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Catalog No. A 1.78:8

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✓ An article, "Real Estate Forecasting," by P. P. Pullen, Chicago Title and Trust Company, in February 1937, "Banking," publication of the American Bankers Association; pointed out with almost scientific exactitude, how speculation in city land and tracts adjoining settled areas, lays the foundation--for a general financial crash.

6-9-56



News In Brief

Bomb Inju

BRADY, Tex., June 8 (AP) — An automobile bomb booby trap today critically wounded an attorney whose testimony helped send a high state official to prison in Texas' spectacular GI land scandals.

Sam McCollum III, 37, suffered wounds in the chest and abdomen and multiple compound fractures of both legs when he turned the ignition switch in his 1953 model station wagon, setting off the explosion.

It had the earmarks of a gang-land-type murder attempt. Police Chief Golden Jones said the bomb was under the hood of the vehicle and was wired to the ignition.

McCollum was expected to be a key witness again—against B. R. Sheffield, Brady land promoter indicted on 40 counts of theft, conspiracy and forgery and similar charges stemming from the veterans land program.

The dashboard and steering wheel slammed into McCollum, pinning him in the car. Firemen freed him.

The veterans land program involves 100 million dollars.

Under the program, GI's are helped by the state to purchase farm and ranch land at small down payment, low interest rates and long terms.

Family Back South

VS a

RALEIGH, N. C., SATURDAY

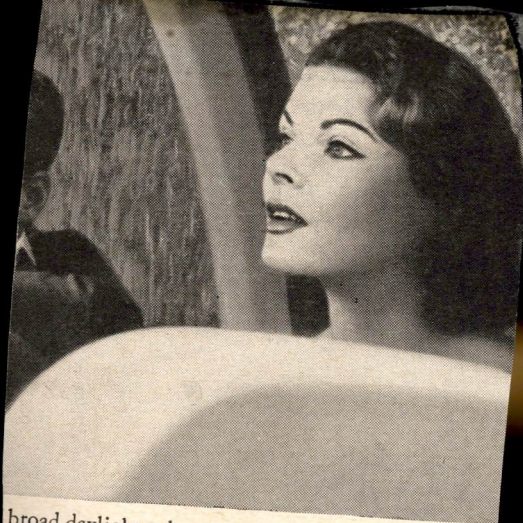
ergoin



. . . I must challenge, in all courtesy, the statement you made to the effect that the federal government "guarantees" savings deposits in building and loan associations. . . . There are two errors in this statement. (1) These are not savings accounts, as in a bank; they are purchases of stock in a corporation. The purchaser becomes a partner, not a creditor. (2) The so-called deposits are not guaranteed by the federal government; they are insured by an incorporated agency. This insurance, so-called, is unlike conventional insurance for it becomes effective only in the event of complete and total failure. There is no legal right of redemption, no "guarantee" nor even insurance for dividends, and the "depositor," or purchaser of shares, may not withdraw or redeem his shares as his legal right. The Association may defer payment, refuse dividends, at its pleasure or leisure, and such deferment does not cause the insurance to fall into force.

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3-57 Harpers



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Plastics maker quits housing because codes delay use of foam panel

FORT WAYNE, IND. — Koppers Inc. has scrapped the most ambitious effort yet by a plastics producer to use plastics in housing.

The Pittsburgh-based company sold General Homes of Fort Wayne to a group of local investors who hope to lease the plant to another contractor for prefabricating houses with conventional wood-stud framing.

The sale ends Koppers' 2½-year effort to sell prefabs built with its foam-core wall panels. When Koppers bought General in November 1961, it converted all General models to the plastic panels.

But General President William B. F. Hall says sales were disappointing because of "unforeseen delays in obtaining approval of the homes by local building officials." The slow sales never let General reach the volume it needed to operate panel-production machinery profitably.

Three months ago Hall explained the difficulty to HOUSE & HOME: "We haven't had any turndowns but you have to work with each city separately and this delays the work. One of the crying needs is for one central place for product approval."

It still is, says Hall, and if a uniform building code ever becomes effective, Koppers may resume its foam core pioneering.

Second experimenter cuts back. In Akron aluminum fabricator Alside Inc. has trimmed operations of its Alside Homes Division to stem a tide of red ink.

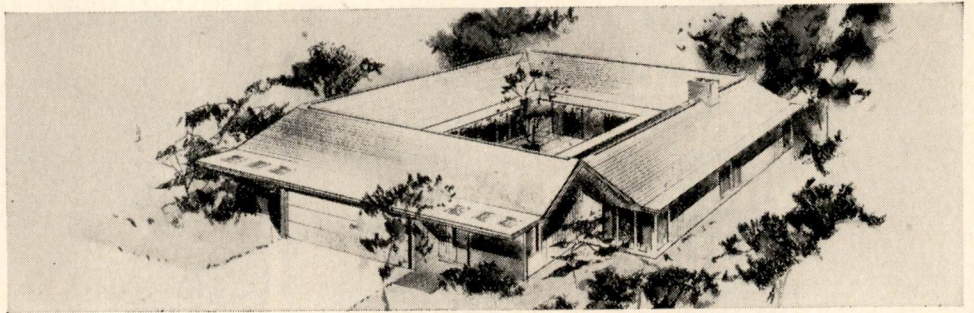
Alside introduced a pioneering aluminum and plastic paneled house three years ago (H&H, Sept. '61). When the company

opened design centers in Akron and Detroit last year (H&H, Oct.), crowds waited over an hour to troop through models priced from \$15,500 to \$40,000.

But sales never approached the 50,000-yearly clip expected, and Alside Homes lost \$2,450,913 in the half-year ending last

March, cutting heavily into the parent company's profits from aluminum siding and gutters.

Alside has now closed the display centers and ceased taking orders from customers directly. But it will continue to accept orders from its dealers in other cities.

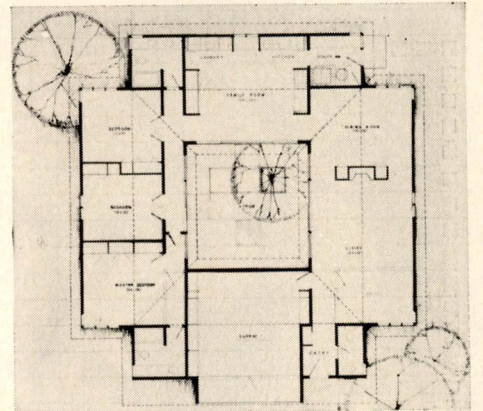


Atrium house will promote manufactured homes

WASHINGTON—Designed to improve the image of prefabrication among both builders and consumers, the 1,728-sq. ft. atrium house above will be built by the Home Manufacturers Assn. this fall in Washington, D.C.

Architect Robert Martin Engelbrecht designed the house for any possible site: because it looks inward to its atrium garden as well as outward, it could fit on the narrowest of lots and still give the owner a sense of privacy.

HMA member companies are expected to build duplicates of the atrium house in their own marketing areas after the Washington house has opened.



FHA softens enforcement of new apartment rules, widens experimental plan

WASHINGTON—FHA has told its district offices to be liberal in applying the new apartment minimum property standards which became effective July 1.

Building organizations—especially NAHB and the fledgling Urban Renewal Department of Action—were concerned that the new rules (H&H, Dec.) might boost apartment costs unduly. Some feared the rules would hit hardest at townhouses by requiring heavy fire walls.

FHA is asking that variances involving health and safety be referred to Washington, but says that other variances can be made by district directors. Both NAHB and URDOA have asked FHA to change dozens of specific items in the MPS.

Experimental remodeling. FHA is trying to pump new life into its moribund Sec. 233. The program was originally set up to insure new housing that incorporated hitherto-untried products or technology; now a new rule allows remodeling jobs of an experimental nature also to be insured under 233. FHA's insuring formula: the sum of 1) the cost of the property before renovating and 2) either the experimental fixup cost or the estimated conventional fixup cost, whichever is smaller.

The new rule stems from the fact that Sec. 233 has not gotten off the ground in the three years since it was written. One reason: materials producers and researchers who wanted to make in-service tests of new products had to build a complete house to do so. Another reason: manufacturers couldn't come up with enough new

ideas to get FHA approval. To date, just six experimental loans have been insured under 233; even NAHB's research house in Rockville, Md. (H&H, Nov., '63), which started out under 233, wound up with conventional financing. FHA brass hopes that the rule, by permitting insurance of less ambitious test projects, will spur activity.

Income taxes: collateral pledge no longer exempt

WASHINGTON—The Tax Court has ruled that homebuilders' taxable income includes profits posted with mortgage lenders as extra security for buyers' loans.

Builders have been using such collateral pledges for years to aid sales by reducing down payments. And this use of pledges received a boost this year when a materials producer, Certain-teed, offered to lend builders part of the money deposited with the lender (News, Feb.) so they could offer conventional mortgages up to 95%.

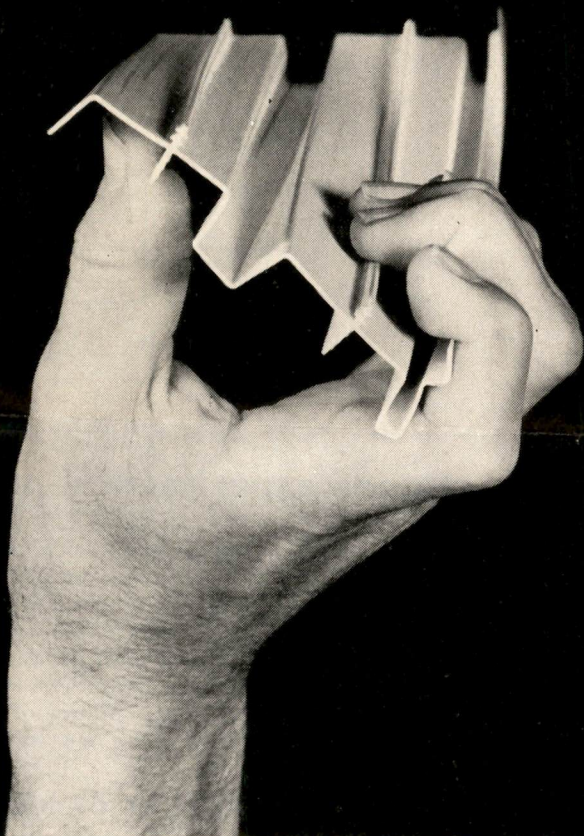
The Tax Court held out hope that in the future Congress would change tax laws to let builders claim the pledges as tax deductible additions to bad-debt reserves.

Another tax item: the Internal Revenue Service has issued an advisory opinion that

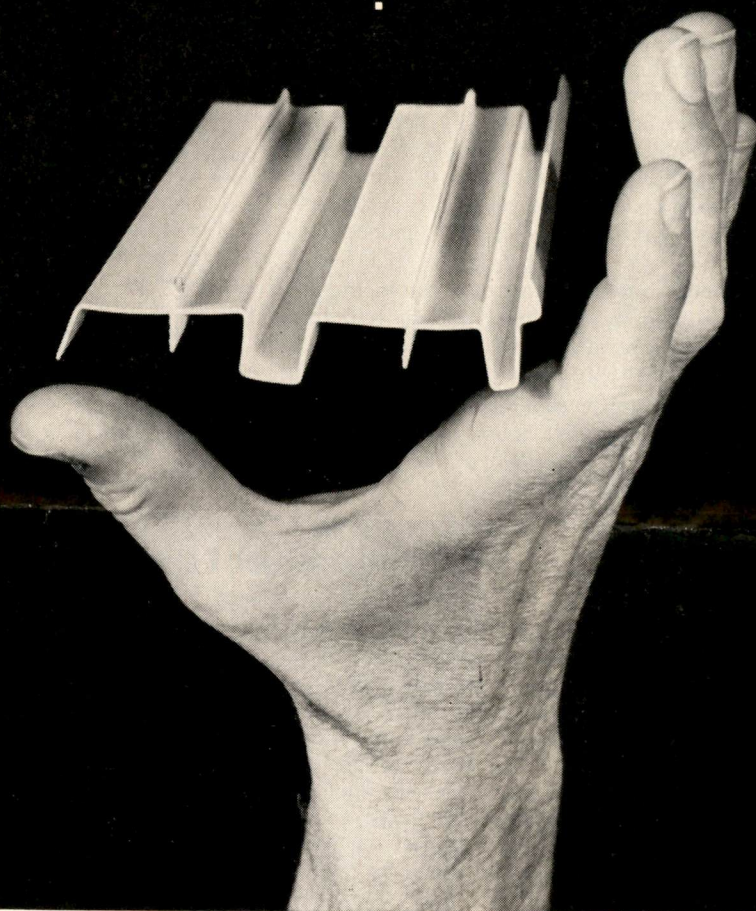
builders and other property owners may deduct the value of scenic easements from taxable income. The opinion, which lacks the full force of a tax ruling, stems from a controversial scenic easement which halted building of a high-rise apartment at Merrywood, Mrs. Jacqueline Kennedy's girlhood home (News, Jan.). The Merrywood scenic easement limits building heights to 40'. A federal court will set the easement's value this fall (some experts say the value in similar urban areas could be \$2,500 an acre).

