished lot prices than about any other housing item. One reason for this confusion is that Census Bureau data on value of improved lot include both detached and attached units (with no breakdown by unit type). Thus, Census data have a downward bias. Another reason is that FHA data deal with houses selling for about $10,000 less than the sales price of all homes sold as supplied by the Census Bureau.

NAHB, through its semiannual Builders Economic Council Surveys, has made many attempts to compile good land cost data. To some extent, these data have been useful. But the samples were not large enough, and responses to land cost questions have not been as accurate as could be hoped. The most recent NAHB membership survey (generally run every 5 years) provided a good fix on land cost and size. The last survey, however, was conducted in 1969.

Timely and accurate data are now becoming available to NAHB through its Home Owners Warranty (HOW) Program. But even with a sample of over 10,000 units, the data are distorted simply because they are heavily weighted with houses in the South. These data do provide separate costs for detached units, as well as townhouses and condos.

A summary of some land costs and land sizes is shown in Cost Table 3. The NAHB cost and sizes data for 1969 are from *Profile of the Builder and His Industry*, which was based on the 1969 membership survey. The 1975 data are from NAHB's HOW Program samples.

FHA data cover fourth quarter 1970 and 1974. Census Bureau data refer to the average price of finished lot for all homes sold during the years 1970-74.

NAHB data show 12.5% and 10.0% annual increases in finished lot cost; FHA shows a 3.1% increase; and Census, 6.6%. In Cost Table 1, the most current (1975) available data were used, showing a 1971-75 annual increase of 12.8%, and a 61.6% increase for the four year period. The 12.8% annual increase seems to be reasonable, and it coincides with reports from the field on finished land cost increases in most areas of the country.

The average size of lots has been declining. NAHB data show annual drops of 6.7% and 6.1% in lot size, and FHA data show a 4.1% annual decline.

As a result of smaller, more expensive lots, cost per square foot of land has increased dramatically: NAHB data show annual increases of 21.3% and 16.0% respectively, and FHA data show a 7.5% annual increase.

Discounting the FHA data as representative of substantially less expensive homes, NAHB's 20% annual increase coincides with what is known to be happening to the cost of raw land and to development cost. Unfortunately, no good national raw land and development costs data are available because of the endless variety of land configuration, locational differences, and development specifications.

But it is known that the price of raw land has increased sharply primarily because of environmental restrictions. Between 1971 and 1974, the cost of raw land for single family detached units is estimated to have increased around 30% annually. Add to raw land cost the costs necessary to comply with both environmental restrictions and increased specifications to develop land, and it is not hard to see why land cost is one of the sharply increasing items included in the sales price of new homes.

In illustration, Cost Table 4 portrays lot development cost changes of a typical 11,000 sq. ft. lot in Northern Virginia (data provided by Edward Carr & Associates).

Total land development cost increased 74.1% between November 1969 and April 1975, or 14% annually. But some items included in land development increased at a much higher rate. The largest percentage increase was in sewer and water tap fees, which soared 490%, to $1,625 from $275. Land clearing had the next highest increase, jumping 132% because of a ban on burning. Street base and paving had a 116% increase—the result of higher specifications required by the counties; insulation was up 108% because of the ban on natural gas and required changes to electricity; and water system installation costs were up 107%—to a significant degree because of an increase in specifications; etc.

Financing. The cost to finance construction of a house increased from $1,520 to near $4,000. As a result, the share of financing cost increased from 6.5% of the sales price to 10.5%. Financing costs shown here do not include financing costs for subcontractors. That is a separate matter and is reflected in the cost for individual items under hard costs.

Overhead and profit. This item includes administrative expenses for running the business, cost for all paper work needed for processing, servicing houses after completion, and net profit before taxes. In a study done by the accounting firm, Horwath & Horwath, and published in NAHB's *Builders Second Cost of Doing Business*, general administrative expenses constitute a 7.5% share, and net profit before taxes was a 5.0% share of sales price for fiscal years 1972-73. These percentages are in line with Table 1 when allowance is made for the fact that some of the items listed under *Other cost* are included under general and administrative expenses in the Horwath study.

Other cost. This item in Cost Table 1 includes marketing expenses as well as indirect cost mainly connected with the construction of the house.

Cost of financing includes such items as construction loan appraisal fees, commissions, interest during construction, construction loan title charges, fire and extended coverage, builders risks insurance, permanent loan commission, sales title charges, FHA filing fees, VA appraisals, and VA inspection.

Land development includes site clearing, concrete, machine time, grading, preparation, street inspections, subsoil stabilization, engineering and site planning, sanitary and storm sewers, culverts, bridges, dam, street base and pavings, fees for sewer and water taps, fees for street acceptance, fees for street and drainage, other fees, utilities, fire hydrants, water system, materials handling machine, retaining walls, trash removal, entry wall, landscaping, sod, payroll tax and insurance, and sales tax.

Marketing includes general marketing and advertising expense and sales commission.

COST TABLE 1
CHANGES IN SHARE OF MAJOR COST ITEMS FOR A TYPICAL SINGLE FAMILY HOUSE

	Fourth Quarter 1970		Fourth Quarter 1974		
	Cost	Percent Distri-bution	Cost	Percent Distri-bution	Percent Change 1970–74
1. Hard Cost*	$13,188	54.3%	$18,040	48.4%	36.8%
Labor	4,198	17.3	5,820	15.6	38.6
Material	8,990	37.0	12,220	32.8	35.9
2. Land	4,925	20.2	7,958	21.3	61.6
3. Financing	1,580	6.5	3,917	10.5	147.9
4. Overhead and Profit	2,940	12.1	4,513	12.1	53.5
5. Other Cost	1,667	6.9	2,872	7.7	72.3
Sales Price	$24,300	100.0%	$37,300	100.0%	53.5%

*See table 2 for hard cost breakdown.

Source:

Line 1: Hard cost derived from major cost items in NAHB's Construction Components Cost Data in fourth quarter 1970 and fourth quarter 1974. These hard costs reflect a tract built home of the type associated with FHA/VA construction. Hard cost data were adjusted to the median price of all homes sold as published by the Bureau of the Census, U.S. Department of Commerce, in New One-Family Homes Sold and For Sale, Series C-25. The Census Bureau's fourth quarter 1970 median sales price was adjusted upward to be in line with hard cost data for that period. Detailed hard cost data are included in table 2. Labor and materials based on a study from the Bureau of Labor Statistics, U.S. Department of Labor, entitled Labor and Material Requirements for Construction of Private Single-Family Houses, 1972, Bulletin 1755.

Line 2: Land cost is based on Census Bureau data published in series C-25. However, fourth quarter 1974 land cost was adjusted upward by using FHA 203b cost per square foot data from the Division of Research and Statistics, Housing Production and Mortgage Credit-FHA, U.S. Department of Housing and Urban Development, FHA Trends of Home Mortgage Characteristics; data from NAHB's Builders Economic Council Surveys; and unpublished land cost data from the NAHB Home Owners Warranty Program (see table 3).

Line 3: Financing cost was based on the prevailing cost of financing at given periods, and reflects the higher cost of construction money rather than the cost of end mortgages.

Line 4: Overhead and profit were derived from what FHA typically allows in individual cities, and from Horwarth and Horwarth, Builders Second Cost of Doing Business (NAHB, 1975).

Line 5: Other cost includes the cost of marketing, servicing, and other incidental and indirect costs.

COST TABLE 2: HARD COST
AVERAGE CONSTRUCTION COSTS FOR SINGLE FAMILY DETACHED HOUSING AND PERCENT DISTRIBUTION

	Fourth Quarter 1970		Fourth Quarter 1974		
	Hard Cost	Percent Distri-bution	Hard Cost	Percent Distri-bution	Percent Change 1970-74
Excavation	$ 185.84	1.4%	$ 248.43	1.4%	33.7%
Masonry	596.47	4.5	1,157.68	6.4	94.1
Concrete	911.80	6.9	1,446.35	8.0	58.6
Lumber	2,035.59	15.4	3,056.00	16.9	50.1
Hardwood Flooring	495.80	3.8	753.06	4.2	51.9
Millwork	1,381.29	10.5	1,838.26	10.2	33.1
Carpentry Labor	1,406.75	10.7	1,837.05	10.2	30.1
Roofing	414.31	3.1	456.45	2.5	10.2
Gutters	136.98	1.0	127.20	.7	-7.1
Lath, Plaster & Drywall	969.28	7.3	1,055.02	5.9	8.8
Tilework	259.42	2.0	313.60	1.7	20.9
Floor Covering	535.16	4.1	605.14	3.4	13.1
Electric Wiring	415.99	3.2	658.13	3.7	58.2
Lighting Fixtures	86.42	.7	167.72	.9	94.1
Plumbing	1,281.45	9.7	1,558.96	8.7	21.7
Heating	652.20	4.9	870.69	4.8	33.5
Painting	662.29	5.0	743.37	4.1	12.2
Insulation	202.38	1.5	285.05	1.6	40.8
Hardware	121.69	.9	252.53	1.4	107.5
Appliances	204.30	1.5	241.61	1.3	18.3
Incidental Cost	233.35	1.8	367.80	2.0	57.6
Total Cost	$13,188.75	100.0%	$18,040.10	100.0%	36.8%

Source: National Association of Home Builders, Construction Components Cost Data.

COST TABLE 3
AVERAGE COST AND SIZE OF FINISHED LOT SINGLE FAMILY DETACHED UNITS, 1970-74

Item	1970	1974	Percent Change Total	Percent Change Annual
Total Cost:				
NAHB	$6,183[1]	$9,892[3]	+60.0%	+12.5%
NAHB	6,763[2]	9,892[3]	+46.3	+10.0
FHA	5,129	5,794	+13.0	+3.1
Census	4,800	6,200	+29.2	+6.6
Lot Size in Square Feet:				
NAHB	12,839[1]	9,710[3]	-24.4%	-6.7%
NAHB	12,487[2]	9,710[3]	-22.2	-6.1
FHA	8,594	7,262	-15.5	-4.1
Cost Per Square Foot:				
NAHB	$0.482[1]	$0.982[3]	+103.7%	+21.3%
NAHB	0.542[2]	0.982[3]	+81.2	+16.0
FHA	0.597	0.798	+33.7	+7.5

1. 1969
2. 1971
3. 1975

Source: National Association of Home Builders, (1) Profile of the Builder and His Industry, (2) NAHB BEC Survey, (3) Home Owners Warranty Program (HOW), unpublished data; Division of Research and Statistics, Housing Production and Mortgage Credit-FHA, U.S. Department of Housing and Urban Development, FHA Trends of Home Mortgage Characteristics.