IRS is under pressure from Congress to publish the ruling to give it official status. The final ruling probably will require builders to reduce the book value of their land before they can benefit.

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Finance Minister George C. Nowlan proposes an economic planning agency.

terials industries—iron ore, aluminum, crude petroleum, natural gas, lumber, and wood pulp. Along with aircraft—mainly the CL-44 transport made by Canadair, Ltd., a subsidiary of General Dynamics Corp. in Montreal—these industries will account for about 80% of the country's export gains for 1962.

But particularly pleasing to Canadians is the other 20%—increased exports by the secondary manufacturing industries that Canada hopes will benefit most from its new economic policies. Canadians point to their steel industry, which recently has been operating at 92%. For the first time this year, Canada is exporting more steel than it is importing, thanks to lower export prices from devaluation.

Government economists expect exports to increase by only 2% to 3% next year. But this estimate could prove too low, because of some recent developments. Negotiations late this month indicate that wheat sales to Red China will continue high, at least through the first half, and the U.S. is increasing Canada's crude oil quota by 7% to 8% for the first six months of the year.

With exports growing only slowly, Canada hopes to make major gains next year by substituting made-in-Canada goods for imports wherever possible. Because of this year's big gain in income, imports have risen faster than exports. But Canada's Trade & Commerce Dept. has undertaken a massive campaign to get companies to switch to domestic sources of supply—a campaign whose major props are the "temporary" 5% to 15% tariff surcharges on a wide range of imports, which

seem likely to stay on at least through next year.

III. Paring the deficit

Now, economists are predicting that Canada will be able to hold its balance-of-payments deficit next year to \$600-million, a major feat for a country that has been saddled with a deficit of \$1-billion or more for the past seven years.

This almost assures that the dollar will be stronger next year. This prospect could free the government from the austerity pledge it made during last June's exchange crisis in return for loans from the International Monetary Fund, the New York Federal Reserve Bank, and the Bank of England.

Canada has not yet formally abandoned its austerity program, but all signs point in that direction. Last month, the Bank of Canada cut its Bank rediscount rate from 6% to 4%, and this month the government ended the wage freeze for civil servants. And with an election coming next year, economists expect government spending to resume its rise.

Capital spending. The impact of this gain will be reinforced by increased capital spending. Preliminary soundings indicate that capital spending will rise about 5% next year. By contrast, the McGraw-Hill Dept. of Economics survey indicates only a 3% rise in the U.S.

This comparatively rosy prospect reflects the improvement in company profits. Because Canadian raw material producers set their prices for world markets in U.S. dollars, devaluation has increased their take in devalued Canadian dollars. But, because they incur most of their expenses in devalued Canadian dollars, costs haven't gone up by much. This, combined with improved operating rates, has boosted profits.

Not out of the woods. As in the U.S., government statistics on profits are slow to come in. But the 20% rise in profits for the first half of 1962 over the same period of 1961 indicates a boomlet. J. R. Timmins & Co., a leading Canadian investment broker, estimates that dividends this year will hit \$914-million, up 10% from last year.

But Canada is still far from being out of the woods. In the long run, the country is going to have to find a way to live with both the Common Market and the new U.S. trade policy. Mesmerized by the success of the devaluation, Ottawa doesn't seem worried about these problems now. If Canada is to hold its hard-won gains, they must again be moved to the top of the agenda. **End**



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Time, June 30, 1961



Associated Press

RADE IN SPANISH CIVIL WAR, 1936
long pontoon of lies.

revolution. Neither state—of dukes and *campesinos*, or grand dukes and muzhiks—had made any real step toward the compromise between feudal past and industrial present that other European nations had made in the centuries since the Renaissance. Spain, like Russia, was ungovernable. At the onset of Franco's revolt against the Republican government, there were more than a million anarchists in Spain. In theory, anarchism is arguable, but in practice it is unworkable. In his total pacifism and good will to all, the anarchist becomes a murderer: Dostoevsky would have felt quite at home in Spain.

But apart from the madmen of the anarchist left, there were the dreamers of the right who had made no gesture towards the modern world since the Inquisition condemned slavery more than three centuries ago. Politics being the art of the possible, politics was impossible to the quixotic impossibilists of Spain—whether right or left.

many readers will draw the lesson from Historian Thomas' that if the Madrid-Barcelona republic had beaten Franco, it would have been as a Communist or "people's" republic.

Franco, on the other hand, as the apparent international winner, gained only limited victory. During the war, the slogans of his lunatic fringe—"Long Live Death!" and "Down with Intelligence!"—made him sound as crazy as the anarchists. But he eventually made himself the master of his own extremists. His regime today, clerical and authoritarian, lacks the more demonic and dynamic features of fascism. Yet in the long run, there is no doubt that Franco lost the propaganda war; even today, there are those who see the Civil War in simple terms as a battle between democracy and fascism, good and evil. "The Spanish War," says Historian Thomas with detached irony, "appeared as a 'just war,' as civil wars do to intellectuals, since they lack the apparent vulgarity of national conflicts . . . It looked, at least at first, when all the parties of the Left seemed to be cooperating, as the great moment of hope for an entire generation." In short, it was the greatest coup in the history of the whole united-front swindle, which persistently sought to identify democracy with Communism.

Slogans & Doublethink. Spain's bloody ground became a moral gymnasium for all the liberals of the West; theirs is by now a depressing record of human illusion and disillusion. On the level of

Time

June 30, 1961

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Time

June 30, 1961

HOME, SWEET HOME: Kennedy's \$6.1 Billion Housing Bill

By a vote of 235-178, the House last week whipped through the Kennedy Administration's vast housing bill. Already passed by the Senate, the program this week goes to a House-Senate conference, which is expected to reconcile minor differences between the two versions. By far the home-sweet-homiest bill in history, the Administration's program adds up to some \$6.1 billion in loans and grants to be spent mainly during the next five years. Built upon a questionable foundation, Kennedy's housing bill is honeycombed like a Victorian mansion with baffling passageways—but it also possesses the political advantages of having enough room for everyone. What the bill provides:

New Mortgage Plan. The most controversial section of the House bill would allow the Federal Housing Administration to insure private 35-year mortgages on houses worth up to \$15,000 with only a 3% down payment. The version previously passed by the Senate required a slightly higher down payment, with mortgages to run for 40 years. Real estate boards and private moneylenders charged that the length of the loans would dry up mortgage funds, pointed out that owners would build up equity painfully slowly on 35- or 40-year mortgages.

Urban Renewal. The House bill would spend \$2 billion, as against the Senate's \$2.5 billion, during the next four years to help cities rebuild blighted areas. Cities would buy up decaying sections, raze the buildings and attract private buyers for the land by selling it at a loss. In turn, the Federal Government would reimburse the cities for their losses. Cities with populations under 50,000 would get back three-fourths of their costs; bigger cities would get back two-thirds.

Low-Income Housing. The Public Housing Administration would subsidize construction of 100,000 apartments for families with incomes below \$4,000, giving priority to persons displaced by the urban renewal program. The units would actually be built by local housing authorities. PHA would either finance the project directly or guarantee a loan. Once the apartments were up, PHA would pay the difference between operating cost and rental income.

Housing for the Aged. To encourage cities to admit elderly persons to public housing units, the Public Housing Administration would pay local agencies a bonus of \$120 a year for every apartment occupied by persons 60 years old or older. What is more, the House bill adds \$100 million to the current fund of \$50 million for 50-year, low-interest loans (present rate: $3\frac{1}{2}\%$) to nonprofit corporations that build units for the elderly.

Moderate-Income Housing. To erect apartments for families too well off for low-rent public housing but too poor to own houses, FHA would insure 100%, 40-year, low-interest loans to limited and nonprofit groups. Private builders bitterly complain that the program will let FHA subsidize housing for an income group that can pay its own way. Under the program, charge its critics, housing authorities can build two-bedroom apartments to rent for as little as \$90 a month—approximately \$20 a month under the current market.

Home Improvement. To help owners fix up single- and multi-family dwellings, FHA would insure private loans up to \$10,000 for 20 years, limited to 6% interest. Beyond that, FHA could waive any security requirements on the loan. This greatly expanded program supplements the current FHA home-improvement plan that insures private loans up to \$3,500 for as long as 61 months at interest rates now running about 9.4%.

College & Hospital Housing. To erect housing for interns, student nurses, college students and faculty members, the House bill would earmark \$1.2 billion during the next four years for low-interest, long-term (up to 50 years) loans to colleges, universities and hospitals.

Veterans' Housing. During the next five years, \$1.2 billion would go into the federal fund for direct loans to veterans who cannot get mortgages from private lenders.

Financing. Even the most sanguine backers of the Administration's housing bill recognize the cold fact that private lenders will be reluctant to tie up funds for as long as 40 years in the controversial home-mortgage plan, or to lend money at below-market rates for home improvements and for housing for moderate-income and elderly persons. To encourage the money to flow, the Federal National Mortgage Association can buy up the loans from private lenders, thereby giving the lender a quick profit. The bill boosts the mortgage-buying fund of FNMA (popularly known as "Fanny May" in the trade) from \$950 million to \$1.7 billion.

Kennedy's program should help the lagging housing industry shake off the aftereffects of the recession (*see BUSINESS*). But critics are justifiably fearful of the program's long-term effects, charge that the bill makes the Federal Government a sort of benevolent landlord for nearly everyone in the nation, including many who do not need federal help. What is more, many builders predict that the bill will spawn hordes of cheap, row-on-row housing developments that will be ramshackle eyesores long before they are ever paid for. But the main attack against the bill is the charge that it is an open-armed invitation to inflation.

Castro had taken in the Bay of Pigs invasion. But Castro upped his demands, insisted on \$28 million worth of tractors, and imposed other impossible requirements. The negotiators returned to the U.S., consulted with committee leaders, who last week sent Castro an ultimatum: either accept the committee's original offer—or else.

Fidel Castro, who had already milked the whole business for far more than it was worth in propaganda value, refused to come down on his latest demands, sent a ten-man prisoner detail back to the U.S. to negotiate some more. He blamed the committee for trying "to confuse North American public opinion and the prisoners' own relatives." By that time, even the Tractors-for-Freedom Committee had had enough. It declined to enter into further negotiations. The sputtering tractor deal coughed and—hopefully—died.

For Those at Home

There is nothing particularly wrong with U.S.-Japanese relations these days. Thus there was nothing urgent about last week's visit to Washington of Japan's brusque, imperturbable Prime Minister Hayato Ikeda. He came to the U.S. mostly to score points at home, where, as is often the case with Japanese Prime Ministers, he is not very popular.

Ikeda, a stocky man with a hoarse voice who recovered from a near-fatal skin disease in the 1930s, proved highly durable on the Washington ceremonial circuit. He chatted, via interpreter, with President Kennedy at the White House, made a hit at a stag luncheon given by Vice President Johnson by expressing, with deep feeling, Japan's appreciation for U.S. financial aid. Ikeda spent an afternoon in discussions with Rusk and aides in the State Department, and he and his pretty kimono-clad wife Mitsue and three daughters were guests at a Japan-America Society reception.

Polite Phrases. Next morning he splashed through a downpour without raincoat to lay white gladioli and yellow chrysanthemums at the Tomb of the Unknown Soldier, then sat next to former President Dwight Eisenhower at a White House luncheon. Back in the rain, he



PRIME MINISTER IKEDA & FAMILY*
"You have to know the world."

Associated Press

trade relations between the U.S. and Japan. Such assurances can only be applauded in Japan, where, despite the noise raised by frequently rioting leftists, majority sentiment is still heavily pro-American and anti-Communist.

Delicate Position. But on a few questions, Ikeda remained noncommittal, in recognition of his delicate political position at home. He hinted that Japan would not embrace a resumption of nuclear testing by the U.S. And he offered a classically inconclusive statement about the admission of Communist China to the U.N.: "To keep 600 million people out of the United Nations is unrealistic and unnatural, and contrary to the principles of universality of the United Nations. We have a treaty with Taiwan, and an amicable and profitable relationship. There is a question of your public opinion, their public opinion and ties, and ours. You have to know the world situation before reaching a decision."

Two Chinas

When the 16th U.N. General Assembly convenes this autumn, an immediate problem will be one that has popped up every year since 1950: whether to admit Red China to membership or, indeed, whether

was formally presented (to accept would be to acknowledge Nationalist China). Once they did, responsibility for Red China's not being in the U.N. would rest with Peking.

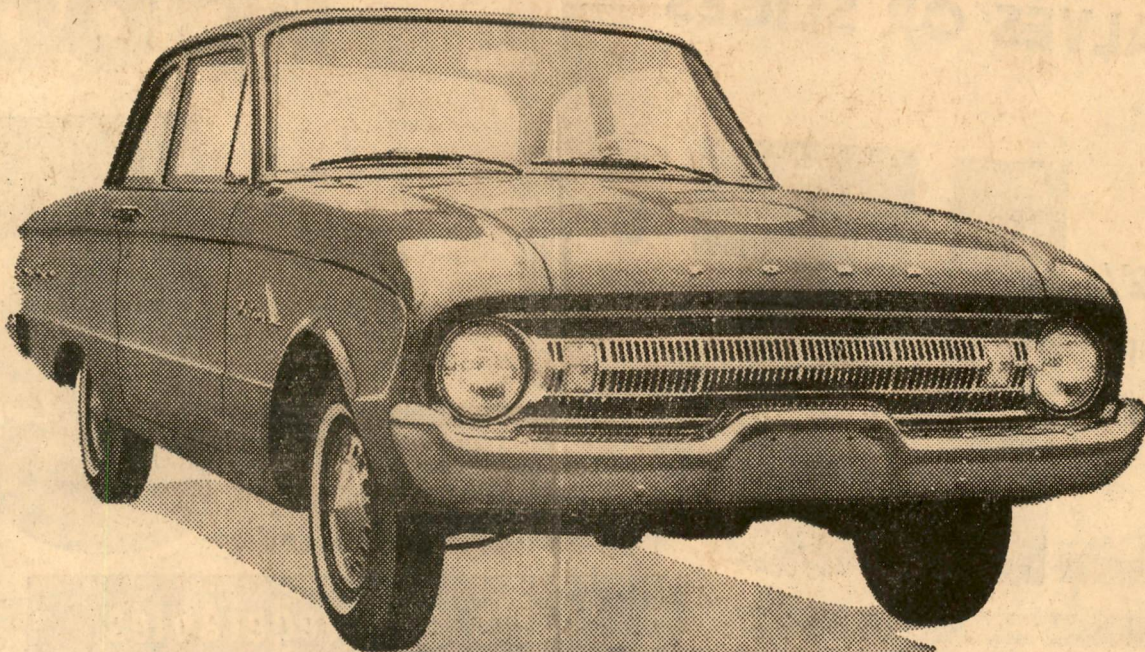
THE CONGRESS

New Mood, Hard Road

The passage of President Kennedy's sprawling housing bill (*see box next page*) may well have been the Administration's last major victory in the 87th Congress, first session.

In his first few months in office, the President did pretty well on Capitol Hill: he got through his proposals for a minimum wage increase, aid to depressed areas, and the creation of 73 new federal judgeships. But in recent weeks his foreign policy failures have taught Congressmen that the President is far from infallible—and that they can vote against him without incurring too much wrath from the folks back home. Last week 18 Demo-

* From left: Mrs. Ikeda, Married Daughter Naoko Kondo, 26, who preceded her parents from Japan, Daughters Noriko, 21, who has been attending Goucher College near Baltimore, and Sachiko, 19, who attended Garrison Forest School outside Baltimore.



WIN BOTH! A FALCON FUTURA



AND A TOUR OF THE GREAT WEST —all on Great Western!

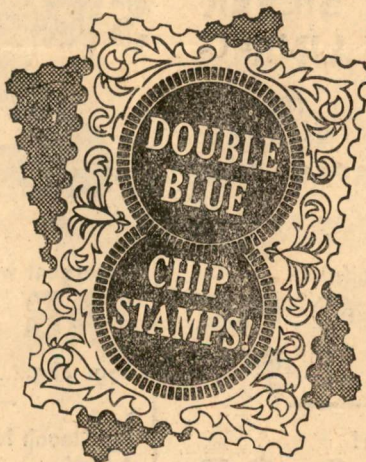
A brand-new, bucket-seated Falcon Futura! (As sleek and stylish a compact as ever made tracks.) Plus \$1,000 in cash for a tour of the Great West! (Enough to take you almost anywhere and back.) That's what Great Western Savings has under its hat for the winner of its big July drawing.

Will that winner be you?

Why not? All it takes is your signature on a free entry blank. And you can pick one up right now at any of Great Western's seven convenient offices. (Better hurry, though. Deadline for entries is at midnight, July 14th.)

Another thing. When you save at Great Western, you go places financially, too. Our current interest rate is a high $4\frac{1}{2}\%$ a year. And accounts are insured to \$10,000 by a permanent agency of the U.S. Government.

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So enter Great Western's July drawing today. And while you're at it, be sure to open or add to your Great Western savings account.

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*Los Angeles Mesa News-Advertiser, Los Angeles
July 6, 1961*

HALVES OR SLICES

No. 2 1/2
Can

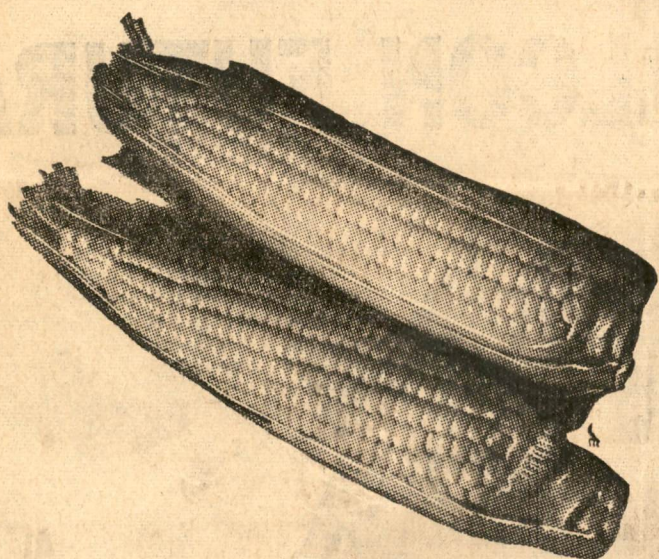
15^c

15-OZ.
CAN

FOOD

5^c

fruits and vegetables



FRESH PICKED YOUNG TE

CORN
4^{LONG EARS} 19

CUCUMBERS

FANCY
LONG
GREEN

10^c
LB.

PEACHES

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Full
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Sunshine Crackers

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No Bleach Needed

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CLEANSER

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For Automatic Washers

DASH

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4

Liquid Household Cleaner

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15-oz. Bottle

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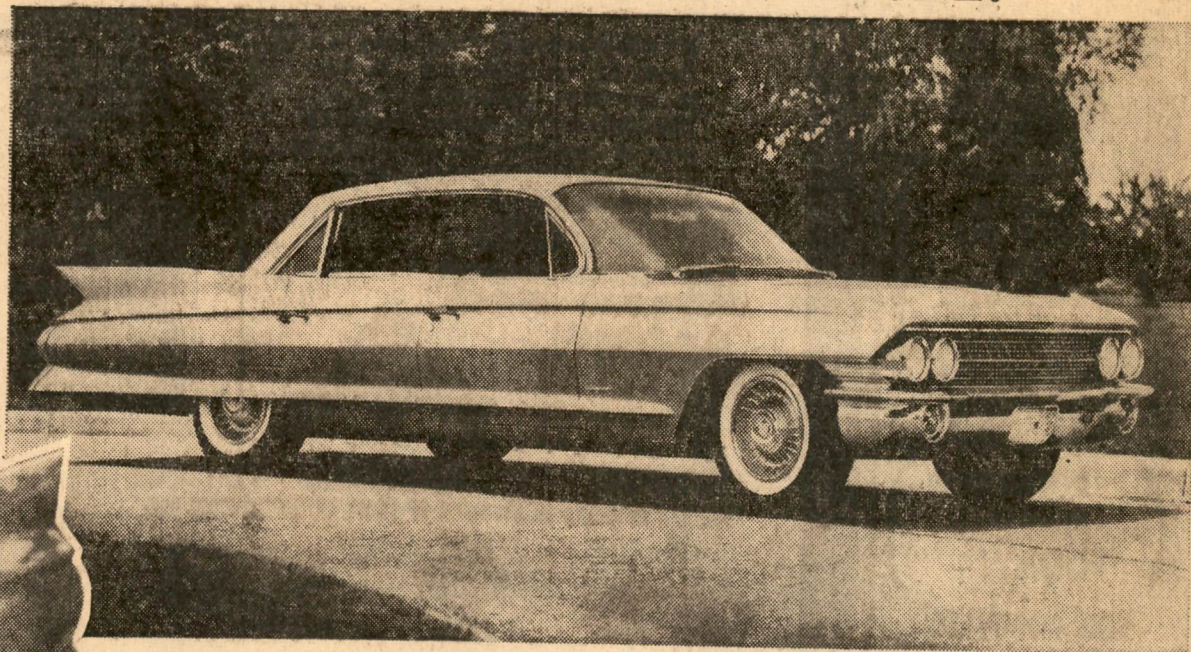
CRENSHAW at RODEO RD.
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~ FREE DRAWING * JULY 28th 6 P.M. ~

Darrien Loomis
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Car purchased from Clarence Dixon Co. Hollywood

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In addition there will be SEVEN FINE CONSOLATION PRIZES given July 28, 1961, 6:00 p.m. before the Cadillac drawing—Deluxe Packard Bell T.V. Stereo Combination • Console Stereo High Fidelity Set • 23" Packard Bell T.V. Set and four other splendid prizes to be announced later.

More than TWENTY-FIVE DIFFERENT BEAUTIFUL GIFTS to choose from or DOUBLE BLUE CHIP STAMPS when opening or adding to your account. **ALSO SIX FINE DOOR PRIZES—**17" PORTABLE PACKARD BELL T.V. SET • G.E. ROTISSERIE OVEN • AM-FM TABLE RADIO—given free each business day from July 1 to July 10.

The lovely SKY ROOM COFFEE CAFE on the 7th floor, operated by MANNING'S will give FREE coffee and Wil Wright's Ice Cream to our customers on each business day July 3rd to 10th—1:30 to 4:00 P.M. Get your ticket at the Teller's window.

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Open Sat. July 8th till 4:00 p.m.

Los Angeles Times

July 7, 1961

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NE 8-3734

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HO 5-3106

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FREE GIFTS

FOR NEW ACCOUNTS OR ADDITIONS
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9-pc. Hostess Set by
International Silver.



Italian Pitcher and
8 glasses. Hand blown.

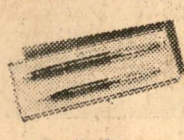
FOR NEW ACCOUNTS OR ADDITIONS OF \$1,000 OR MORE CHOOSE ONE:



Carving board
with meat holder.



Silver Table
Cigarette Lighter.



Sheaffer Pen
and Pencil Set.



1-quart
Thermos Jug.

FOR NEW ACCOUNTS OR ADDITIONS
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Set of 4 Thermos Cups.
Good for hot or cold.



Set of 4
Cherrywood Canisters

FOR NEW ACCOUNTS OR ADDITIONS
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Good for emergencies.



Fruit tray—
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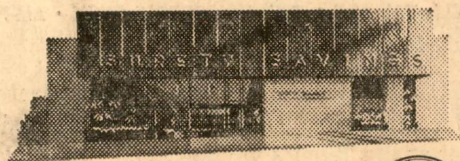


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full of gifts for winning key
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OPEN YOUR ACCOUNT NOW! Accounts opened by July 10th earn from July 1st

Sorry, we must limit this offer to one gift per account or addition. Offer ex-
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Only Blue Chip Stamps mailed! **OPEN SAT., JULY 8th, 9:00-4:30**

TRANSFER YOUR ACCOUNT NOW (We handle all details)



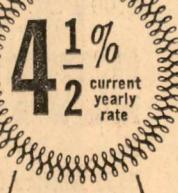
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times a year. \$10 to
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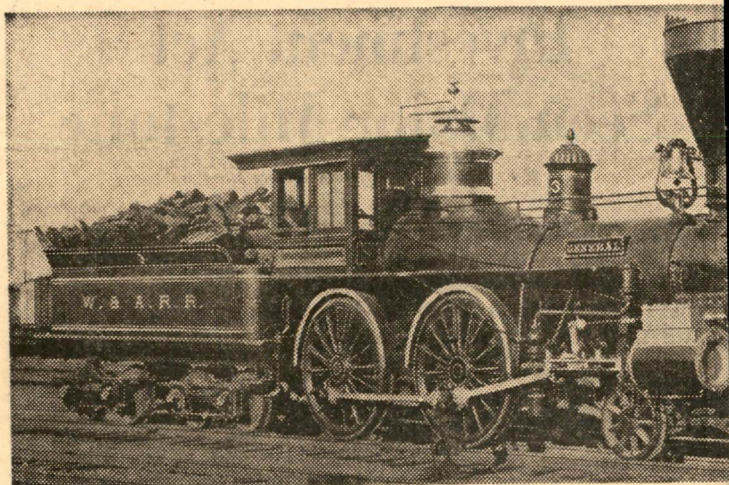


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Civil War Locomotive to Go Back Into

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Written for The Christian Science Monitor

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Attractive Modern Rooms

A.A.A. • T.V. Lounge
Walking Distance to Beach

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Among the Railroads

active service once more. Star of "The Great Locomotive Chase," the sturdy little engine has been on view in the Union Station at Chattanooga since 1891 with time out for occasional trips to World's Fairs. Now the Louisville & Nashville Railroad has spirited it away to its shops in Louisville where it is being put in shape to run under its own power in commemoration of the Civil War Centennial.