COST TABLE 4
COST BREAKDOWN OF A TYPICAL NEW HOUSE BUILT IN NORTHERN VIRGINIA, NOVEMBER 1969 & APRIL 1975

Cost Items	November 1969	April 1975	Percent Change
Total Direct Cost	$21,539	$29,667	37.7%
Indirect Cost	809	1,390	57.1
Financing	4,088	7,560	84.9
Marketing	1,271	2,300	80.1
Lot	3,800	8,000	110.5
Lot Development			
Engineering & site planning	500	1,000[1]	100.0
Sanitary sewer	736	1,281[2]	74.1
Street	560	1,262[2]	115.4
Sewer & water tap fee	275	1,625[3]	490.9
Water system	492	1,020[2]	107.3
Clearing	177	410[4]	131.6
All others	3,353	4,015	19.7
Total lot development cost	6,093	10,613	74.1
Service, overhead, profit and all other expenses	3,700	6,720	81.6
Total sales price	$41,300	$66,250	60.4

NOTE: all items include labor and materials

House measurements: 2,340 sq. ft., which includes 396 sq. ft. of unfinished basement.

1. 50% of increase due to higher standards and longer processing time.
2. Higher standards responsible for significant portion of increase.
3. Entire increase represents higher fees.
4. Entire increase due to stricter burning regulations.

Source: Edward R. Carr & Associates, Annandale, Va.

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Mr. SUMICHRAST. When you develop the land, what you pay, is a kind of "payola" to your local bodies, exceeds what you put into the ground, as in improvement in the streets, curb and gutters, the street base, the utilities and the like. We reach the point where, I think, there will be no way that society can pay for all of that.

As an example, the development of land in Washington, of a typical 11,000 to 12,000 square foot subdivision probably costs around $8,000 or less, around that general figure. It costs as much in direct and indirect costs attached to the environmental issues of sewer moratorium, no burining and all 11 more items under the sewage control and the like.

There is a point that we just cannot and will not be able to do much with land, even if we give it to people for nothing.

Senator PROXMIRE. What you are saying, though, is that there is one very expensive aspect of housing we can do something about is interest.

Mr. SUMICHRAST. The labor and material, when you take it as a portion of the total cost, has increased considerably less, and I will show you these figures unit by unit, including labor, carpentry and so forth. They have increased very, very little. It is not in the sticks and stones at all. It is in the two major areas, and that is the environment and the cost of financing. These are the two largest single important items which are responsible for the increasing of costs. And you cannot slice it any other way.

We monitor some 500 cities around the country twice a year in costs. So we have a very good data bank on what is happening. And as I already said it is not in the construction costs. It is not even in the labor, which is a very highly paid, one of the highest paid among all of the other types of labor, which we have in this country.

Senator PROXMIRE. You say it is not in labor.

Mr. SUMICHRAST. It is in the other two.

Senator PROXMIRE. That accounts for what, 15 percent of the cost of the housing industry.

Mr. SUMICHRAST. The labor portion and the material portion increased only about one third of what the other two increased. And that is really the major problem. When you, as I already mentioned before, when you get a construction cost financing as we had 8 months ago, 7 months ago, which approached 20 percent annually on some of the projects, you are bankrupt. There is no way you can pay for that.

Most of the so-called variable rates in the construction financing are tied to prime rate. When the prime rate goes to 12 percent plus whatever points—in a year it was 18, 20 percent—you are out of business. And there is no way you can continue.

Mr. WEINER. I would like to just add a couple of things to that. The argument being heard more and more that the problem is the cost of housing is a copout. That is an absolute refusal to face up to the fact that we are being asked in this Nation to ask an industry to produce efficiently and effectively when we are nothing more than a series of yo-yos.

You build up an organization, you get a trained labor force, you develop a middle management capability, and within 2 or 3 years you have got to lay them off. You lose these people who do not want to stay in the industry any more. They become aircraft workers or automobile workers, and they have not even got that to run to right now. Some are picking oranges and are scattered all over the place.

How can we expect efficient, sustained production and effectiveness in that kind of an atmosphere?

Also, you know that Operation Breakthrough failed, and it failed for many reasons, although I have never seen anywhere an official report on why Operation Breakthrough failed. I think we ought to get some reports as to what the failures were and if there were successes, what they were, so we can learn from them.

But to have the panacea thrown out, in a glib kind of sanctimonious statement, that the problem simply is the cost of housing is to evade the problem.

Mr. Sumichrast has dealt with the basic questions, but let me make one other point to you. When you look at the cost to a consumer who wants to buy a house, at a 6 percent mortgage against a 9 percent mortgage, and take a look how much more income he has to have in order to meet those higher rate payments, you will see very graphically and very clearly where the problem lies.

Now, if you have slow sales, slow inventory, and a longer period of time that the construction loan is going to be out, in addition to the higher interest rates, and the escalation of the short-term interim money that we face, you have the fact that many builders have been sitting with a housing inventory over a long period of time. And one of our very critical problems with the recently passed tax credit for home purchases is that the bill said that the house shall be sold at the lowest price at which it shall ever have been offered. Now, if it was originally offered 2 years ago and it has been sitting as inventory for 2 years, as a builder, you have paid out interest on that unit over that period. Obviously, you are going to try to break even. Just to recover, you have got to increase the price. And I hope there has been some correction on that provision in the law. I think there has been.

To conclude, I'd like to say that to continue to listen to the kind of a copout that we hear that it is the cost of housing, rather than deal with the problems of financing, the problems of the ever-increasing requirements on land and its improvements, the failure to understand the yo-yo character of our industry, the failure to understand that we do not even have the time to effectively use the new technology before production is out, that you cannot accumulate your markets, or develop those kinds of skills, is to ignore the problem.

And I think once and for all we have got to face up to that.

Senator PROXMIRE. One final question I would like to ask you Mr. Sumichrast: Do you agree with Mr. Weiner when he indicated that, as I understand it, that our housing goals ought to be at least 2.5 million? They are 2.6 million. Many people say they ought to be a lot less than that. Some people say they ought to be as low as 1.7.

Mr. Weiner just gave us a compilation earlier today of why they ought to be as high as the 2.5. Do you agree with that?

Mr. SUMICHRAST. Well, you know you sent me a letter to look at the housing goals and I asked Mr. McLean whether he has any money, for which I would be very grateful, and he said he does not. So I guess I have to produce the document. I have not really looked at it lately.

I think the estimate that we have supplied is pretty well on the target. It is a little higher, because the household formation has been higher in the last few years than what Leon indicated.

And the net replacement rate is too low. I think the net replacement rate in a normal year, and I am not talking about this year, because obviously, probably it is not true. It is probably 100,000 to 150,000 units higher than what he has indicated. because it is at least 1 percent of the inventory, and possibly a little more than that.

Senator PROXMIRE. If you could respond to our letter—we will give you a new one if you want to.

Mr. SUMICHRAST. I will respond to it. As I say I do not have the money to do it. But I am going to try to do it within my staff.

Senator PROXMIRE. Thank you.

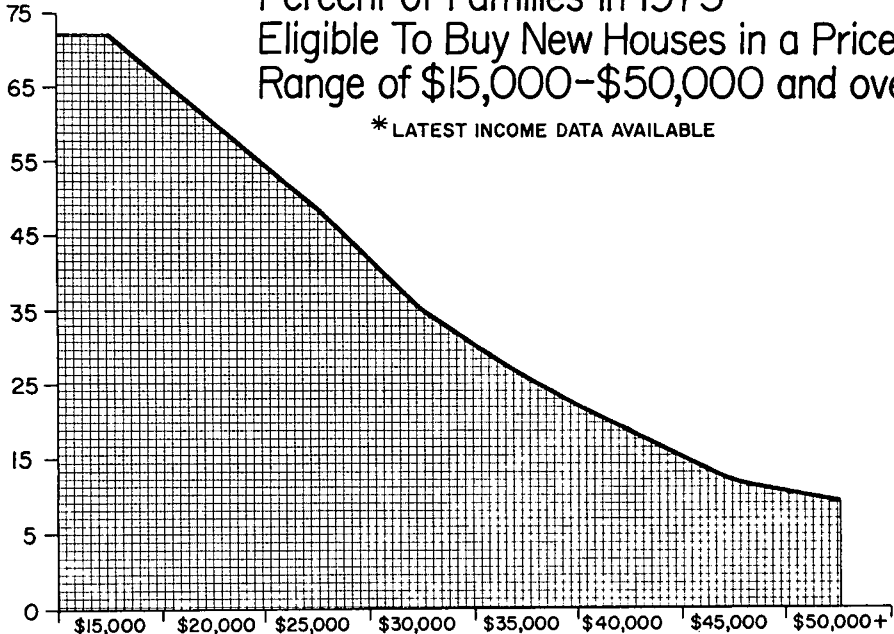
Chairman HUMPHREY. We appreciate too, any information that you can give us that you have worked out for single and multiple dwelling units on the impact of rising interest rates.

Mr. SUMICHRAST. We are preparing the charts now, Mr. Chairman.

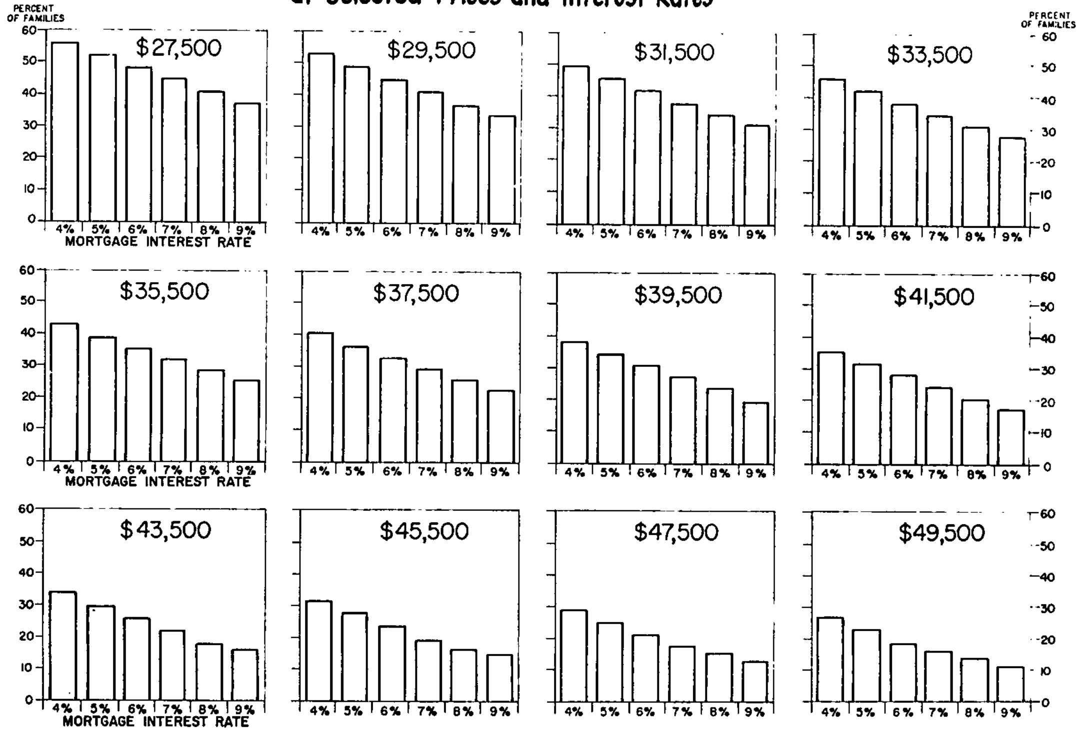
Chairman HUMPHREY. Fine. I hope they will show the difference between what income you need to pay an 8 percent, or 9 percent as compared to 6 or 7 percent mortgage.