Its appearance is scheduled for next April 12 at Kennesaw, Ga., under the auspices of Georgia's Civil War Centennial Commission. On this day it will retrace the route it took 100 years ago. Appropriate ceremonies will be held along the way. After this appearance, the General will be available for other centennial events in any

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Hotels—Resorts

The Christian Science Monitor
July 1, 1961

Real Estate—Building

Real Estate Trusts

Investment Act Seen Major Milestone

Special to The Christian Science Monitor

Pike, N. H.

"The fantastic growth of mutual funds since 1940 which saw assets increase from \$2,000,000,000 to \$18,000,000,000 in two decades may well be matched or surpassed by investments in real estate investment trusts," John Hays Gardiner of Boston told realtors at the New England Realtor Convention Wednesday.

Mr. Gardiner, vice-president of the Real Estate Investment Trust of America, with headquarters in Boston, pointed out that the Real Estate Investment Trust Act of 1960 marked an important milestone in real estate circles similar to the Investment Company Act of 1940 in the field of mutual funds, which sparked the rapid growth of mutual funds.

Mr. Gardiner said, "For two decades the small investor has not been able to pool his money with that of other small investors in the field of income-producing real estate with the advantages of diversification and the ease of purchase and sale offered by shares of stock without being penalized by the imposition of the federal corporate income tax. Now that penalty has been removed."

Big Government Hit

He went on to say, "Our forefathers made this country great through the system of free enterprise. Today that system is being weakened by an ever-broadening power in government and a distinct trend toward socialism. We must stop that trend."

"By voluntarily combining the resources of many people we can literally move mountains. Rebuilding our cities today is essential if our way of life is to continue to improve. Real estate investment trusts can now contribute the tremendous financial power necessary to accomplish this."

"Before income taxes restricted their growth, real estate investment trusts helped develop our important cities and centers of commerce. Now the way is clear

for that progress to be resumed."

"The National Association of Real Estate Investment Funds has been organized to provide unified leadership and high standards of operating practices and ethics."

"I urge you to support that organization in its effort, together with the National Association of Real Estate Boards, to protect the reputation of our industry and at the same time contribute importantly to the development of our nation and to the protection of the investing public."

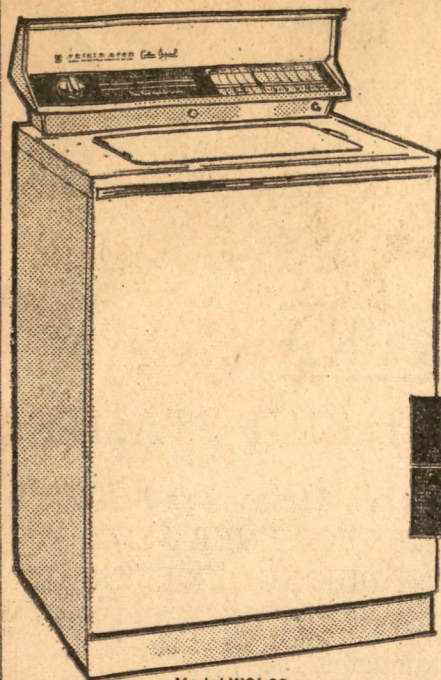
'Snob' Zoning Assailed

Other speakers criticized the 1961 federal housing bill, just passed by Congress and awaiting the President's signature, as "the most extravagant measure Congress has ever been asked to pass," and described "snob" zoning as a promoter of such high land costs that it is keeping thousands of families from owning their own homes.

Milton H. Shaw of Sudbury, Mass., said that many towns are rezoning to 15,000 and 40,000 and even 80,000-foot lots because fear the impact of growth in schools, services, and higher taxes. This, he said, is municipal land speculation on a grand scale. And it forces community builders, he added, to leapfrog out five to 10 miles for cheaper land.

Clinton P. Hill, vice-president of the Greater Boston Real Estate Board, foresaw the greatest growth in apartment house building since the soaring 1920's. Apartment house investment is being looked upon more and more favorably by banking institutions, he pointed out.

Mr. Hill also sharply criticized archaic zoning laws that hinder not only new home community building but also the erection of much-needed apartment houses in metropolitan suburbs. He believed it possible for towns to increase their tax base by intelligent revisions of zoning laws "without having to greatly add to their costs of utilities and services already installed."



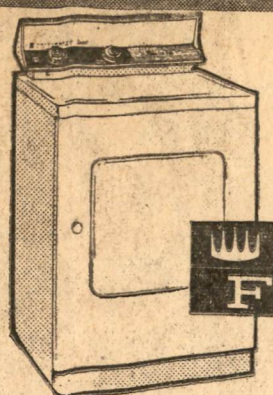
Model WCI-62



New 1962 FRIGIDAIRE 2-Speed, 7-Cycle WASHER

- Made-to-order washing for every type of fabric. Has 2 Wash & Wear cycles!
- Patented 3-Ring Agitator bathes deep dirt out without beating!
- Automatically dispenses all laundry aids—even liquid or powdered bleach!
- Two fresh water Lint-Away Rinses float lint away automatically.

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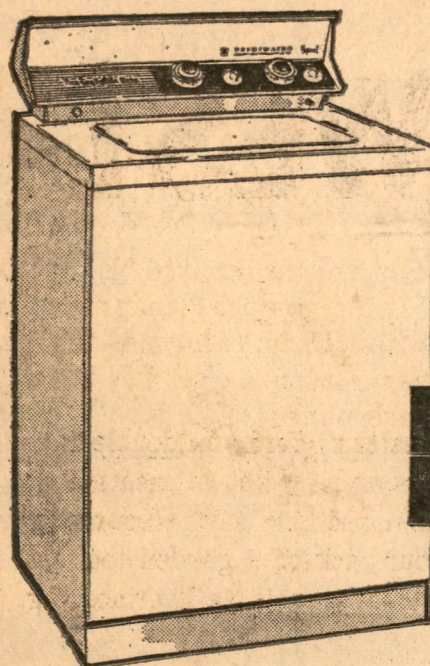


1962 Model DIA-62

MATCHING DRYER

- Exclusive Flowing Heat—safer than sunshine—no line-drying wear and tear!
- "Automatic Dry Control" sets drying time for you, or dial your own drying time!

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Model WIA-62

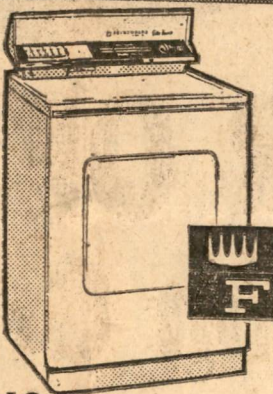


New 1962 FRIGIDAIRE Custom IMPERIAL Washer

2 speed, 7 cycle, for any fabric!

- Patented 3-Ring Agitator bathes deep dirt out without beating!
- Automatically dispenses all laundry aids!
- Two fresh water Lint-Away Rinses float lint away automatically.
- Rapidry Spin gets clothes drier than any other washer!

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1962 Model DCI-62

MATCHING DRYER

- Exclusive Flowing Heat dries breeze-fresh—no line-drying wear and tear!
- "Automatic Dry Control" sets drying time for you, or dial your own drying time!

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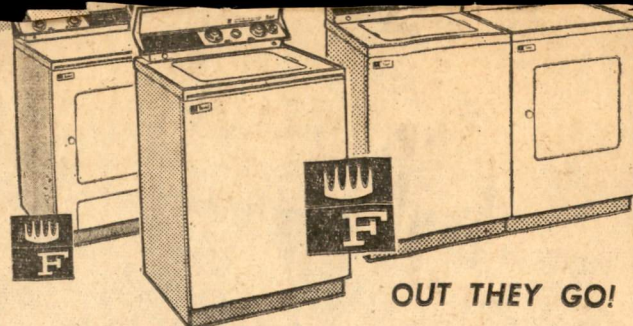
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OUT THEY GO!

PRICES SLASHED on 1961 MODELS

166 Frigidaire WASHERS

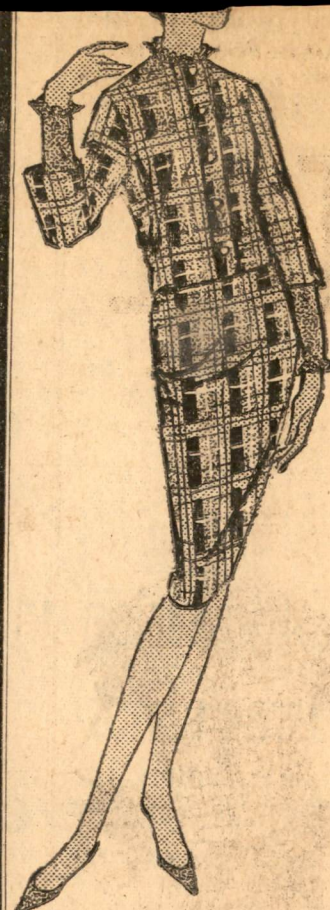
138 Frigidaire DRYERS

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CLEARANCE SAVINGS!

This is an all out clearance of brand new 1961 Frigidaire washers and dryers . . . all marked down for fast selling! We have to make room for new 1962 models, just coming in. So you cash in as we clear out. Every model in factory crates, with regular factory warranty!

HURRY! WHILE THEY LAST!



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PLAID

SIZES 6-16

SEASON SPANNING
PLAID IN A WASH
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VALLEY PLAZA
NORTH HOLLYWOOD

sary, on July 23, of the revolution that brought the present regime to power. They also presumably knew of Israeli preparations. The designation of Wednesday's rocket as Shavit II (Comet II) implied at least one earlier test firing.

NASA confirmed Thursday that it had been approached by Egyptian scientists. It said that, while unable to participate in a program with such a brief time scale, it was interested in one that would not be so hurried.

Arabs Charge 'Aggression' in Israeli Shot

CAIRO (UPI) — The Arab world Thursday saw the launching of Israel's first space rocket as proof that Israel is "bent on aggression."

One newspaper said the rocket showed that the Arab states must "attack the enemy," despite Israeli Prime Minister Ben-Gurion's claim that the launching had "no military aim."

Ben-Gurion said the three-stage solid fuel missile, launched Wednesday from a secret site, was a "meteorological research rocket — definitely not a military matter."

But an Arab League official said here that the Israeli development of the rocket "indicates Israel is still bent on aggression." He said he believed Israel is building rockets "for military and aggressive purposes."

Meanwhile a Jerusalem newspaper said Israel will launch a second space rocket within two weeks.

Small Nations Seen Building Atomic Arms

WASHINGTON (UPI) — Israel's successful firing of a space rocket was cited by experts here Thursday as an example of technical ability that could lead even small nations to develop nuclear weapons.

Experts said the firing of the Israeli weather rocket, apparently to an altitude of 50 or 60 miles, demonstrated that the Israelis have the kind of technical knowledge needed to build both missiles and nuclear warheads.

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Paintings by your favorite movie and television stars on exhibit daily at our Hollywood Home Office. Eighty in all, including works by Cornel Wilde, Red Skelton, Peggy Lee, Harpo Marx and many others. A fascinating show you're sure to enjoy. Admission free.

extra special refreshments, too!

We've added dozens of **EXTRA** wonderful free gifts for July. Now, 80 fabulous free gifts to choose from! Truly Lytton quality. Gifts for every size account ...from \$25 up...or...



EXTRA

BLUE CHIP STAMPS!

2 for each \$1 savings **PLUS** 10 STAMPS FOR EVERY SIZE ACCOUNT DURING OUR EXTRAORDINARY JULY CELEBRATION! (Maximum of 1086)

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Scores of Lytton Savers have received "**EXTRA**-interest" from the Lytton Savings Plan in amounts ranging from \$4.83 to \$193.00. *Through the Lytton Savings Plan, Lytton savers received full interest to date of withdrawal on funds withdrawn between regular quarterly interest payment dates.* This is interest you normally lose at other savings institutions. It's truly important **EXTRA**-interest for Lytton Savings Plan Savers.

LYTTON SAVINGS AND LOAN ASSOCIATION
 BART LYTTON, President

FIRST IN THE NATION IN GROWTH AND CAPITAL STRENGTH!
 RESOURCES MORE THAN \$115 MILLION

HOLLYWOOD: 8150 Sunset Blvd. • OLdfield 4-5551
 CANOGA PARK: 21045 Sherman Way • DI 7-2020
 POMONA: 2nd at Main Streets • NAtional 2-1107
 Savings Insured to \$10,000 by F.S.L.I.C.



4.5%

current annual rate
 interest paid quarterly

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Follow Israel Line

Washington Pleased

The Egyptians may have wished to achieve a launching in time for the anniver-

We've topped ourselves for July. Piled EXTRAS on top of EXTRAS...for our wonderful Lytton Savers... folks who plan to be Lytton Savers... and just everybody who cares to stop in and join the fun! We'll be EXTRA pleased if you come to our EXTRA exceptional Open House!



8-1st Prizes 1962 Zenith 19" Remote Control T.V.
8-2nd Prizes Motorola Stereo Portable
Phonograph
8-3rd Prizes Royal "Futura 800" Portable
Typewriter with case
8-4th Prizes Continental Portable AM/FM/
Short Wave Hi Fi Radio
8-5th Prizes Polaroid Model 80-B Camera
with wink-lite flash/case
8-6th Prizes Kodak 8mm Home
Movie Camera
8-7th Prizes 1962 Sony 6-Transistor Pocket
Radio with case
8-8th Prizes Modern Electric Thermo-Carving
Tray

FREE TICKETS AT DOOR
YOU NEED NOT BE PRESENT TO WIN

ASSESSMENTS

Continued from Second Page

Given One Cut

A deputy assessor explained that her assessment was cut from \$9,200 to \$8,070 in February. A further cut to \$5,500 was refused.

Mrs. William O. Lagerquist, of 3426 Centinela Ave., West Los Angeles, protested a 350% increase in land assessment this year — from

\$1,400 to \$4,000. She asked a cut to \$2,500.

Although the land has seven rental units on it, there is only limited access to a 20-ft. street frontage.

Plea on Structures

A deputy assessor explained that her land is assessed at 23 cents a square foot. That of neighbors with better access runs 34 to 35

cents. Mrs. Lagerquist's plea was denied.

(She indicated she may file a new petition for the structures on the land, which were boosted from \$9,390 to \$17,730.)

Mr. and Mrs. Abraham Prager, seeking a cut to \$924 on their \$1,470 assessment on a lot at 3445 Wesley St., Culver City, got the same refusal as most taxpayers — "You're being assessed on the same basis as your neighbors."

Mrs. Mary J. Bleak, 315

Dalehurst Ave., West Los Angeles, complained that the assessment on her land, now \$6,750, has doubled in four years. She said UCLA students whose streets are shut off now park by her property all day and in the evenings.

A deputy assessor said that some nearby lots are assessed lower but they slope more and have less depth or usable area. Mrs. Bleak's plea for a cut to \$4,000 was denied.

Trucks Involved in 3 Fatal Traffic Accidents

Three persons were killed and two injured Thursday in separate accidents involving trucks, police reported.

Mark Vernon Lee, 10, of 14427 Seaforth Ave., Norwalk, died in Norwalk Community Hospital several hours after he was thrown from a bicycle into a parked car on Rosecrans Ave., near Elaine Ave., Norwalk, dep-

uties reported.

Thomas P. Shank, 9, of 14523 Dartmoor Ave., Norwalk, who was peddling the cycle, told deputies that he swung out to pass the car when they were hit by a passing truck. Shank suffered minor injuries.

Michael James McCracken, 18, of 15726 Pennswood Ave., Lakewood, was pronounced

dead at Community Hospital, Long Beach, after the car he was driving collided with a truck-trailer on Clark Ave. between Spring and 28th Sts., Long Beach police reported.

Albert Lee Edwards, 34, of 1453 E 55th St., was killed Thursday night when his truck smashed into a car at Hooper and 33rd Sts., police reported. Edwards was thrown out and run over by his own vehicle, which then careened up an alley and struck a fence. The car's occupant escaped injury.

3★ Los Angeles Times 21

FRI., JULY 7, 1961—Part I

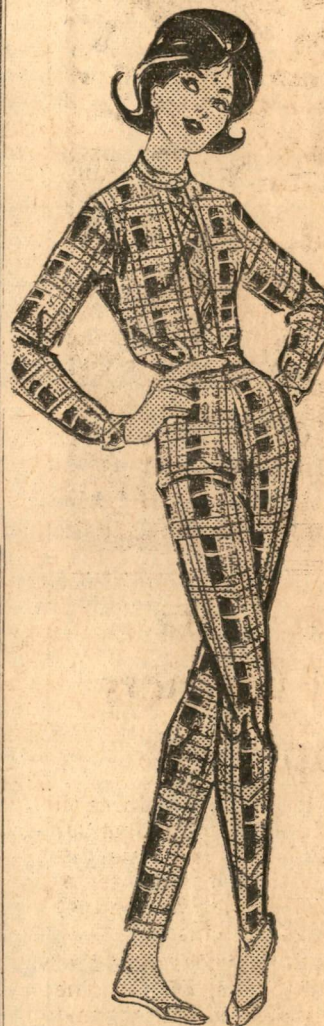
Field's

"Smart Young Clothes"

LOVES
RED
HOT
AND

BLUE

by ARDEE



above:
NECKBAND BLOUSE ...5.98
CONTOUR BELT IN RED 2.50
SLIM CAPRIS8.98
below:
¾ SLEEVE JACKET8.98
LONG SLEEVE RUFFLE COL-
LAR AND CUFF BLOUSE IN
RED4.98
SLIM SKIRT7.98



L LEONARDS

4 BIG DISCOUNT LOCATIONS

SCOOP!

LEONARDS, the LARGEST
FRIGIDAIRE DEALER SCOOPS
THE ENTIRE L.A. AREA!

JUST ARRIVED!

NEW 1962

ALL NEW
FOR '62

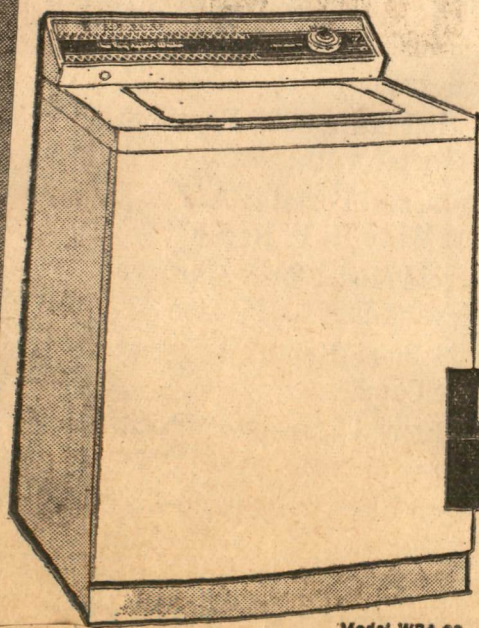
Ask About
the Frigidaire
15 YEAR
Lifetime Test!

FRIGIDAIRE WASHERS AND DRYERS

Now you can have the cleanest, easiest washing and drying in history with Frigidaire's new 1962 models . . . they've just arrived at Leonards! See them now! Also, be sure to check into Leonards clearance prices on 1961 Frigidaire washers and dryers.

OUT THEY GO!

1961 FRIGIDAIRE WASHERS & DRYERS



New 1962 FRIGIDAIRE 'Baby Care' WASHER

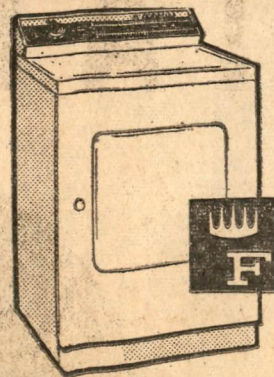
with automatic soak cycle

- Automatic Soak Cycle lets you soak, wash, spin-dry diapers in just 46 minutes!
- Patented 3-Ring Agitator bathes deep dirt out without beating!
- Safe, automatic bleaching—powder or liquid! Dispenses all laundry aids automatically!
- Two fresh water Lint-Away Rinses float lint away automatically.



\$188

Model WDA-52



1962 Model DDA-52

MATCHING DRYER

- Exclusive Flowing Heat dries clothes breeze-fresh, safer than sunshine!
- No-stoop nylon lint screen!
- One setting of dial dries everything!

\$138

CLEARANCE!

In line of subsidizing
people: society should not
give gifts; but it should
make cheap loans. Gifts
can be consumed, loans
must be repaid, & borrowers
are forced to use productively.

before. Of the nation's 414,000,000 acres of crop land, 100,000,000 acres had been seriously impoverished by the washing and blowing away of the top-soil and another 100,000,000 acres were rapidly losing their fertility. Nearly half the 6,000,000 farm families were living as tenant farmers or sharecroppers, most of them on the poorer lands. Nearly 1,000,000 families moved from one farm to another every year, seeking better land.

Variety in Loans

Under the FSA program it became possible for these farmers to obtain loans of a number of types. There were loans for seed, feed and short-lived tools which had to be repaid at the end of the crop year. There were longer-term loans to rehabilitate farms under plans worked out by FSA experts. Since 1937 there have been forty-year loans under which tenant farmers may buy farms of their own. About 900,000 farmers have borrowed money under the various terms since 1934 and currently there are about 480,000 on the loan lists. According to FSA figures, these farmers have increased their incomes from an average of \$480 to an average of \$650 a year, their net worth from \$871 to \$1,051.

From the start there has been dispute over the value of FSA. On one side were those who saw the future of American agriculture in great "factory farms" producing, with all the efficiency that expensive machinery and large-scale operation can bring, one crop for cash sale. On the other were those who looked for many small farms, each producing almost everything needed by the family living on it and then a little more for cash sale. The conflict between the two viewpoints came from the need of some big farms for a plentiful supply of labor at harvest time, a supply that would not be available if there were many small farms.

Farm Credit's Gold Years Result of Rare Cooperation

Private Industry, Government 'Wedded'

The "Golden Ten"—years of prosperity and growth in Berkeley—have been the best years of the life of a unique combination of a privately owned institution with the US Government as a partner.

In a monumental structure on the west side of Milvia St., between Allston Way and Center St., stands the Farm Credit Administration Building. Looking across the Civic Center from Grove St., many out-of-towners get the impression the rear of the building is the front of it. Now this didn't just happen.

When the late Willard B. Ellis was general agent for FCA here he went into a huddle with the late James W. Plachek, architect, and plans for the building were made so that the rear of the structure would make an artistic background for the Civic Center which did not come into being until some years after the FCA building was completed.

Few Berkeleyans are aware that the structure is not tax free but pays city and county personal property and real estate taxes like any private business. Besides housing the several agencies of the FCA in the Eleventh Farm Credit District comprising California, Nevada, Arizona and Utah, one-half of the fourth floor is under lease to the State Department of Public Health for offices which will move to the new State Public Health Building, Shattuck and Hearst Aves., as soon as that structure is ready for occupancy.

At present the city of Berkeley also is a tenant. The department of recreation is located on the first floor. And Henry Allen Wood, consulting engineer, has leased office space there.

DREW OTHER AGENCIES

Just as the University of California was responsible for the Federal Land Bank being located in Berkeley back in April, 1917, so was the Land Bank responsible for other farm agencies of the US Government. As early as 1916 when Congress passed the Federal Farm Loan Act, the late President Wilson appointed the Federal Farm Loan Board.

One of this board's duties was to select a location for a bank in the newly created Eleventh District. Many cities vied for the honor of having the Land Bank. Berkeley was finally selected because of its railroad connections, numerous direct highways without going through congested business areas of San Francisco and Oakland, nearness of the University of California facilities and Berkeley's proximity to agricultural producing centers.

BOOM PERIOD

The administration's growth was gradual until the 1933 depression when Land Bank Commission loans were authorized by Congress to supplement the credit facilities of the privately owned Land Bank. Actually the Government at that time stepped in as an active partner.

Then followed a rush for farm refinancing that swept the business to an all-time high. So great was the volume of applications the Land Bank had to increase its appraisal staff from 10 to 500. Office personnel was jumped from 100 to more than 1200.

To take care of increased business all available office space in downtown Berkeley was rented to augment the Land Bank which was located on Fulton St., facing Kirtledge St. The present building was ready for occupancy Jan. 1, 1940. Then came the war. During the last decade the Farm Credit Administration has been dealing with a farm industry which has come into its peak of prosperity.

Loans made in the last few years have been given to promote farm expansion and not to save farmers from foreclosure and bankruptcy

as in those years when a rancher often could not realize enough money from a successful crop to pay for harvesting it.

Richard W. Young, for many years general counsel, succeeded the late Willard Ellis as general agent and is also counsel and coordinator of the Eleventh Farm Credit district. He is directly responsible to Gov. I. W. Duggan, FCA executive in Washington, DC.

At present the local FCA in its various agencies employs some 110 persons. The annual payroll here is approximately \$600,000. Practically all employees are residents of the Berkeley area.

Walter C. Dean is president of the Federal Land Bank, cooperatively owned by the Government with the 54 stockholders consisting of farmer associations having a total membership of more than 13,000.

Kindred agencies are the Federal Intermediate Credit Bank, Charles W. Hudner, president; Production Credit Corp., W. F. Mixon Jr., president, and the Berkeley Bank for Cooperatives, L. A. Crawford, president.

Menzies-Kitchin, Land Settlement, Edinburgh, 1935.

It seems to be Eng. leg. for it was very insignificant.

B3

Lending by state to peasant ~~a common~~ used in Denmark, too, to settle him. (Now the state is in a peculiarly good position for this.

If individuals lend on mortgage they are not so sure of being repaid or of getting land back either, because of debtors tendency to get moratoria thru. There is a very sound reason for reluctance of privates to lend to small holders to buy land, & hence for land spec. Now the state may take a loss, too, but it doesn't mind so much, indeed it gets votes for it.

B2

The tendency to not pay mortgages is, i.e., a prime reason for idle land. It keeps cap. mkt from equating internal i.r.s. State lending is becomes nec.

It seems unlikely we will ever change from this habit, tho stable m will help. So decapitalizing land seems better.)

Holland, unlike Eng & Denmark, has no land settlement policy. (i.e., no subsidizing small land buyers) Holland adopted very restrictive ag policy in dept - for her specialty crops.

9-21-56

Observer

Yesterday's Paid Circulation

12,100
these terms.