Mr. SUMICHRAST. We are going to have a compilation of price of units and an overlay which will show you how many more families do qualify who will get out of the market, depending on the rate of interest rates.

[The charts referred to follow:]


Percent of Families in 1973 *
Eligible To Buy New Houses in a Price
Range of $15,000-$50,000 and over
* LATEST INCOME DATA AVAILABLE
PERCENT
OF ELIGIBLE
FAMILIES
75
65
55
45
35
25
15
5
0
$15,000
$20,000
$25,000
$30,000
$35,000
$40,000
$45,000
$50,000+
NOTE: SALES PRICE / 2 = Eligible Income
Source: Bureau of the Census, U.S. Department of Commerce,
Population Reports, Consumer Income, Series P-60, No. 97,
Jan. 1975; Prepared by NAHB Economics Department.

Percent of U.S. Families in 1973* Eligible To Buy New Homes at Selected Prices and Interest Rates



*LATEST INCOME DATA AVAILABLE

Source: Bureau of the Census, U.S. Department of Commerce; U.S. Department of Housing and Urban Development; Financial Publishing Company (Boston).

Prepared by NAHB Economics Department.

Chairman HUMPHREY. We have got to let you gentlemen go. We continue to learn. And we want to thank you very much. I keep seeing wonderful candidates for Secretary of Housing and Urban Development around here.

We will have Mr. Edwin Alexander, president of the National Savings and Loan League and Mr. Norman Strunk, executive vice president of the U.S. League of Savings Associations.

We will next hear from these two gentlemen. We will start with Mr. Alexander. If you would proceed and we will get Mr. Strunk here and move along as rapidly as we can.

We want to thank you, Mr. Alexander, for the booklet from the National Savings & Loan League that you have made available to us. It is a very fine publication, very helpful.

A lot of thought has gone into that.

STATEMENT OF EDWIN G. ALEXANDER, PRESIDENT, NATIONAL SAVINGS & LOAN LEAGUE

Mr. ALEXANDER. For the record, may I say my name is Edwin G. Alexander. I am president of the National Savings & Loan League, and also president of Majestic Savings & Loan Association of Denver.

With me today are two members of our staff, Mr. Henry Carrington, who is the executive vice president of the League, and Mr. James Christian, who is our vice president of financial systems.

The National League is a trade association of savings and loans associations, and it is my privilege to testify on behalf of our members and talk with regard to the subject matter.

First, I would like to express our view with regard to the monetary and fiscal policies. Our view is that these policies should be employed in a manner that would permit a reasonable level of price stability, and by reasonable, we would consider the level of price stability and the range of economic cycles that occurred during the period, roughly, from 1955 to 1965, to be an acceptable objective.

It is our opinion that the current recession is wringing out a major portion of the rate of inflation that built up over a period of years and culminated in the double-digit level that we achieved last year in 1974, but this wringing out is being accomplished at great expense to our citizens and to our economy in the form of unemployment, the deflated values of savings capital, and a lowering of the effective income levels for majority of Americans.

Certainly, none of us wish to repeat this painful experience, and it is our judgment that it need not be repeated if monetary and fiscal policies are used to discipline the economy, to live within its productive means, and we believe there are two important steps that have been taken by the Federal Government that lead toward and exhibit leadership for greater discipline and price stability, and I refer to the agreement which I believe you, Mr. Chairman, are largely responsible for, to have the Federal Reserve announce its targets for the growth of the money supply.

Chairman HUMPHREY. This is a matter that Senator Proxmire and I collaborated on, and, of course, it was in Senator Proxmire's committee, the legislative Committee on Banking, Housing and Urban Affairs, that the effort was culminated.

Mr. ALEXANDER. I really think it is important that we understand what those targets are, and they are not some kind of a mystery that everybody sits around and guesses and quite often makes mistakes about.

I think there is probably the greatest mistake made by many in the financial world, in the building world, I think was what occurred in 1974, in the early part of 1974. I cannot recall one economist, one forecaster who indicated or believed that the Fed would do what it did during the latter half of 1974, it created utter chaos. So that is an important step and you are to be complimented for it. I think, also, a second thing is the establishment of the Joint Budget Committee. I think as that committee develops and targets are set with regard to spending and taxation, and we understand how those policies are working towards price stability, that is a great step in leadership for our country.

You have asked us to comment with regard to the Fed's target of 5 to 7½ percent for credit expansion. Is that reasonable?

Well, our view is it is reasonable for a period when the recession is bottoming out and is starting, hopefully, forward in an upward movement, we do not look forward to a sharp upward movement. We think it would be a restrictive level in terms of getting to the bottom of the recession and, as the previous people testified here, we indicated we have been running for the last several months at a rate more like 10 percent in credit expansion, but we would expect now that the Fed would start moving toward that target, the 5 to 7½ percent target, or, if they are changing their mind, then I think they should announce that and explain why they are changing their mind so that we understand what can be expected.

We would also expect the Joint Budget Committee with regard to—as they establish their targets that lead toward acceptable levels of employment and price stability, that the amounts and the reasoning behind that be made public so that we understand what we can expect.

Now, I would like to turn to the current housing situation and the housing policies of the Administration, which you asked us to comment on, and I want to preface my comments on this subject by saying that it is the position of the National Savings and Loan League—and I think Norman Strunk would share with me in the belief that it is the overwhelming position of the officers and directors of the entire savings and loan industry—that home ownership is a most vital, most important and crucial cornerstone of the social and economic structure of this country.

Our industry takes great pride in the fact that we are the major source of home financing for the country, and we think we are well suited to discuss the housing problems, both in terms of the mistakes that have been made and that we are living with, as well as avoiding the mistakes in the future. We think we are well suited to talk about what needs to be done for the thrift industry, so that it may perform even a greater service in the future.

I appreciate that these hearings are not the place for a detailed discussion, but I think what is important is that you understand our dedication to home ownership because it bears very heavily on our views about the present housing situation and what should be done about it.

Now, we are concerned about home ownership right now because there is a generation of young people who have been priced out of the housing market and who are going to need some help in the next few years, if you share our view about the importance of making home owners out of these young people. I am not talking about the low-income families. We have had that problem too. We have had it for a long time, and we have to deal with it. I am talking about a new problem, a problem that has resulted from our bout with inflation. We are talking about the man making $10,000 to $15,000 a year, who cannot afford the payments on what it costs to buy and finance a house today, and, do not misunderstand, we have just had some conversation from Mr. Sumichrast, but I am not taking about just the cost of the interest rate that he cannot afford. He cannot afford the cost of the site. That has gone up 300 or 400 percent in the past few years. He cannot afford the plumbing and the lumber and the bricks and the labor that are all part of that cost.

The result is that for the first time since the 1930's we have a generation, a substantial portion of which cannot afford to buy a home, and, as a result, we have 400,000 to 500,000 unsold new homes, choking our housing market for lack of buyers because they cannot afford to pay for them. We have a homebuilding industry, as you have just heard from the experts, that is in shambles because a generation is priced out of that market. You ask the question, do we have any public policy dealing with this problem, and our answer is no. And I say that, recognizing that we do have a program for the purchase of mortgages at below market rates, and we do have this section 8 testing and study that is being done, and I recognize that you can say that those are policies, but I do not believe they are a policy that is dealing with this generation, this last part of this young generation that is growing in family formation each year, and these people are out of the market and that is where our problem is. We are very concerned about that. We think that one of the reasons we do not have the policy is because, perhaps, we have forgotten about, or for whatever reason, we are overlooking the fundamentals, and, perhaps, we have lost sight of the importance of the value of the man owning his own home, of a man and wife owning their own home and raising their family in a home that they own.

The savings and loans institute is founded on the proposition of thrift and home ownership, and it has been our aim, and it will continue to be our aim, to bend public policy toward the proposition. What then are our recommendations to assist you in arriving at decisions about public policy that you gentleman must make?

First of all, we would propose that we rededicate ourselves to home ownership as a fundamental good for our country. Let us rank it with national security. Let us rank it with job security. Let us not let home ownership fall below those two major public policy priorities. If we do, it is our judgment that we endanger the fabric of what we in America call freedom. Home ownership must be more than an article of economic good or bad. It must be recognized for the tremendous social, as well as economic, value that it, in fact, is. It is the 25- to 35-year-old head of family today with a wife, with, perhaps, a baby and one on the way, renting, paying $150 to $200 a month in rent. It is going to cost $250 to $300, $350 for that individual to purchase a home, and he

is going to have to have some help. He is not going to have to have help forever, but right now he is going to have to have some help for the first few years in terms of buying that home, getting into it. As his income goes up, his experience, he achieves experience and know-how, and he will accumulate an equity in that property, and he will be able to take care of himself, but if we believe in home ownership, if we believe in the priority that this should have in terms of public policy and the expenditure of public funds, then I think we are going to have to recognize that some greater portion of what is available within the confines of prudence, in terms of price stability and relatively high employment, then we have to have as an article of faith, a belief in home ownership.

So, we suggest that you design the 1970 housing legislation for people who are in that $10,000 to $15,000 group. Do not forget the poor; they need help.

Savings and loans associations, like other financial institutions, are charged with the public trust for prudently managing and investing people's money. We take this trust very seriously because the survival of our industry depends on making long-term home financing available to the great majority of American families.

In making mortgage loans, which is the primary way we invest other people's money, two factors are of extreme importance, the economic ability of the borrower to repay the loan and the appraised value of the property that secures the loan.

Direct Government assistance to low-income borrowers can serve to qualify many for thrift institution long-term financing, but if the property being pledged as collateral for loan is located in an unstable area, so that its value may fluctuate significantly over the life of the loan, a system of Government loan guarantee is needed.

With the proper support from Government, an issue like redlining need never arise. While the shortcomings of Government policy in this area are, in our opinion, as much those of implementation as ones of concept, there is enunciated policy of eliminating slums in blighted areas, of rehabilitating urban centers, of preserving neighborhoods, and providing decent housing for families of low and moderate income, but in implementing this policy one perceives inertia, not action, and economic reality has little tolerance for inertia. The Nation's housing policy objectives, however, extend beyond providing housing for the lowest income groups, which is, as I have said, the proper domain of direct governmental assistance to provide decent housing for all American families, and the concept and belief in homeownership.

Working with Government in the interest of these objectives, the savings and loan industry has, we believe, compiled an excellent record. This record is reflected in the fact that over 63 percent of all American families own their own home. We face new economic realities——

Chairman HUMPHREY. Is that figure going down or going up?

Mr. ALEXANDER. I think probably—and Norman may have the figure on this—it has not been going up at the same rate it went up if you took the periods, say, from 1950 through 1965.

Mr. STRUNK. I think, Senator, it has been going down.

Mr. ALEXANDER. And, as I have indicated, we think that has some major implications.

Well, the National Savings & Loan League—if I may just sum it up—has adopted a plan of action to bring about changes which we view as being in the best interests of the public and the savings and loan industry. It contains what we believe would permit the industry to work toward becoming a full fledged family financial center for the American family. With the consent of the committee, we would like to have this plan included as part of my testimony, and we are prepared to move ahead with it and to discuss it at any appropriate time with you.

I think I will just sum up with that, Mr. Chairman, and answer any questions that you may have.

Chairman HUMPHREY. We are going to include your prepared statement, Mr. Alexander, in the record as presented to the committee, plus the appendix entitled "A Blueprint for Evolutionary Development of the Savings and Loan Industry Into Full-Fledged Family Financial Centers." [1]

Mr. ALEXANDER. Thank you, sir.

[The prepared statement of Mr. Alexander follows:]

PREPARED STATEMENT OF EDWIN G. ALEXANDER

Mr. Chairman and members of the committee, my name is Edwin G. Alexander. I am president of the National Savings and Loan League. I am also president of Majestic Savings and Loan Association of Denver, Colo.

The National League is a trade association of members throughout the nation interested in the savings and loan industry. It is my privilege to testify on its behalf with reference to the current housing situation and related topics.

The events of the past few years have, in my opinion, shaken the U.S. economy to its foundations. Inflation rates, interest rates, and now unemployment rates have set new modern records, giving clear evidence of the extent to which our economy has strayed from its historic course. As these events have unfolded, consumers, businessmen, financiers, and government policy-makers have been subjected to one piece of shocking news after another. Firmly-held expectations have been proven wrong so many times in the recent past that every household and every business must now approach any significant economic decision with far more caution and far less certainty of the outcome than at any time during the last two or three decades.

It is, therefore, with very cautious optimism that I view the first few signs of recovery from the current recession. The rate of inflation has declined, though it is still far in excess of the rate to which we became accustomed in the post-World War II period. The stock market has begun to recover and short-term interest rates have declined toward customary levels. Moreover, business inventories have been scaled back to more appropriate levels, which in the past would have signaled the readiness of the economy to respond to increases in the components of aggregate demand and to embark on a new period of expansion.

For several reasons, however, I do not believe that the economy will be able to recover from this recession as rapidly as it has from previous recessions. In the past, the beginning phase of economic expansion has been led by a resurgence of consumer spending for housing, automobiles, and other consumer durables. But currently, these sectors continue to display only faint, though hopeful, signs of the kind of performance which has characterized past recoveries.

The reasons for this weakness are not difficult to identify. Price inflation has hit household budgets very hard and for the first time in over two decades, real disposable personal income has declined for five consecutive quarters. A crude forecast of the recovery of real disposable personal income would suggest that American families will not achieve the same level of real income that they had in the fourth quarter of 1973 before the end of 1975 at the earliest. It does not, therefore, seem likely that we will see a strong resurgence of consumer demand before then.

Indeed, this prolonged decline in real disposable personal income represents, in my opinion, a break in a previously well-established upward trend upon which

[1] The appendix material referred to may be found in the files of the committee.

households formed their expectations and made their decisions about contracting medium and long-term debt. If this trend has, in fact, been broken, it will take some time for a new trend to be established and meanwhile, I strongly suspect that households will exercise caution in their spending decisions.

Historically, interest rates and loan-to-price ratios have been identified as the most significant determinants of housing demand, but these estimates have been made against a background of almost uninterrupted increases in real income. For this reason, I suspect that yesterday's equations are not especially valuable in forecasting tommorrow's housing demand.

These circumstances suggest to me that housing demand will recover slowly. In spite of the encouraging news on housing starts in May, the sizeable overhang of unsold homes will, in my opinion, delay a strong resurgence of residential construction activity, perhaps until early 1976.

It is too soon to tell whether the $2000 tax credit on the purchase of newly constructed dwellings will prove to be a sufficient inducement to overcome the weakness in demand attributable to the decline in real disposable personal income. There would be a much greater chance for this measure's success if a significant decline in mortgage interest rates could be anticipated.

Mortgage loan rates at savings and loan associations have moderated from their 1974 levels since net positive savings inflows have returned to savings and loan associations. Indeed, through the first quarter of 1975, net savings inflows were almost equal to the total net inflow for all of 1974. If this rate of savings inflow could continue through the remainder of 1975, we might expect further decline in mortgage interest rates late in the second half of 1975.

I would like to emphasize, however, that interest rates are unlikely to decline appreciably without continued decline in the rate of inflation. I am convinced that another outbreak of price inflation would be devastating to consumer confidence and extremely detrimental to those tentative signs of recovery which we now perceive in our economy. Moreover, failure to bring the rate of price inflation under control will only prolong the uncertainty which is so pervasive throughout the economy and delay the reestablishment of stable economic growth.

The easing of credit conditions by the Board of Governors of the Federal Reserve System is, of course, welcome news to all the financial markets and is traditionally the proper monetary policy for an economy in recession. While I do not feel highly qualified to comment on the precise quantitative rate of money supply growth proposed by the Chairman of the Board of Governors, Dr. Burns, in his recent testimony before the Senate Committee on Banking, Housing and Urban Affairs, I would like to offer these observations.

As I have said, I believe that price inflation remains a significant problem for this economy. Economic policy—both monetary policy and fiscal policy—must not become so stimulative as to induce a new round of double-digit inflation. If maintaining an annual rate of growth of 5% to 7% in the narrowly defined money supply over at least the next nine months will be sufficient to finance a strong economic recovery but not so great as to threaten a new outbreak of price inflation, then I am in favor of the 5% to 7% growth target. This target rate also seems appropriate to me because it is somewhat above the long-run rate of growth of the money supply, enough so to be stimulative to economic recovery. When economic expansion is finally achieved, the rate of growth of the money supply will probably have to be reduced and a reduction from 7% to, say, 5% or 4%, will be less destabilizing to financial markets than if money supply growth of 10% were achieved during the recovery stage and had to be brought down to, say, 3% or less once expansion is fully underway.

The relevance of monetary stability to the housing industry can scarcely be overemphasized. The housing industry depends more critically than any other on the availability of long-term financing. To a substantial degree, the sensitivity of housing demand to the terms of long-term financing is due to this dependency.

Housing has been and should continue to be one of our economy's most important industries, but it is also one of the least stable because of fluctuations in the terms and availability of long-term financing. These fluctuations can be traced to changes in general financial conditions, for savings and loan associations, which are the principal suppliers of long-term mortgage financing, do not have the necessary statutory powers to compete effectively for savings flows during periods of monetary restraint.

During such periods, short-term interest rates tend to rise toward, and sometimes tend to exceed, long-term rates, in part because the Federal Reserve con-

ducts most of its open market operations in short-term government securities and in part because business corporations seeking debt financing tend to borrow short-term in anticipation of being able to replace this debt with long-term "permanent" financing when long-term interest rates decline. With short-term interest rates equal to or above long-term rates, savings and loan associations are placed in the awkward position of competing for savings deposits in the short-term market while offering mortgage loans in the long-term market.

Too frequently, the result is a reduction of net savings inflows and a restriction of mortgage lending, which because of the housing industry's dependence on long-term finance, induces a decline in effective housing demand.

I cannot stress too strongly that Congressional concern over the condition of the housing and home financing market must not fail to recognize the contributions which savings and loan associations have made, and are making, to housing America. Too often in recent years legislative enactments and regulatory actions have had the unfortunate consequence of impairing the ability of associations to channel credit flows into the housing market.

In 1969, during one of the three stringent money periods of the last decade in which the housing sector suffered disproportionately from tight monetary policy, the Congress increased association income tax rates over 50%. This action had the undesirable effect of increasing residential mortgage interest rates and making the acquisition of adequate loss reserves more difficult. Justification for the increase in association income taxes was based principally upon tax equity principles, i.e. banks were paying more in federal income taxes than associations. Less than four years after that legislation savings and loan associations were paying taxes on income at a rate 50% higher than commercial banks. Hosuing and home financing surely were not the beneficiaries of that legislation.

In recent years as a result of the turbulence, distortions, and extreme cyclical impacts which the roller coaster prescriptions of monetary and fiscal policies have exerted upon interest rate levels during the period, there has arisen in some quarters questions about the virtues, necessity, and logic for the retention and application of Regulation Q. This issue has been presented to both the last and current Congress seeking Congressional sanction for its complete elimination in a short period of years. It is indeed ironical that such a step is being advocated again at the very same time that the housing market has been experiencing its worst recession in the last four decades.

The only reason advanced for the elimination of Regulation Q is that in certain periods the small saver is not always able to obtain the highest rates offered in some sectors of the market. The periods referred to, of course, are those which develop when monetary restraint is especially severe such as 1969–70 and 1973–74. No mention is made of the fact that, with the exception of such periods, these small savers as well as all others are able to secure from their savings account investments the highest average return of all markets when safety and availability are considered.

It is very interesting to note, however, that the advocates of the elimination of Regulation Q never mention the necessity for (1) the preservation of a financial structure which will assure home credit seekers some semblance of competitive equity in the claim for funds, nor (2) the maintenance of stability in our deposit financial institutions which is so essential to theionduct of government, commerce, and just living in these United States. Moreover, there are other areas of justifiable Congressional policy concern that are not raised, but are commingled with, any attempt to further eliminate the interest rate differentials between domestic long term mortgage lenders and those seeking the same funds for a myraid of uses, mostly short term, and which increasingly involve off-shore transactions, many of which are justifiable but too many of which are speculative.

This Committee and the Congress surely recognizes the significance of a financial structure which has long depended upon and has consistently realized the benefits of financial institutions principally devoted to the encouragement of thrift and home financing. Without our institutional structure the provision of housing credit and adequate shelter would be a much more serious problem than that which we now encounter.

Let's just take a trip with the facts.

This is what savings and loan associations have done in the last decade plus one year which encompasses the period of violent fluctuations in interest rates and savings flows with which we all are most familiar and concerned.

SAVINGS AND LOAN ASSOCIATIONS, MORTGAGE LENDING AND SAVINGS GAINS

[Dollar amounts in billions]

Year	Mortgage loans made and purchased	Net savings gain	Mortgage activity as percent of savings gain
1964	$27.197	$10.590	257
1965	26.667	8.513	313
1966	18.153	3.615	502
1967	22.307	10.649	209
1968	24.391	7.478	326
1969	24.251	4.079	594
1970	25.244	11.018	229
1971	47.230	28.250	167
1972	62.311	32.928	189
1973	56.883	20.529	277
1974	[1] 43.014	16.008	269

[1] Estimated.

The preceding table dramatically illustrates two important factors. The first is that a system of financial institutions structured to channel assets into housing credit is indispensable to the maintenance and functioning of adequate housing markets. The second is that even under the most stringent financial market conditions these financial institutions continue to provide substantial amounts of mortgage credit.

Savings and loan associations consistently extend mortgage credit equal to 200% to 300% or more of annual gains in savings. In the tight money periods of 1966 and 1969 the ratio exceeded 500%

One of the ominous portents revealed by the table, however, is that during the last tight money squeeze in 1973–74 savings and loan associations did not dare to continuously commit forward disbursements in the face of adverse savings flows to the degree they did in 1966 and 1969. One of the principal reasons for the increased sensitivity to commitment exposure during 1973–74 was the fact that the regulatory authorities suspended or reduced the moderate restraints of Regulation Q and remained passive while the restraints were in fact abridged in other ways. Normal market pressures during abnormal times were one thing that associations were accustomed to encounter. Changing the rules of the game under the intense pressures which existed during that period introduced unwarranted unstabilizing elements into the housing market and our financial institutional structure as well.