32 Pages Today

Daily, 5c; Sunday, 15c

Federal Steps Are Taken To Revive Home Building

WASHINGTON, Sept. 20 (AP)—The government today took four simultaneous actions to break the bottleneck in credit for new homes, including a cut in the down payment on low-priced houses.

The White House announced the actions, proposed some weeks ago by Albert M. Cole, administrator of the Housing and Home Finance Agency. Cole said today the moves had been held up in fear that the relaxation "might push the inflationary spiral still higher."

Cole predicted the bundle of new orders will have "substantial effect" in stimulating the lagging housing industry.

Abandons Predictions.

He abandoned, however, his earlier prediction that 1,300,000 new dwellings would be started this year. It now seems likely the figure will be between 1,100,000 and 1,200,000, he said.

The National Assn. of Home Builders called the moves "a step in the right direction." But NAHB's president, Joseph B. Havertick, said in a statement it would be premature "to predict at this time how effective they will be."

In New York, the president of

a leading mortgage brokerage firm called the steps "inflation-ay." J. M. Pringle of Pringle, Hurd & Co. said:

"It doesn't make sense for the federal reserve system to restrain credit on the one hand and for other government agencies to make credit easier on the other hand."

Details of Actions.

The federal actions were these:

1. The Federal Housing Administration reduced from 7 per cent to 5 per cent the minimum down payment on FHA-insured homes costing \$9,000 or less. On more expensive houses the down payment is unchanged—7 per cent of the first \$9,000 of the mortgage and 27 per cent on the rest.

Only about 16 per cent of FHA-insured houses are appraised at \$9,000 or less.

2. The Federal National Mortgage Assn. announced it will make advance commitments to banks and savings-loan companies to purchase residential mortgages at 94 per cent of their face value. It has been buying at 92 per cent.

The FNMA buys mortgages to provide the lenders with cash for further real estate investment.

The price increase is intended to encourage builders to proceed with the assurance that bank funds will be available for loans to home buyers.

3. The Federal Home Loan Bank Board increased the amount of money home loan banks may lend to the 4,400 savings and loan institutions affiliated with the bank board.

A savings and loan company now may borrow from a home loan bank a sum equal to 12½ per cent of the company's total savings accounts. The previous limit was 10 per cent.

3. The FNMA reduced the amount of its common stock which a lender must buy when he sells mortgages to FNMA. The new requirement is 1 per cent, instead of 2 per cent.

Ownership of the agency is gradually being shifted from the government to the private lenders who use its services. Whenever FNMA buys a mortgage, the seller is obliged to purchase FNMA stock equivalent to one per cent of the amount of the mortgage.

Officials expect lenders to offer
See HOUSING, Page Nine.

Fayetteville Holdup Arrest

LUMBERTON, Sept. 20—The arrest of Oskie Kyle Parker, 21-year-old ex-soldier in Fayetteville late Wednesday afternoon cleared up two armed robberies in the Lumberton area the past few days and probably brought on another charge of kidnaping.

Assistant Police Chief W. C. Lovette said Parker will be charged with the pistol-point robbery of \$95 from Frances Olsen Antique Shop

here Sept. 8, and with the robbery of an automobile from Mac's, Auto Sales Tuesday, with the possible charge of kidnaping a salesman, Jack Kincaid.

He also has been charged with larceny of the automobile of Joseph Paul Lambert of St. Pauls.

Lovette said Parker had admitted the Lumberton offenses, saying he needed money to get back to his Inglewood, Calif., home. He

had been discharged as an airborne trooper at Fort Bragg Aug. 15.

According to Lovette, Parker said he went into the antique shop and bought lamps, but waited until the shop was empty of customers and pulled his gun on Mrs. Olsen, forcing her to give up the money in the cash drawer. Parker



AFTER HOLDUP ARREST—Oskie Kyle Parker, 21, is shown being taken to headquarters after police captured him exactly six minutes after a Chinese laundry was held up at Fayetteville Wednesday afternoon. Parker



Right
Reserved
To Limit
Quantities

222 FAYETTE

\$2.00

Dorothy
Gray

HOUSING

(Continued from Page One)

FNMA more mortgages as a result of the new reduction.

The White House said the actions "will encourage homebuilders and home buyers to plan ahead with greater assurance of adequate financing."

It said "the extraordinary demand for credit ... is limiting the supply of funds to home builders and home buyers," and, if continued, "would restrict home construction and affect adversely the small builder and home purchaser of modest means."

Haverstick's statement said much of the effectiveness of the moves "will depend on the willingness and ability of mortgage lenders to increase their investment in new home construction on

Bond of \$1,000 Set For Greensboro Men

Two Greensboro men charged with forgery were bound over under bond of \$1,000 each for trial in Wake Superior Court at hearings for them yesterday in City Court.

They were William C. Lewis Jr. and Donald A. Stockard, both charged by police with forgery of three checks for \$47.50 each here.

Neb Richardson, Negro, of Raleigh, Route 4, unable to pay fines and costs on two charges of possessing non-taxpaid liquor, went to the roads for a total of 10 months. He was convicted of possessing three pints on July 28, and one-half gallon on August 12. The term would have been longer had he not been released on bond.

Oettinger, 2

Norway just small laborers allotments. Sweden, bigger program of subsidies to small farming with low mr loans. Dissatisfaction with Eng. small holdings act of 1890, under which c. 170,000 acres settled.

5 (General principle: when ignorant buyers etc. bid up price of land so high that they will fail; or when pressure toward abusive use makes that the most lucrative use; those who would farm land properly and succeed financially are outbid, misfortune inevitable.)

9 Jewish Colonization in Palestine, Oettinger, Nat. Fund Lib., no date. p. 16-7, Settlement in Denmark, by laws of 1904, 1909, & 1899, was mainly by means of loans at very low mr, 3% going down to 1%. Those who were to get the loans, from govt., were selected by local committees. (Thus clearly it is a selection of those the state thinks good, to give them in effect some capital & voting power -- & motivation -- doubtless with aim to promote conservatism)

~~See~~ B3

Land Bank Policies. No loans on undeveloped land. v. L.C. Gray, a Failure of Fed. Land Bank.

(Note implications of all this for social policy. Small owners probly best form of ag. land use, not dominant because of maldistribution of capital. Hence it is good social policy to distribute capital better.--as by inheritance redistrib.)

Equalizing interest rates: Argentine Banco Hipotecario, mortgage bank, loaned to small buyers, thus let large holders raise prices. Smallholders tried to buy with these low i.r. loans, on large scale, but are still muchly mortgaged. Bank has mortgages on e.g. 39% of province of Buenos Aires. p. 71 5203

FSA, loans to twts, major aim became self-preservation of bureaucracy. Cost 50¢ to lend \$1.00, Byrd comm. noted. (But Byrd, as large landholder, feared it)

Freeman, 7-43, p. 10-11.

France not the land of
ideal cap. mkt's, not for ind-y.

Mfrs pay very hi i.r., when
can borrow at all.

S.F. Chron., 1-19-52

How to get THE FARMER'S BEST LOAN

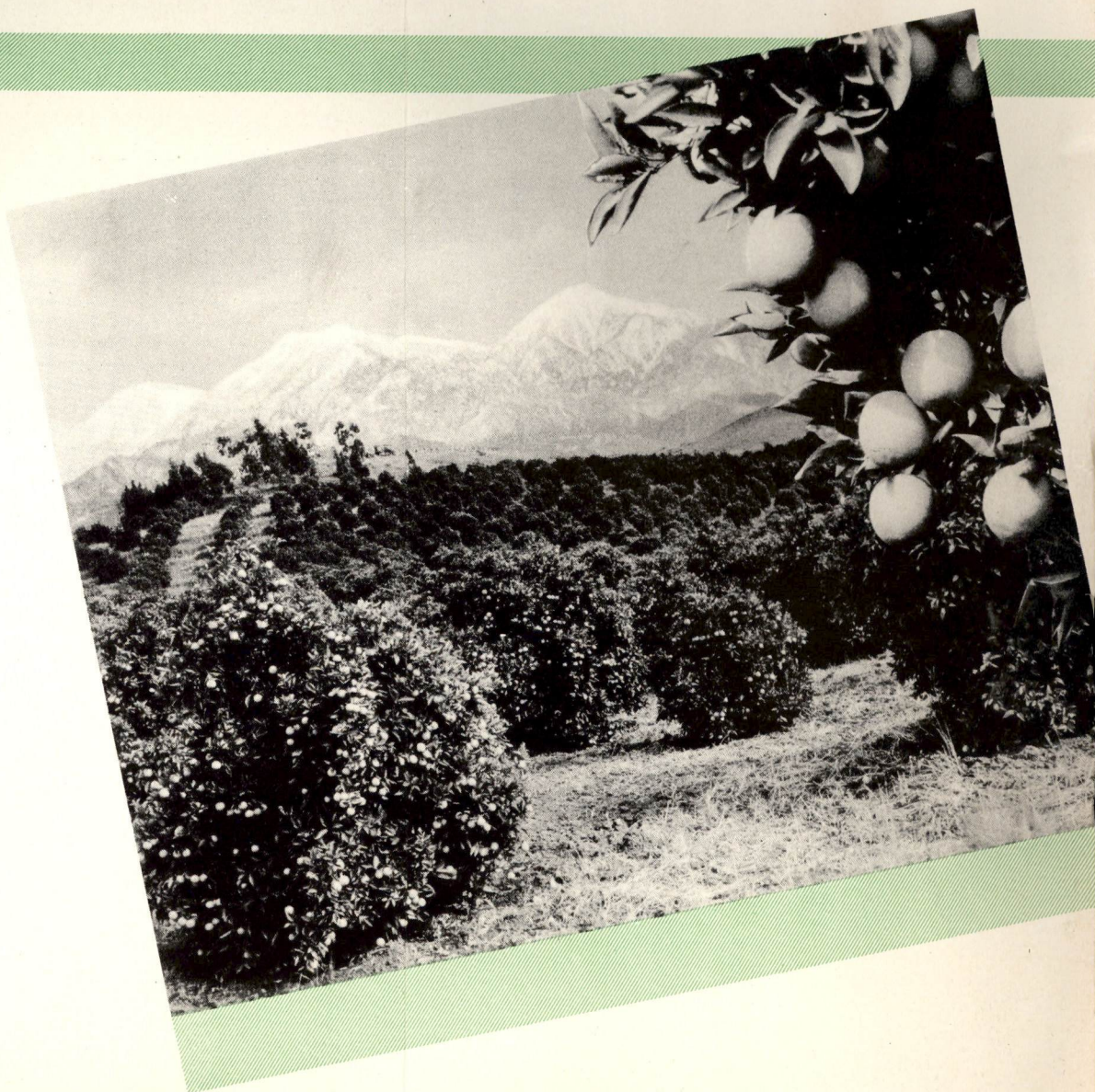
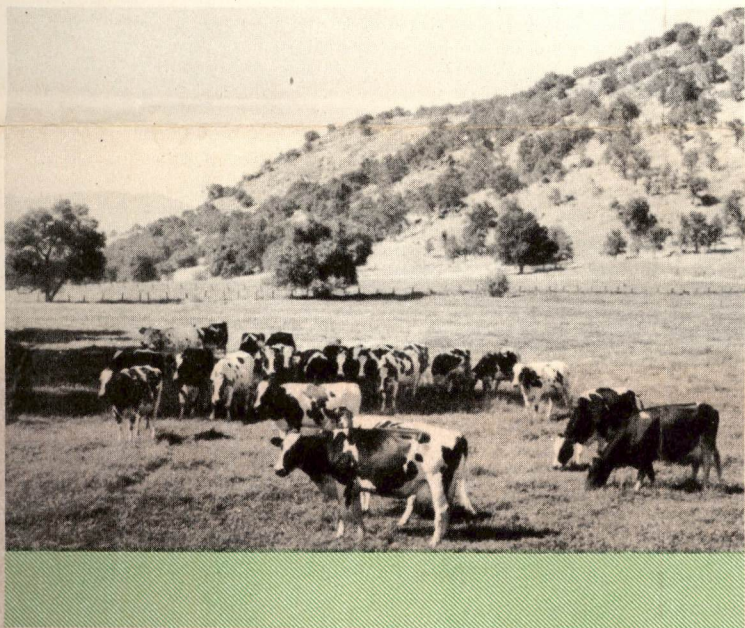


YOUR FIRST STEP is to call at the office of the National Farm Loan Association, serving the locality in which the land to be offered as security is located, and discuss your farm loan problem with the secretary-treasurer of that association. He will be glad to help you analyze your credit needs and to explain in detail the information required in filing your application for a loan.

SECURITY for a land bank loan is a first lien on farm or ranch real property.

USE OF FUNDS — To purchase a farm or ranch, to construct buildings, to make farm improvements, to provide for the purchase of equipment, fertilizer, and livestock, to pay farm debts and non-agricultural debts incurred two years prior to filing application.

INTEREST RATE on land bank loans made through national farm loan associations is 4 per cent.