In 1973, on July 5, the federal regulatory authorities took action to speed the end of interest rate control and the housing differential. The agencies removed the ceiling from one category of savings accounts, raised the ceiling on all other categories and, in the process, carved in half the historical difference of 50 basis points for passbook accounts.

The record of these actions speaks for itself. It was a disaster for housing. In the 40 business days following the July 5th changes, savings and loan associations lost $1,371,000,000 of savings accounts. In this short period of time housing credit for 45,000 home seekers was diverted to other purposes. Undoubtedly, the severe impacts caused by these actions would have continued over a longer period of time with increased depressive results had the Congress not quickly mandated by legislation that the wild card CD—with no rate ceiling limit—be eliminated.

Again last year the experience with the so-called floating rate notes substantiated what happens to savings accounts and housing credit when the restraints of Q are removed or effectively sidestepped. During the months of July and August 1974, when the floating rate notes appeared, savings account losses amounted to $1,632,000,000. While all these savings account reductions did not wind up in the floating notes, a substantial portion did.

The consequences of the dilution of Regulation Q ceilings and controls for the housing market during the past two years are a matter of record. It would be difficult for a completely disinterested observer not to conclude that the dilution of Q was intended to produce the results it did. After all, it was not the housing sector that was augmenting its demands upon the credit markets then and contributing to the escalation of interest rates. The nonhousing corporate borrower was the dominant claimant for the dwindling supply of credit during those periods and the excesses to which those claimants used such funds still plagues our economy.

The National Savings and Loan League does not believe that the Congress can ignore the importance of Regulation Q to the housing market. One of the most important contributions which this Committee and the Congress can make to reviving and maintaining a more viable housing market is to mandate the continuation of Regulation Q and restoration of its historical 50 basis points differential.

The housing industry could be further stabilized by permitting federally-chartered savings and loan associations to issue variable rate mortgages.

Variable interest rates have always been applied to deposits, so that when short-term interest rates rise and savings and loan associations must pay higher rates of interest to maintain the inflow of new savings, they also have to apply those higher rates on all "old savings deposits." But "old" mortgage loans bearing lower than current market rates are not also adjusted upward. Consequently, savings and loan associations must charge an even higher rate on the new mortgages they make in order to cover the increased cost of maintining their deposits. Families unfortunate enough to come into the mortgage market at such times must carry the full burden of the cost differential and, under fixed rates, must continue to carry that burden even if interest rates subsequently decline. To the extent that they resist accepting such terms and postpone their purchases of new or existing homes, it is the housing industry which suffers and, through it, employment and output in the rest of the economy.

Economic instability imposes tremendous costs on all of our people. At the end of the first quarter, there were almost 8 million unemployed workers and sufficient idle capacity to produce about 16% more output than the economy was, in fact, producing. This whole nation is eager to have this recession over with as quickly as possible but I would like to repeat my strong feeling that the structure of this economy has been disturbed by a variety of domestic and international events and by misguided policy actions. There is nothing that this nation needs more today than stability and confidence that there is some chance that its expectations will be realized. Our best hope, I feel, for achieving this is to adopt economic policies which assure *steady* progress toward the full employment objective.

When the actions of the Congress and the Administration are taken in this context, I believe, from the viewpoint of housing as well as the economy in general, that government policy has been approximately on the right track. The $2000 tax credit may or may not turn out to be highly effective in eliminating the overhang of unsold homes and the Emergeny Hcusing Act of 1975, which contains provisions for temporary reductions in interest rates and other tax incentives, may not ultimately be enacted into law, but they are positive steps in the direction of promoting recovery of the housing industry.

No amount of direct government subsidization of housing, however, can ultimately prove effective in solving the nation's housing problems so long as construction costs and interest rates continue spiralling upward. Government policy which is directed at bringing price inflation under control is still the best policy for the housing industry.

Thrift institutions have in the past and can continue in the future to satisfy the housing finance needs of the vast majority of American families if they are given a stable economic environment within which to work and the necessary powers to cope with periods of instability.

Beyond this, however, there is a segment of the housing market which requires further attention—housing for low income groups. This segment of the market is the appropriate domain for direct governmental assistance. With that assistance, thrift institutions can reach an even larger group of American families.

Savings and loan associations, like other depository financial institutions, are charged with a public trust for prudently managing and investing other people's money. We take this trust very seriously, because the survival of our industry and the means for making long-term home financing available to the great majority of American families depends upon how we carry out this trust.

In making mortgage loans, which is the primary way we invest other people's money, two factors are of extreme importance—the economic ability of the borrower to repay the loan and the appraised value of the property which secures the loan. Direct government assistance to low-income borrowers can serve to qualify many for thrift institution long-term financing, but if the property being pledged as collateral for the loan is located in an unstable area, so that its value may fluctuate significantly over the life of the loan, a system of government loan guarantee is needed. With the proper support from government, an issue like "redlining" need never arise.

The shortcomings of government policy in this area are, in my opinion, as much those of implementation as ones of concept. There is an enunciated policy of eliminating slums and blighted areas, of rehabilitating urban centers, of preserving

neighborhoods, and providing decent housing for families of low and moderate income. But in implementing this policy, one perceives inertia—not action—and economic reality has no tolerance for inertia.

The nations housing policy objectives, however, extend beyond providing housing for the lowest income groups, which is, as I have said, the proper domain for direct governmental assistance, to providing decent housing for all American families. Working with government in the interest of these objectives, the savings and loan industry has, I believe, compiled an excellent record. This record is reflected in the fact that over 63% of all American families own their own homes.

We face new economic realities, however, and if the savings and loan industry is to continue to play its role in achieving the broad objectives of the nation's housing policy, action must be taken to modify the structure.

The National Savings and Loan League has adopted a plan of action for bringing about these changes. The full text of this plan, identified as Attachment A and entitled "A Blueprint for the Evolutionary Development of the Savings and Loan Industry into Full Fledged Family Financial Centers," is attached for your information. With the consent of the Committee, we would like to have this plan included as part of my testimony. We are prepared to move ahead with this program and would welcome the opportunity to discuss its provisions in detail.

Chairman HUMPHREY. We thank you very much. Now you men in this business always talk about regulation Q as if everybody knows what it is. I know what it is, but why don't you tell us quickly what regulation Q is in simple language?

Mr. ALEXANDER. Regulation Q is a simple device of controlling the cost of savings capital to deposit institutions. And by controlling the cost, it indirectly controls the rate that the financial institution must charge its borrowers. So you can make a very real case, if it were not for regulation Q having been in effect during these wild gyrations we have had since 1966, as high as interest rates have gotten on the home loans, good Lord knows where they would have gone had it not been for regulation Q.

It is in our view an absolutely vital part of maintaining long-term mortgage credit which the housing industry has to have. It simply cannot exist without it. And without regulation Q, unless we can reach a point where we can all feel comfortable with the idea that we are not going to have the 1964's and the 1969's and the 1966's, if we are going to have stability in prices and stability in monetary cycles, then regulation Q can just stay there and it will have no effect. But I do not think anybody feels very comfortable with taking the risk.

Chairman HUMPHREY. You have a rate differential between commercial banks and savings and loans; is that correct?

Mr. ALEXANDER. Traditionally, it has been one-half of 1 percent, as you well know. It is whittled down to about one-quarter of 1 percent as the result of some actions taken in 1973 and again in 1974. And you have just heard the people in the housing industry explain that they have been in a recession for the last 2 years, and we think it is in no small part due to the fact that we played some games—we attempted to play some games with regulation Q that cost the housing industry and the thrift industry millions of dollars in funds that could be in housing today.

Chairman HUMPHREY. And drawing money away from deposit in S. & L.'s into commercial banks which are using that money not so much for home mortgages but essentially for other commercial purposes.

Mr. ALEXANDER. Commercial and industrial loans.

What occurs is, you pit the commercial and industrial borrower against the homeowner borrower, and you know who is going to win that battle every time.

Chairman HUMPHREY. Very good.

Mr. Strunk, we are pleased to have you here. You are the executive vice president of the U.S. League of Savings Associations. I hope you can summarize your testimony—we will include, of course, the entire statement, which, by the way, we looked through last night. And I want to compliment both of you gentlemen on the valuable information that you have given to us, and particularly what you have had to say about regulation Q.

Go right ahead.

STATEMENT OF NORMAN STRUNK, EXECUTIVE VICE PRESIDENT, U.S. LEAGUE OF SAVINGS ASSOCIATIONS

Mr. STRUNK. Senator, it is a pleasure to be here. You are a longtime friend of housing and homeownership and thrift institutions, and a think it is the first chance I have ever had to be a witness before I committee that you have chaired.

I will not only summarize the statement—we have a long version—I have a short version which I will not even get into. I just want to say one bit of good news—we have such bad economic news frequently—we do have one bit of good news, and I would like to talk a bit about one current phase of the administration of regulation Q.

I understand your committee is working toward some report. There is one comment you can make, I think, that would be very helpful in connection with the administration of regulation Q right now.

But first, sir, the good news is that in the month of May, savings and loans made a tremendous number of loans. Our loan volume was $5.5 billion. That volume of lending matched the loan volume of May 1973, which came before we created the wild card, you will recall.

Chairman HUMPHREY. Yes. Now, when you say the wild card, Mr. Strunk, again, for the readers of this record, what do you mean?

Mr. STRUNK. I mean, sir, the action taken by the banking agencies in July 1973 when they lifted the ceiling on certain classes of certificate accounts, thereby permitting banks to pay any price for money. And that caused a tremendous loss of funds from our institutions to the banks. And of course, it was action corrected by the Congress, due in great part to legislation that you introduced. That action, the wild card action, was disastrous for savings and loan lending, it was disastrous for homebuilding, and it, of course, clearly indicates the need for a continuation of rates on all classes of accounts.

But in any event, our lending record in the month of May should be very encouraging to this committee. Now, much of the lending volume in May was loans on existing houses versus loans on new homes. But in any event, people are buying homes again. There is apparently some renewed confidence in the economy, and money, of course, is available now to finance home purchases, to finance homebuilding. And I just want to state that bit of good news; as a result of a good flow of savings into our institutions, home loans are again being made in large volume by our institutions.

Now, with respect to the administration of regulation Q, sir, we have been concerned with some conversions that have leaked out, that have been published in the paper, from the Coordinating Committee—that is, the banking agencies that meet together with

respect to the interest rates that will be allowed to our institutions and to commercial banks on all of our accounts. This Coordinating Committee—the agencies—has constantly raised the rates, and they have constantly lowered the differential. And at one time, as you know, they took the ceiling completely off that class of account.

Now, sir, they are talking about authorizing a new class of account for so-called Keogh plan money and so-called IRA accounts, the individual retirement accounts, authorized by last year's Pension Reform Act. The proposal is that all depository institutions would be restricted to a common rate ceiling for these types of accounts. As a matter of fact, they were talking about having no ceiling at all—again, a wild card type of situation. I think that would be illegal under the legislation that you sponsored.

We are going to ask that this committee send some clear signals to the FDIC, the Comptroller of the Currency, the Federal Reserve and the Federal Home Loan Bank Board not to engage in further acts of erosion of the regulation Q ceiling and the differential. That is the rate that we are allowed to pay and the rate the banks are allowed to pay. And we would particularly ask this committee to view with concern the recent proposals to provide a new kind of an account for IRA and Keogh funds, and then with commercial banks and thrift institutions paying the same rate. It so happens, of course, that Keogh and IRA accounts are long-term accounts. It is an ideal kind of money to go into home mortgages. It is the ideal kind of money for our institutions to have, because we put that money into mortgages. Our problem has been that we have got short-term money into long-term loans. We need some long-term money. This is long-term money for us and we have been doing a good job in getting it. Maybe we have been doing such a good job in getting it that the banks now want to compete with us on an even rate basis.

But we are asking that the banking committees, when the regulation Q law is extended this year to write into the law the requirement that thrift institutions be guaranteed an adequate differential over the rate that may be paid by commercial banks under regulation Q. And we would hope that the Joint Economic Committee would express its interest in maintaining that differential.

Chairman HUMPHREY. I will ask our staff to prepare an appropriate document on this and bring it to my attention, and I will clear it with the members of the committee.

Mr. STRUNK. And then on IRA and Keogh accounts, we would like to be able to sell these accounts with the marketing advantages that the Congress has traditionally given us in connection with regulation Q ceilings.

Thank you very much.

Chairman HUMPHREY. Well, this apparently is a very new wrinkle that could be brought into the picture.

Mr. STRUNK. It is.

Chairman HUMPHREY. And could have as disastrous consequences as the original wild card, back in 1973.

Mr. STRUNK. That is correct.

Chairman HUMPHREY. I am well aware of the fact that you have had to use short-term money for long-term mortgages; that is not exactly the way to run a business. You should keep away from it.

[The prepared statement of Mr. Strunk follows:]

Prepared Statement of Norman Strunk

My name is Norman Strunk. I am Executive Vice President of the U.S. League of Savings Associations.[1] We appreciate very much the opportunity to appear before this committee and to participate in these hearings dealing with the question of long-term economic planning in this country. We also appreciate the opportunity to discuss the current housing and economic situation. Certainly we in the savings and loan business share the concern of this committee for long-term economic priorities, especially as they effect housing, as well as the current state of the housing market. No other major financial institution in America is as closely identified with housing as are savings and loan associations.

I. The Need for a Better Determination of Economic Priorities

It is obvious to every American that there is plenty of room for improvement in the development of economic policy so far as both the government and private sector are concerned. For too long we have been operating in an inflationary recession with an unduly high rate of rising prices combined with a sharp fall-off in the industrial capacity of the country, an intolerable rate of unemployment, low levels of housing production, and most damaging, a decline of morale and confidence of tens of millions of American families. There is confusion, unrest and disillusionment on the part of many with our economic processes.

Since the early 1930s, the American people have looked to the federal government to provide the necessary environment and climate for a prosperous economy; today, they still look to the Congress and to the Executive Branch of the national government for direction toward better conditions.

We have always done a certain amount of central economic planning in the United States. History demonstrates we have traditionally established national priorities. In the 19th Century the government created a number of economic incentives to encourage the development of the West, ranging from massive land grants to encourage the building of railroads, to homestead land for settlers. In the 20th Century, air mail contracts were used to help develop commercial aviation.

For decades, in the housing field we have in effect put a priority on becoming a nation of home owners. We have done this in a way that induces citizen cooperation, rather than through a centrally directed program to which our citizens were forced to conform in making their own plans. The private homeownership program in the United States has been an outstanding success because we have developed specialized programs and institutions to help people to help themselves; in contrast, the housing subsidy programs have been much less successful.

What we have done is to set priorities and then provided inducements for people to cooperate with these priorities. We have, however, allowed them to pursue their own decisions if they choose to forego the inducements.

Examples of the types of targets and inducements cited here for housing could also be indicated for almost every area of American economic life. Planning by indicating priorities and offering inducements to comply with them, rather than forcing coercion or compliance, is in the tradition of the American system and is the type of economic planning that has worked effectively in our society. It would be a mistake to abandon this type of planning and to try to direct economic activities centrally in very specific ways through direct allocation or rationing of materials, manpower or credit or to force compliance through heavy penalties for failure to conform to some form of central economic plan. A free society allows individuals to make their own decisions. They may be offered inducements to follow the priorities which Congress would prefer be followed, but they should not be prevented from following their own preferences if they forego such inducements.

[1] The United States League of Savings Associations (formerly the United States Savings and Loan League) has a membership of 4,600 savings and loan associations, representing over 98% of the assets of the savings and loan business. League membership includes all types of associations—Federal and state-chartered, insured and uninsured, stock and mutual. The principal officers are: Lloyd S. Bowles, President, Dallas, Texas; Robert Hazen, Vice-President, Portland, Oregon; Tom B. Scott, Jr., Legislative Chairman, Jackson, Mississippi; Norman Strunk, Executive Vice President, Chicago, Illinois; Arthur Edgeworth, Director, Washington Operations; and Glen Troop, Legislative Director. League headquarters are at 111 East Wacker Drive, Chicago, Illinois, 60601; and the Washington Office is located at 1709 New York Avenue, N.W., Washington, D.C. 20006, Telephone: 785-9150.

II. PRESENT CONDITIONS IN THE HOUSING MARKET

We now find ourselves at the bottom of the third major—and the most disruptive—housing cycle in the last ten years. Certainly it is appropriate to step back and take a look at the policies that have led to this instability in the housing market.

At this mid-point in 1975 conditions in the housing industry are mixed. Certain indicators of housing activity—including mortgage loan volume and sales of existing units—have shown a sharp and significant recovery since the start of 1975. Thanks to a drop in short-term interest rates in recent months, savings and loan associations have received record savings inflows during the first five months of the year. These inflows are reflected in the major recovery in mortgage loan volume which has been achieved in recent months. It is interesting to note that mortgage lending volume of our institutions in May was our second best month on record. To an overwhelming extent, however, increased lending has been concentrated in the existing house market.

One major and significant disappointment for us is the fact that new housing starts remain at a low level. On the basis of the housing start figures for May—an annual rate of 1,126,000 units (seasonally adjusted)—it is apparent that there is some distance to go before it can be said that a home building revival is underway.

It has been suggested by some home builders that high interest rates and "holding back" by mortgage lending institutions are responsible for the sluggish recovery in new home building. But the loan figures reported by our institutions surely make it clear that, for the most part, our institutions are pursuing reasonably aggressively mortgage lending policies. It's true that mortgage rates have receded only slightly since the peak reached in early 1975. In all frankness, we do not see very much prospect for any significant further decline in long-term mortgage rates until such time as we have better evidence that inflation has been brought under control and until the cost of savings capital to home financing institutions is reduced below its present level.

III. NEAR-TERM PROSPECTS FOR NEW HOUSING

In our judgment, the new house market has some serious problems which go far beyond the questions of mortgage interest rates and mortgage loan volume.

One of the fundamental problems, of course, is that the market continues to be overbuilt in a number of areas, particularly in condominiums. It is encouraging, of course, that the 5 percent tax credit has begun to clean out much of the existing inventory. This "market overhang" has been responsible to a considerable degree for the reluctance on the part of many home builders to be newly aggressive in planning new starts.

Another important reason that the new housing recovery is taking so long is that the cost of new home construction has risen out of reach of many American families. The Department of Commerce figures on housing costs from 1960 through 1973 show the cost of new housing (including construction wages and building materials) increased 83.1 percent as compared to a general increase in the Consumer Price Index of 50.1 percent. The Commerce Department figures have been substantiated, of course, by the Joint Economic Committee which reported recently that only 15 percent of American families had a large enough income to buy the median-priced new home of $41,300 built in 1974. The same report showed the percentage of new houses selling for less than $20,000 fell from 19 percent in 1972 to only 9 percent in 1973.

Third, it is apparent that the traditional remedies for recovery in new building are not working as well as they have in the past. For many years the housing industry has been trying to absorb higher costs through the device of more liberal credit programs. We've reduced the down payment requirements and increased loan amounts on government guaranteed and insured loan programs, liberalized the conventional loan program, and, most recently and currently, the industry has been forced to ask for ever-increasing subsidies to ease the cost of financing. But this time around these traditional remedies don't seem to be working. New home financing and subsidy programs appear to be regarded as the only answers to reviving the housing industry. However stimulative these programs might be in the short-run they will fail to assure any long-run stability in the industry.

Fourth, we have a deeply-embedded pessimism on the part of many consumers which works to depress the new housing market. Partly this unfavorable consumer psychology is traceable to the drop in the "real" purchasing power suffered by the typical American family. In addition, inflation has been causing a massive redistribution of personal spending patterns, with more and more personal incomes

devoted to energy-related and food items and less and less available for such "big ticket" purchases as automobiles, housing and appliances.

The cost of living index figures show very clearly what is happening. From year-end 1972 to year-end 1974 there was a 22.1 percent increase in the cost of living. During the same period grocery prices rose 34.7 percent (including a rise in cereals and bakery products of 56.9 percent), fuel oil and coal rose 91.6 percent and automobile gasoline rose 44.4 percent. The same trends continued in the first four months of 1975; while the cost-of-living rose at an annual rate of 6.3 percent, cereals and bakery products rose at a 12 percent annual rate and the cost of gas and electricity rose at an 18 percent annual rate. Unfortunately, too, the cost of some services have begun to outrace the general rise in prices.

Faced with the possibility of spiralling costs of the "essentials," the American consumers recognize they may have little discretionary income for anything else. They know, too, the most difficult uncertainties stem from a random group of economic events over which they—or perhaps their government—have no control. They know that the Arab oil embargo and its impact on the energy situation in our country has had a devastating impact on fuel costs and they do not know what future price increases from the OPEC nations may mean. By the same token, rising food prices have taken an enormous toll on the consumers' budget and they are unable to project the future cost of food during the coming weeks or months.

Under the circumstances, many consumers are left with no alternative, as they see it, but to retrench and to try to minimize future financial commitments.

Despite some rosy forecasts for the second half of 1975 and early 1976, we are not optimistic about any short-run solution to our economic woes. So long as energy and food absorb an increasing share of personal incomes, we believe the recovery in the economy will be sluggish through the remainder of 1975 and on into 1976, with the "big ticket" industries slowest to recover, with unemployment at high rates and with long-term interest rates still high because of the continued inflation in the economy.

There are reports in the press of expectations of bumper food crops in 1975. If these forecasts are realized in the coming months presumably we see a stabilization in food prices and an improvement in the Consumer Price Index. This assumes, of course, that savings on food are not offset, or more than offset, by further increases in energy and other items.

A continued trend toward price stability, is, we believe, essential to a vigorous economy. It would mean a rapid improvement in consumer confidence and would open the way for an appreciable decline in long-term rates. Lower long-term interest rates would encourage sound economic growth.

IV. THE ROLE OF FEDERAL RESERVE POLICY

These statements about interest rates lead naturally to the question of appropriate monetary policy during an inflationary recession.