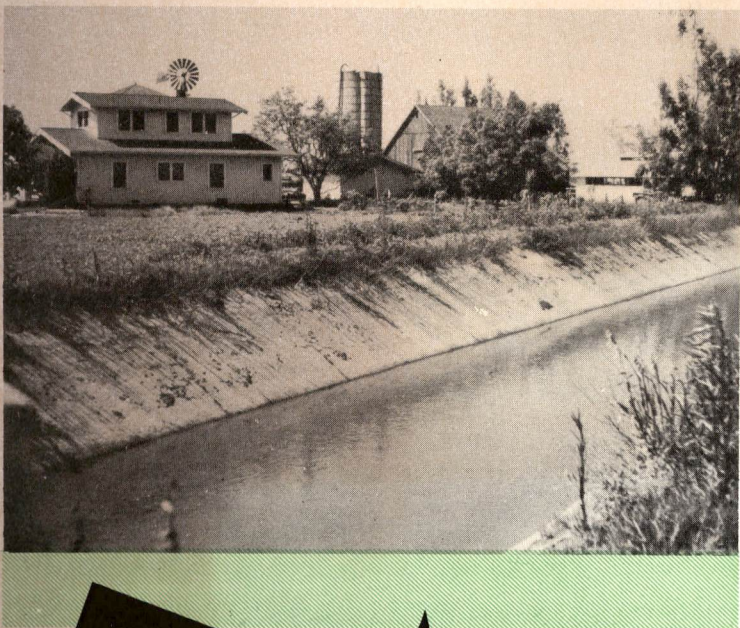


TERMS — Land bank loans are written for periods of 5 to 40 years. The terms are arranged so that borrowers should be able to pay the annual or semiannual installments from farm income.

APPRAISAL — Since a land bank loan may run a long time, the property is carefully appraised by a Federal land bank appraiser. The appraiser establishes the normal agricultural value of the farm or ranch, which is the amount a typical purchaser is willing to pay and is justified in paying for the property for farming purposes under normal conditions and expecting normal prices.

COSTS — The only closing costs are for recording fees and title expense. There are no application or appraisal fees, and there is no commission to pay.

AMOUNT — A land bank loan to one borrower is limited by law to \$50,000.



STOCK — Membership and part ownership is acquired in the local national farm loan association with the purchase of stock equivalent to \$5 for each \$100 of the loan, and a like amount of stock in The Federal Land Bank of Berkeley is purchased by the association; thus, the associations are the sole owners of the Bank. Provided the financial condition of the association is satisfactory, a member may apply his stock as a final payment of the loan or he may receive payment for the par value of the stock if he has paid his loan in full. Members share the profits of the association, and they elect the association's directors who manage its affairs.

PAYMENTS on all loans are made semiannually or annually on an amortization plan, thus each small payment goes to pay interest and part of the principal so that the loan is paid in full at the end of the loan term. Notice of payments due is mailed to borrowers approximately thirty days in advance of the due date.



SPECIAL PAYMENTS on land bank loans may be made whenever you like and in any amount. A borrower may remit additional funds, designated as "Future Payment Funds," to be held and applied on installments which will become due in the future. The borrower will receive interest on the amount of the future payment fund at the same interest rate that is charged on his loan.

SEE THE LOCAL
NATIONAL FARM
LOAN ASSOCIATION
(address on cover)
OR WRITE

THE FEDERAL LAND BANK OF BERKELEY

MILVIA AND CENTER STREETS, BERKELEY, CALIFORNIA

**FARMER OWNED
FARMER CONTROLLED**

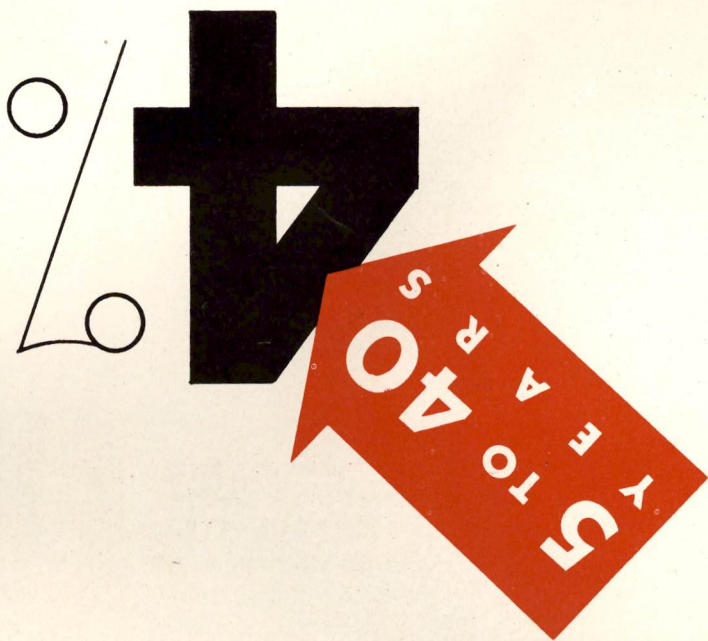
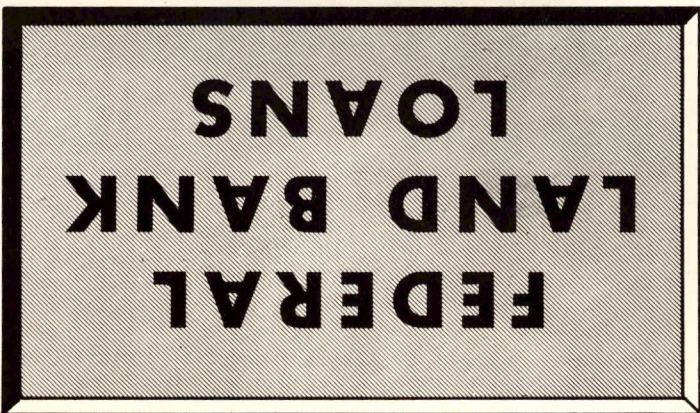
FEDERAL LAND BANK LOANS

You get them all in

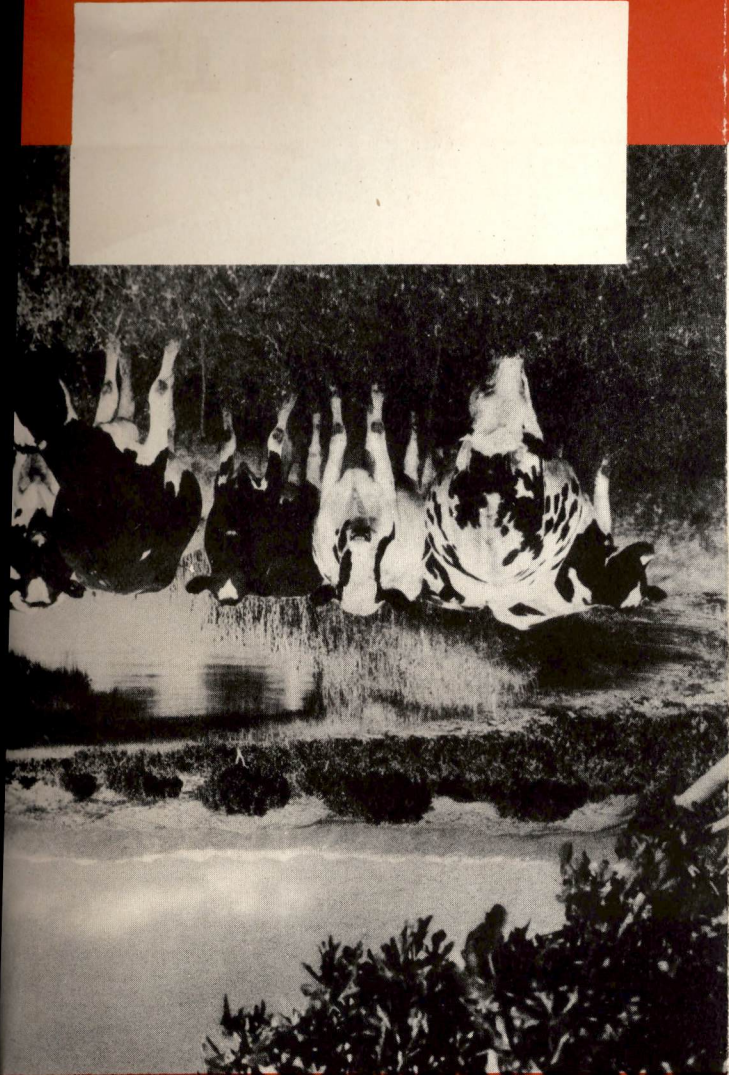
- 1 LOW COST
- 2 FAIR TREATMENT
- 3 CONVENIENT PAYMENTS
- 4 REPAYMENT PRIVILEGES
- 5 GOOD SERVICE
- 6 SAFETY — DEPENDABILITY

**IMPORTANT
FEATURES**

World's Largest Co-operative
has made loans to over
One Million Farmers



1:30 Wellman
Good. can drop some completely;
if so, if cannot get extension, get Wells
opinion on outline & either make it, or drop.
Return tomorrow P.M. for decision.



**FEDERAL LAND BANK
FARM
REAL ESTATE
LOANS**

**A FEDERAL LAND BANK LOAN
The Farmer's Best Loan**



According to the 1940 U. S. census, 47% of all farm loans made in Arizona, California, Nevada and Utah were made by the Land Bank through the national farm loan associations. The low interest charges have saved millions of dollars for the farmers.

SAFETY — DEPENDABILITY: Land Bank loans are available during good and bad times when little credit is available elsewhere. Thousands of farmers have been able to retain their farms by refinancing with land bank loans. The normal earning power and the normal agricultural value of the farm are used in determining the loan, which method assures the borrower that he will be able to meet his loan payments from farm income.

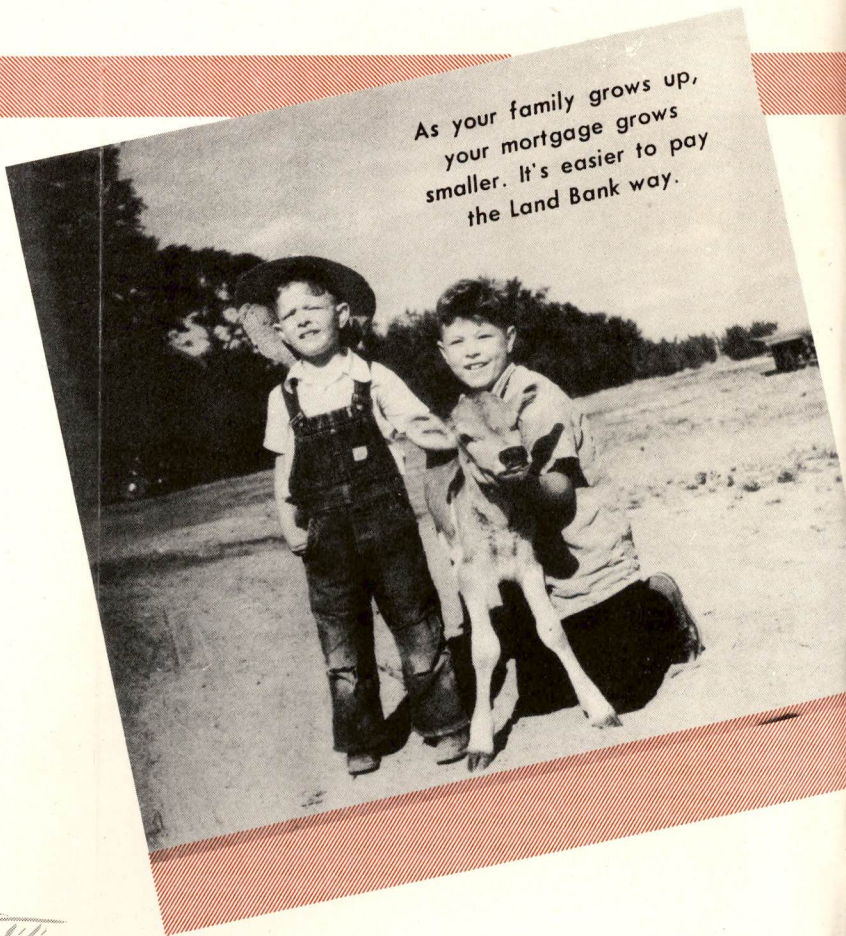
THIS LOAN IS PLANNED for the farmer or rancher whether his holdings be small or large. Building improvements are not always required, and it is not necessary for the owner to live on the property in order to obtain a loan.

Since 1917 the Farm Loan Act has been simplified and strengthened by the U. S. Congress to meet changing conditions and in order to better serve the people who produce our food. Today the service to farmers by the farm loan associations and the Land Bank is better than at any time since organization in 1917.



SECURITY — A land bank loan is the opposite of a demand loan in that there is no sudden demand for large payments. It provides for a systematic way of getting out of debt, and it never has to be renewed. Once the loan is granted its interest rate remains fixed for the life of the loan.

A CO-OPERATIVE CREDIT ORGANIZATION — Land bank loans are made through national farm loan associations, usually one association to a county. Each association is owned by the farmers who use it since each farmer who obtains a land bank loan becomes a member and part owner of the association. Members elect a board of directors to manage the affairs of the association. No one may be a director unless he is a member. These men know local conditions and credit problems.