We have given serious consideration to testimony of Arthur Burns concerning his monetary growth targets through March of next year. In his testimony he advocated a credit expansion target (money supply to grow between 5 percent and 7½ percent) as being an appropriate target. Such a target, it is important to remember, would be quite stimulative from an historical perspective. Rarely during the years following World War II has monetary growth been substantially more stimulative. The major exceptions occurred following the 1969–70 economic slowdown and the 1966–67 economic slowdown. The thing to remember, however, is that in both of these instances such a stimulative policy eventually helped to produce an economic recovery that reached such bouyant proportions that excessive inflation ensued. It is this inflation potential of an overly stimulative monetary policy that is of great concern.

The success of our institutions in providing the mortgage needs of the American people requires that the ensuing economic recovery not lead to another inflationary disaster. As a result, we endorse a moderate policy in the hopes that such a policy—unlike the previous experience of the last two cycles—will assure that the next period of economic expansion ahead is one of stability in both the rate of gain of the economy and in prices.

Having said this, we must also confess our reservations about assigning too large a role to monetary policy to achieve a return to a noninflationary prosperity. It should be clear that we can no longer afford the luxury of "old-time religion" solutions to our economic problems. Perhaps tight monetary policy and high interest rates could stop inflation when we enjoyed a seemingly endless abundance of energy, natural resources and key materials. But as we have learned so rudely

in recent years, we are no longer blessed with abundance in these areas. To attempt solely thru monetary policy to achieve a "growth 'economy with price stability" in a world of cartelization and potential serious domestic shortages of key commodities may invite choas.

Truly, it is time for new approaches and better long-range ordering of economic priorities and, in general, we support the efforts of Chairman Humphrey and Senator Javits and their colleagues on the committee to move in these directions.

V. A VIEW OF THE GOVERNMENT'S HOUSING PROGRAM

During the last ten years, the government has played an ever growing role in the housing market. We have seen subsidized housing programs, enormous growth in mortgage finance agencies designed to channel credit in the housing market and programs designed to subsidize mortgage rates—all these in the hope of giving a greater proportion of the American people the ability to purchase homes. In each instance over the last ten years these programs have been promoted on the basis that they will solve the drastic fluctuations upward and downward in the housing markets. But a reappraisal of the last ten years does not support such contentions. The fact of the matter is that even with the enormous government support of the housing market, the current housing cycle has been even more violent than in the past.

In part because of the feast and famine conditions in the housing credit markets, there has been increasing discussion in Congress over the possibility of some sort of formal credit allocation. In fact, we already have a system of credit allocation for housing through the specialized thrift institutions in the country. The device to industry is the continuation of slightly higher rates which thrift institutions may pay under Regulation Q as compared to commercial banks. We assume that the Congress continues to believe that a "decent home" for every American family is a fundamental objective of the American economic policy. Certainly there must be a continuation of the savings rate advantage for thrift institutions if we want to continue to make progress towards the "decent home" objective that was outlined by the Congress in the Housing Act of 1949.

With specific reference to Regulation Q ceilings, this committee knows that these ceilings were first imposed in the early 1930s to prevent excessive competition of financial institutions for funds for deposit on the general premise that this excessive competition produces a reach for yields, bad lending policies, and the ultimate collapse of thousands of financial institutions. The Regulation Q imposition of ceilings on savings and time deposits was intended to avoid excessive competition for funds.

In recent years we have heard these ceilings are out of date and provide little protection to savings institutions in times of disintermediation and rising interest rates. We, too, have observed the growing sophistication of small investors and the various promotional devices used during periods of disintermediation such as last year's Citicorp floating rate notes.

It is said that Regulation Q does not afford protection against disintermediation. That, of course, is true, Regulation Q was never intended to provide protection for financial institutions—thrift institutions and commercial banks—from the money market. Regulation Q was designed to protect financial institutions from cutthroat competition with each other. Regulation Q was designed to prevent some banks from paying an excessive price for money thereby causing all banks go have to pay an excessive price for money. Regulation Q ceilings were designed to prevent expensive rate wars between financial institutions, thereby increasing the cost of money. In turn this causes them to have to increase the interest rate on the loans they make as well as to make high risk loans which eventually result in losses and failures of both banks and savings and loan associations.

Regulation Q has been a great factor in maintaining the integrity and the stability and soundness of our financial system. It was not until ceilings were removed from certificates of deposit in excess of $100,000—the so-called jumbo CDs and banks began to pay unlimited rates of interest for money obtained through jumbo CDs, Eurodollars and commercial paper that we have had the problems in the commercial banking business that have surfaced in the past few years.

It is important to understand that Regulation Q has not failed as so many now are saying. It has, in fact, been eminently successful. With respect to disintermediation, this, of course, is not an every day and every week phenomenon.

What is an every week phenomenon is increasing commercial bank competition for savings, and limited though it is by virtue of the narrowing set of rates that we can pay for savings versus what banks can pay for savings, we do feel that this protection is absolutely essential. Without Regulation Q type controls in existence,

we are certain that commercial banks today would substantially be outbidding us for all types of savings depositors during the periods of heavy commercial loan demand; in addition, the large banks would substantially be outbidding the smaller banks for savings.

To refresh your memory, we have had two dramatic examples in recent years of what happens when there are no savings ceilings, when, as is envisioned in the Administration's Financial Institutions Act (S. 1267) and other restructuring proposals, rate competition was unlimited and the institutions paying the highest rates got most of the available funds to lend.

First was the "wild card" disaster that occurred when household savings rates for four-year certificates of deposit were decontrolled in mid-1973. The consequence was a chaotic proliferation of savings-rate competition which saw commercial banks, because of the short-term nature of their loan portfolios, outbidding thrift institutions. Until this ill-advised experiment was ended a few months later, billions of dollars were drawn into commercial banks from thrift institutions and from the home loan market, contributing to the subsequent drought of mortgage money for home buyers.

Second, there was a more recent experience where the Federal banking agencies eliminated interest ceilings on commercial bank certificates of deposit over $100,000—the "jumbo" CDs. In 1974, when interest rates on these big bank CDs soared to 12 percent and more, we saw the capital markets repeat the same thing observed when the "wild card" certificates disrupted the market for consumer savings. With bank CD rates at the double-digit level, massive sums of capital were drawn out of the stock and bond markets—thoroughly disrupting the economy and the normal allocation of funds.

And, of course, this concentration of capital in banks was one of the reasons for the runaway boom last year in commercial bank lending. This, in turn, led to tremendous inventory speculation and accumulation by businessmen, which then contributed to the current recession in which this country finds itself. According to the Federal Reserve Bank of St. Louis, for example, "big CDs" held by the large commercial banks rose from $66 billion at the end of February 1974 to $92 billion at the end of the year with a comparable spree in commercial bank lending to business firms. These two consequences of lifting the rate restrictions should give the Coordinating Committee of banking agencies pause before further elimination of deposit rate ceilings.

The savings and loan business has been concerned about the administration of Regulation Q by the so-called Coordinating Committee made up of representatives of the Federal Reserve, the Federal Deposit Insurance Corporation, the Comptroller of the Currency and the Federal Home Loan Bank Board. The Regulation Q law delegates to each agency the responsibility for setting ceilings on the interest rates that commercial banks, savings banks and savings and loan associations may pay. The law further says that the agencies in setting the ceilings must first "consult with" each other; however, they retain the authority to act unilaterally to the set the rates at institutions under their respective jurisdictions.

When Regulation Q ceilings first included savings and loan associations in 1966, these institutions generally were permitted to pay a ½ of 1 percent higher rate on certificate accounts and ¾ of 1 percent more on passbook accounts. Higher ceilings were authorized from time to time during periods of tight money and disintermediation. Certificate ceilings went from 5 percent to 5½ percent and 6 percent and higher. Associations are now offering consumer-sized certificates at interest rates up to 7¾ percent. Allowable interest rates on passbook accounts have gone from 4.75 percent to 5 percent and 5¼ percent. The result is that our average cost of money has gone from 4.53 percent in 1966 to 5.26 percent in 1970 to 6.38 percent today. This is one important reason for the high interest rates paid today by home buyers and home builders.

Equally important to the higher and higher ceilings under Regulation Q is the fact that banking agencies have generally been whittling away at the differential between the rate that our institutions may pay for savings—practically all of which go into mortgage loans—and the rates which commercial banks may pay for savings, very little of which go into mortgage loans. Thus, we have seen the differential diminish from ¾ of 1 percent to ½ of 1 percent, and by the Coordinating Committee's action in early July 1973, the rate differential was decreased to ¼ of 1 percent.

In certain periods of time a ¼ of 1 percent price advantage over the banks seems to be adequate; for example, at the present time we have a huge flow of funds coming into our institutions. In periods of tight money, however, when the commercial banks are aggressively seeking savings, the ¼ of 1 percent differential is marginal in the competition for funds between our institutions and commercial banks. Commercial banks advertise the fact that they are a full service operation.

They offer free checking accounts, full service lending and trust services. All we are able to offer is a savings account or certificate with a ¼ point differential, and this is not adequate to compensate the depositor for the vast array of services that he can get at the commercial bank. There is currently a great effort on the part of commercial bank spokesmen to eliminate the differential. What the thrift institutions really need is a greater differential under Regulation Q than ¼ of 1 percent which the agencies have set for passbook and virtually all certificate categories, including the six-year certificate authorized last December. In their most recent action, the Coordinating Committee had a chance to permit us to pay ½ percent more on a six-year certificate than was permitted to the commercial banks, but the agencies maintained the bare ¼ percent differential on these new longer-term certificates. The banking agencies seem determined to permit the banks to pay higher and higher rates and increasingly they seem determined to erode the differential between what our institutions may pay and what the banks may pay.

Not only has the rate differential been cut in half in the last few years, but now efforts are being made to further erode that differential. Thus, we understand the banking agencies—with the encouragement of the banking trade organizations—today are seriously considering a new class of account for Keogh plan and the so-called IRA (individual retirement accounts) authorized by last year's Pension Reform Act. The proposal is that all depository institutions would be restricted to a common rate ceiling for the retirement savings accounts.

We would ask that this committee send clear signals to the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Federal Reserve and the Federal Home Loan Bank Board not to engage in further acts of erosion of the Regulation Q ceilings. We would particularly ask this committee to view with concern the recent proposal to provide a new kind of account for IRA and Keogh funds with commercial banks and thrift institutions paying the same interest rate.

Funds placed in Keogh and IRA happen to be an ideal type of money for investment in long-term mortgage loans. As the members of the committee know, these are retirement savings. They may not be withdrawn by the individual until age 59 unless he or she loses his tax advantage from investing in these accounts. Thus, these funds are stable, long-term funds and the type that should go into mortgage loans. Some of the funds invested in IRA and Keogh accounts in commercial banks, of course, would go into mortgage loans, but more would go into loans to business and the purchase of tax exempt securities.

We are asking the banking committees when the Regulation Q law is extended this year to write into the law the requirement that thrift institutions be guaranteed an adequate differential over the rate paid under Regulation Q by commercial banks. We would hope that the Joint Economic Committee would express its interest in this question.

As the members of this distinguished committee recognize, we want to continue to be able to serve the needs of our citizens who are home owners or who want to become home owners.

We hope this committee continues to assign a high rank to home ownership when it reviews our various national priorities. To support the goal of becoming a nation of home owners, our savings and loan associations need an extension of Regulation Q, an assured differential on interest rates paid our savers, a differential for IRA and Keogh accounts, and continued support for our traditional role in financing home building and home ownership.

Chairman HUMPHREY. Now, you gentlemen have both said housing is periodically made the scapegoat of the Federal Reserve system, when it pursues an anti-inflation tight money policy. In your statements, you indicated that you lose savings, and mortgage money tightens up, forcing down housing activity and causing considerable trouble to the entire industry.

What can we in Congress do to protect housing from the whims of monetary policy? Do you think we ought to allocate credit on a massive scale to housing? Do you think that the restoration of Regulation Q's traditional one-half of 1 percent spread alone would enable S. & L.'s, during periods of tight money, to continue making mortgages available?

Mr. ALEXANDER. I will let Norman handle part of it; let me take the first part, with regard the stability aspect of it—and I think this goes to the point of using monetary policy as well as fiscal policy to maintain a higher level of stability. That is an important part of it.

With regard to the rate control, I may be repeating myself, but our position is that the one-half percent differential should be reinstated. We are advocating, in that booklet you have, Senator, that the savings and loan business be permitted to commit 70 percent of its assets to residential-type loans or investment. This is a very high percentage for these financial institutions to commit to housing, and to home ownership. Now, if we believe in the concept that we want funds on a steady basis going into that activity, then we think there should be a rate differential in the savings capital part of the market to distinguish those savings from other kinds of deposits in commercial banks and the other kinds of funds commercial banks have access to.

So, we support the continuation of rate control, and we support the proposition that the one-half percent differential should be restored. And I might say that while the National League is not on record, I can speak on behalf of the savings and loan associations, and I am sure I know members of our industry who share my feeling that we would support at the present time the coordinating committee lowering the ceilings on rate control, because it would have the effect of lowering the cost, the rates that we would have to charge the public. It would have the effect of improving the profitability of the savings and loan industry. As Mr. Sumichrast made a very important point: a great deal of the subsidy, the rates that went into the housing market last year went at a cost of the net worth of the savings and loan industry. I am sure we made a bigger subsidy than the Federal Government made to housing last year.

Chairman HUMPHREY. Very good.

Mr. STRUNK. Senator, on the matter of credit allocation, you know, the savings and loan business is, in effect, a credit allocator because of the way the tax and banking laws work. We go and compete with the banks and others for money and we "allocate" that money into mortgages. The Federal Government has a credit allocation system—it has Fannie Mae, Ginnie Mae—and the savings and loans. And the regulation Q and differential that the agencies provide housing-specialized lenders, like our institutions, are basically the credit allocation system.

And what we would like to have, as Mr. Alexander said, is a half point differential. We would compete more effectively if we had that.

Another problem is we have to have some lowering of at least the bank ceilings, because it would be pointless to let us pay higher rates on top of, you know, a half point above what the banks are permitted to pay. Our money would cost us just that much more. As a result of these increases in ceilings, our savings deposits now cost us about 6.4 percent, as against 5 percent or 5.5 percent a year ago. Now, how can we make loans at 6 percent when our raw material costs us 6.5 percent? This is the problem. But we do have a credit allocation system for housing, and we are pleased that the Congress is interested in keeping our credit allocation system working.

Chairman HUMPHREY. At least what still remains of it.

Mr. STRUNK. That is correct.

Chairman HUMPHREY. Speaking of the problem of the costs of money, are interest-subsidized loan programs the right approach to bring housing costs down?

Mr. STRUNK. As homebuilders have said, there are three aspects to the cost of the finished product: land, and all that goes with that;

the labor and the materials; and the financing cost. Now, I think they were in part talking about the construction financing, the cost of borrowing the money during the year, during the 6 months or 9 months the building is under construction. And the builders paid some ridiculously high prices for construction financing last year. Many of them were borrowing from the REIT's, and they were paying 15 or 16 percent. They borrowed from commercial banks at prime plus. Now, our institutions, in making construction loans, do not charge anything near the construction loan interest rates that many of the builders, the big builders, had to pay when they borrowed from the REIT's and the commercial banks.

And then there is the matter of the mortgage loan taken out; the 20-, 25-, 30-year mortgage loan taken out by the person who buys the house. And obviously, if it is a 9-percent interest over 30 years, the monthly payment is going to be higher than if it is a 6-percent interest rate. And to the extent that we can get lower interest rates to some people, more can afford to buy homes. You raise the interest rate 1 percent on the final permanent loan, it knocks out a portion of the people that see fit to carry that monthly payment.

We have not been opposed to interest rate subsidies. As a matter of fact, we kind of preferred the shallow subsidy program that was in the housing bill to this Ginnie Mae tandem plan arrangement that you just voted earlier this morning.

Chairman HUMPHREY. Yes.

Mr. STRUNK. That would have used our money; we would have made the loan at, say, 8.5 percent, and the Government would have subsidized the difference down to 7 or 6.5 percent. By contrast this Brooke-Cranston program is money obtained by the Federal mortgage agencies in competition with our deposits.

So, yes, to get home ownership down into the lower income ranges, some subsidy would not be inappropriate. It is just a matter of how much we can afford.

Chairman HUMPHREY. It has been my view that I thought this would permit us to use the normal channels of financing, like the Savings and Loans.

Mr. STRUNK. Correct.

Chairman HUMPHREY. The only Government interference at all would be the subsidy of the interest rates for certain income levels. Thrift institutions would handle all of the paper work, all of the loaning. And they would be able to gather the necessary capital for long-term mortgages. And the role of Government in this instance would be very modest insofar as any administrative action is concerned.

Mr. STRUNK. As a result of this, now, the Government has a huge mortgage bank—that is what Fannie Mae is.

Chairman HUMPHREY. But they thereby compete right in your market. And the more the Government borrows, obviously the greater is the stress and strain on that money market.

Mr. STRUNK. And all we are left to do is be kind of a conduit, a little branch office for these Government agencies. We would rather use our money—the savings we attract from the public. We have no objection to interest subsidies for those families that need this kind of help to fit the ownership program in their budget.

Chairman HUMPHREY. I am going to have to draw this pretty much to a conclusion here. I just want to ask one thing on condominiums. You know, there is this overhang of unsold units.

Do you think the banks and the S. & L.'s were a little too aggressive in financing condominium conversions with funds that could have alternatively been used to hold apartment and single-family mortgage rates down?

Mr. ALEXANDER. Yes; I would think also there is a rationale—or perhaps two points should be made with regard to that. One, the cost of preparing a site for a single-family house—we have already heard some comments about that, and I will say no more than to say that it has gone up at an enormous rate. The concept of a condominium in terms of the cost to provide site improvements has a way of spreading those costs or reducing the cost per unit, so there is a good rationale that the condominium approach of providing more housing at more cost does make sense.

Chairman HUMPHREY. Yes.

Mr. ALEXANDER. I think the other side of the coin is that that market was not nearly as large a market as we had anticipated that it was. And second, the overhang resulted from a monetary policy, largely unexpected, that was put into force in 1974, and as Norman said, drove the cost of money to these builders to 15, 16, 17, 18 percent. There was no way that those costs could be absorbed in those units. We tipped the economy over into a recession, threw a lot of people out of work and that is part of our big overhang. And is it not a shame to be talking about the need for housing for so many people and to have it all sitting out there with nobody living in it—and to some extent, not even completed?

Chairman HUMPHREY. So a good deal of the problem is due to the manner in which the money supply was handled?

Mr. ALEXANDER. Oh, it had a big effect on the cost of them. It had a big effect on the cost. This is not a long-term mortgage credit. It had an effect on the cost of the units, and of course, the tight monetary policy, I think everybody agrees, along with the inflationary factors that were involved, has tipped us into the recession.

And so we think—and I want to emphasize the point you made and the point Norman made—that the Congress should go back to the administration, go back to the proposition and look again at using this system, this thrift system that we have in place, and not set up some other mechanism to subsidize American families that need housing. Granted, we do need some subsidies.

Mr. STRUNK. I want to make the point—I do not think it was our institutions that got involved in financing all these condominiums in the last 2 or 3 years. If you look around, I think you will find they were in the REIT's. They got pretty greedy; they thought they had a good way to make money.

Chairman HUMPHREY. That is right.

Mr. STRUNK. And they force fed an awful lot of condominium apartments on both sides of Florida and other parts of the country, and that is why these REIT's——

Chairman HUMPHREY. A lot of this came out of the commercial banks; did it not?

Mr. STRUNK. That is right, sir, and that is why some of these REIT's now have 80 percent of their assets in what they call a nonearning asset; that is a delinquent loan.

Chairman HUMPHREY. A nonearning asset?

Mr. STRUNK. It is a bum loan.

Chairman HUMPHREY. That name sort of eases the pain; does it not?

Mr. STRUNK. It makes it look better in their financial statement.

Chairman HUMPHREY. That is what some of us say when we take a recess here. We like to call it nonlegislative days.

Mr. STRUNK. I would like to report that we do not have any nonearning assets on our books.

Chairman HUMPHREY. Do you think the Federal Reserve Board was lax in letting the banks get so deeply involved with REIT's?

Mr. STRUNK. It is all so easy to secondguess and to be a Monday morning quarterback. On the record, it is quite clear they were.

Chairman HUMPHREY. That they were what?

Mr. STRUNK. That they were lax.

Chairman HUMPHREY. I think they recognize they were, too. They have been bailing them out ever since. I think the Federal Reserve System knew that it was important that there be confidence in the banking system, and that it had to move in very rapidly the past year to maintain that confidence.

Mr. STRUNK. If the banks had not been permitted to pay any amount of interest to attract money, as they paid in Federal funds and on these big CD's and commercial paper and the sale of obligations—if they had not been able to pay any price for money—they would not have made all these bad loans.

Chairman HUMPHREY. I could not agree with you more, and that was due to a Government policy.

Mr. STRUNK. Correct.

Chairman HUMPHREY. That was due to a Government policy, and that is why I have said many times that much of the recession that we have seen today has a trademark, made in Washington. Gentlemen, I have to leave you and you have got to leave, too; we thank you very, very much; we will follow up on the matter that was brought to our attention about the Keogh funds and the individual retirement funds.

Thank you very much.

Mr. ALEXANDER. We hope you will go back and take a look at the point Norman made to use the existing institutions to channel the subsidies.

Chairman HUMPHREY. I must say, the more I have thought about this and have talked with you gentlemen, I am convinced that in much of what we try to do with Government, we ought to use wherever possible the established institutions in the marketplace. That does not mean that you cannot direct market forces one way or another, there are ways to do that; but we do not need always to set up whole new machinery. Frankly, I think you know a whole lot more about making housing loans than most people that I have met in Government, and there are a lot of very good people in Government service.

Thank you very much.

Mr. STRUNK. Thank you very much.

Mr. ALEXANDER. Thank you, Senator.

[Whereupon, at 12:43 p.m., the committee adjourned, subject to the call of the Chair.]

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