As your family grows up,
your mortgage grows
smaller. It's easier to pay
the Land Bank way.

Denmark best example of successful internal colonization.
Over 90% "of the people" own the land they farm. 205,000
farms in all, $\frac{1}{2}$ ave. 20 acres, $\frac{1}{2}$ ave. 50.

(why did govt do it? Conservatives probly saw they were
losi g power, est. a solid peasantry to keep voting conservative
before they lost it. A far sighted move, which has probly worked
in most cases)(hence conservatives are willing to finance the
creation of more conservatives, thru low interest subsidies
etc which are paid from general taxation, which may hit
others than themselves. And they may figure it is wise to
sell the ir land this way than have it taken from them later
on) (Calif. would be wise to go back into this business)

33 x Gy did it too, subsidy & low mr involved too. Spain, too.
Mead has very naive interpret tion of all this. All over
Eur. it happened in various ways. Except Fr, Bm, Holland, Eng,
not mentioned, nor Norway, Sweden. Ireland & Scotland get
mentioned, & even Eng., he doesn't reveal how little it is
there. Russia did some, esp. after revolution, but it became
collective.

Mead, Elwood, "Land Settlement", In Encyclopedia of Social Sciences. 1933

Last $\frac{1}{4}$ 19th, l.s. policies. Had been areas of Eur. where laws kept peasants from ever owning land, they went to cities. Developed all over world these l.s. policies to: 1, let them enter into possession with small down payment (as lvt would do) $\frac{1}{2}$, so most of their m would be available for cap.; 2, public org. to make nec. first improvements; 3. Long terms, low int, on land payments, plus loans for cap. 4, experts to give advice. These have been uniformly successful. Are widespread & have revolutionized rural conditions. Sometimes they have even made a profit.

Theme runs thruout that small landholding (white) yeomen are source of strength (& conservatism) for country, rural uplift etc.

J & E, Aug '49, Edw. C. Banfield, '10 yrs of the Farm Tenant Purchase Program', pp. 469-86

Bankhead-Jones Farm Tenant Act, 1931, to make TP (Tenant Purchase) loans. Farm Sec. Adm., & successor, FHA, loaned \$300,000,000 to 47,104 families. (ave \$6,000) Loans too small to really establish them, because local sentiment & Congress won't allow too much success to those 'on the govt'.

Has not really gone ahead to do much

Loans had to be allocated among states prop. to pop & economy. South got

most.

390, 40 yrs, 1st mortgage. Tenant needed no resources to start.

FSA had just succeeded Resettlement Adm., took over TP loans.

(This discrim. type reform. Some get, some don't.

Ami:-
govt
loans

469

12. Business Taxes—

Particular attention should be given to the revision of the law to the problems of small and growing business concerns. A liberalization of the tax treatment of depreciation would have far-reaching effects on all business and be especially helpful in the expansion of small business whether conducted as individual proprietorships, or corporations. . . . Faster depreciation, it should be noted, will merely shift the tax deductions from later to earlier years. It will not increase total deductions.

The budget, 12-54

Thus helping business with poor credit exp-hy.

13. Research and Development

I recommend that all companies be given an option to capitalize or to write off currently their expenses arising from research and development work.

14. Accumulated Earnings—

The penalty tax on excessive accumulations of corporate earnings . . . is necessary to prevent avoidance of individual taxes by stockholders, but I recommend that the law be changed to make the government assume the burden of proof that a retention of earnings is unreasonable.

15. Partnerships—

The tax law applicable to partnerships is complex and uncertain. I recommend that it be simplified and made definite.

16. Optional Tax—

I recommend that corporations with a small number of active stockholders be given the option to be taxed as partnerships and that certain partnerships be given the option to be taxed as corporations.

17. Corporate Reorganization—

The tax law applicable to reorganizations and recapitalizations of corporations . . . should be simplified. . . . I recommend that the tax law permit tax-free rearrangements of stockholders' interests in corporations, so long as no corporate earnings are withdrawn.

18. Loss Carryback—

At present, losses may be carried back and offset against prior earnings for one year and carried forward to be offset against future earnings for five years. I recommend that the carryback be extended to two years.

21. Corporate Taxes—

I recommend that the law be tightened to remove abuses from the use of multiple corporations in a single enterprise. I also recommend that the penalty tax on consolidated returns and inter-corporate dividends be removed over a 3-year period.

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Sizes 2-4-6

Water repellent, washable, two piece outfit with zipper jacket . . . blue, green, tan and red.

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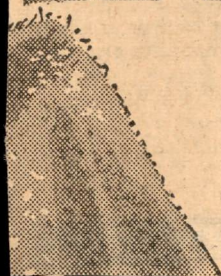
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- angel cake pan 1.00
removable bottom
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dish pan 1.00
- 4 qt. covered
sauce pan 1.00

ANN



OR H

- SUN
- RAD
- BLUE
- LIGHT
- FOR
- WHITE
- PINK

Eur. land credits:

Don't vaguely refer to the "eur exp with subsid cap mkts". Give dates, facts: e.g. Eng Rural Credits Act, 1923, supposed to lend to small to buy land, little success by Oct '26, JLPUE, Maxton, Reform of Ag Syst in GB.

Smallholders Act?

p. 537 Here is argument vs subsidizing low interest loans:
"This legislation in 1916 (Land Banks) marked the beginning of the Federal government's direct assistance in the business aspects of farming and opened a new chapter in the relations of the farmers to their government."

5168

L. C. Gray on Land Bank; with H. A. Turner

"Buying Farms with Land Bank Loans" USDA Bul 968. July 1921

★ **Sacramento Report—**

Propose \$5,000,000,000 Vet Home Loan

Assembly military affairs committee has approved legislation creating a \$500,000,000 bond issue to expand farm and home loan purchases under the California veterans act. The state would increase its loan guarantee from the present \$8500 to \$13,500 and provide a \$1,000,000 disaster fund for homes damaged by floods, quakes or fires.

L. C. Gray
3-22-56

Anti- subsidizing cap mkts:

Successful lenders on irrig developments, (& other successful lenders to small people I imagine) have been those who "picked the man & backed to limit." Holland Land, . By Mead, Rept of Investigations of LSettlement & Irrig Dev in Am, 1914, to Min. of Water Supply, Melbourne, CP r.r. had same policy; & Australian govt "Closer Settlement" policy. Hedges confirms CPr.r. policy. But this is discrim among individuals. Govt can't do that.

e.g. Durham & Delhi: govt picked bad men, failed.

Anti low credit:

France, credit foncier a specialty, bad social structure.

Diff mrs, Land Bank

Mead on Land Settlement Enc s.s.?, p. 64, land bank only lends on patented, improved lands.

Anti-easy loans

If govt sees to it that all can always borrow cheap, destroys some of incentive to create cap.

Another reason in
argument that
subsidizing cap mkt is as
good as lvt is: are
many reasons besides
divergent mrs for
misalloc. land ~ e.g.,
ability of old owners to
hold idle for rent. mms
etc, when don't use.

Moratoria: They are capitalized.

One thing spec. sells with land is probability of moratoria in difficulties. If society sets hard face vs this, lowers land price.

Anti-free cap mkts:

Hedges, 406, CP ready made farm policy failed, attracted settlers with no initiative. cf Delhi

Institutions for Land and Water Development

I. Introduction

A. Definition of institutions

Metaphorically, institutions are the channels or limits within which human beings act as free agents. More particularly, they are the laws which regulate human association and also the organizations of humans which grow up under those laws.

B. Purpose in studying institutions

1. To know the framework within which human beings are free agents, and hence within which those economic laws which postulate mobility can operate.
2. To determine which institutions best serve ultimate social objectives. We all have somewhat different ultimate social objectives, but each of us, whatever his viewpoint, can evaluate these institutions as it helps accomplish what he thinks is important.

II. Institutions

A. Water Law

The law fails to approach the economic ideal. Water is often more difficult to transfer legally than physically, and is not allocated to its most socially lucrative uses. Riparian law allows people to prevent others from using water they are not using themselves. Appropriative law, intended to remedy this abuse, encourages people to claim more water than they use, and to use more than they need.

Within each of the subgovernmental organizations (discussed in "B" below) water is allocated among the members on a more economic basis. But among these organizations, water allocation is subject to Riparian and Appropriative law.

1. Riparian law guarantees each riparian owner that the original stream flow, undiminished and unpolluted, will always pass by his property, regardless of whether he uses the water or not. This right is subject to the equal rights of other riparian owners. Rights of various riparians may be prorated among them by a court, to allow consumptive use of water. The riparian right is in proportion to the smallest single unsubdivided ownership that has ever existed, so that an owner may lose his water right by subdividing. This institution discourages water use and land settlement.

The power of riparian owners has been hardly reduced by recent court decisions, and it still requires a large legal investment to get a decision in one's favor.

2. Appropriative law grants ownership of water to him who diverts it and puts it to beneficial use. It was originally conceived as a "right of use," and was introduced to remedy the abuses of riparian institutions. The right was established by use and was supposed to be lost by nonuse (but rarely is so lost). Since 1913, all unused unclaimed waters have been state property, and it is necessary to file with the state to appropriate them.

Appropriative rights take priority in the chronological order they were established. In dry years, "junior" appropriators get no water at all, "senior" appropriators get their usual quota (except under the Mormon system of fractional water rights).

The appropriative system causes individuals to claim more water than they need, as there is no penalty for trying to take too much, and claim it sooner than they need it, to gain priority. It encourages aggressive litigation by anyone whose water rights might be threatened by a new diversion, since 5 years of "adverse use" establish the appropriative "prescriptive right." An appropriator does not know until he actually begins diverting water, that is, after he has laid out capital, that he may be enjoined from diverting and engaged in an expensive lawsuit by someone whose interests are threatened.

3. Both riparian and appropriative rights are very difficult to transfer, and utterly impossible to transfer in small and ever-changing quantities, such as would be required for economic allocation of water.
- B. Local organizations for diverting and storing water and distributing it among individual farmers and financing these projects
1. Individual. Where individual's land is adjacent to or overlies water, and irrigation works are of small optimum size.
 2. Individual who sells to neighbors. This rather natural evolutionary form is sharply discouraged because seller liable to be declared a public utility, required to continue serving water at regulated prices.
 3. Individual who sells water to tenants or settlers on his subdivision (for example, Shoreland Properties, Pescadero; Hawkins Ditch, Hollister; Kern County Land Company; American Crystal Sugar Company, Oxnard). Seller not inhibited by being made a public utility, as he is paid for this through land rents or sales price.
 4. The Mutual or Cooperative Water Company. An evolution of form 3. The development company which subdivides a ranch for irrigated farming builds the works, and forms the Mutual and turns it over to the settlers. (In Utah, they often developed as part of the Mormon plan of cooperative settlement) So far as I know, they rarely develop on the spontaneous initiative of people already settled, as the settlement is not usually possible without the water company.

Most Mutual Water Companies are in southern California and in Utah.

5. Commercial water companies. These are simply private enterprises which undertake to deliver water to farmers in certain areas. They are regulated as public utilities. Generally, they have proved financial failures, because the value they created in the lands they served could not be used to help finance them, and because they had no means of speeding land settlement. A few persist (North Fork Ditch Company, east of Sacramento; Clear Lake Water Company, west of Woodland).
6. Districts (Irrigation, Reclamation, Water, Water Conservation, Drainage, etc.)

Quasi-governmental agencies, empowered to issue bonds and levy taxes on the included land (improvements are usually exempted). Because of this bonding and taxing power, this form of organization has been used where very expensive projects are necessary. Irrigation districts have usually been formed by settlers who had previously been getting water by other means. Irrigation districts are characteristic of the Central Valley; reclamation districts of the delta; water conservation districts of unified basins with a common ground water supply, like both the Santa Clara valleys.

Districts also serve to force recalcitrant landowners to contribute financially to projects which they will not join voluntarily. District taxes have also often forced large landowners to subdivide and sell their land to settlers, speeding up the development of the project. As the landowners had to pay taxes on their land regardless of use, slow settlement did not doom projects to failure anyway.

Districts' tax power captures some of the extended benefits of projects to help finance them. Urban areas within districts are subject to their taxes. (San Jose, Fresno, Modesto, Tracy, and Merced are examples.)

Unlike other water user's organizations, irrigation districts can sell or lease water over their boundaries temporarily, without vesting any right in the buyer. This improves water allocation.

7. Federal Projects

Generally, federal projects have been turned over to the users, organized in irrigation districts under state law. This procedure will probably be followed with the Columbia Basin and Central Valley projects; although the Bureau of Reclamation may continue to operate the dams and interdistrict works, the distribution systems will be built by irrigation districts, and payments to the federal government will be made through irrigation districts. Thus, in federal projects the institutions important for land settlement are still irrigation districts.

Federal projects open vast new possibilities for a system of economic allocation of water. The Bureau of Reclamation is fighting to avoid vesting permanent water rights in particular districts. The Bureau visualizes a vast interconnected system to distribute water to where it is most valuable, without giving permanent rights to any locality, in the Central Valley.

Federal projects also entail the famous 160-acre limitation. This law has teeth. Water from federally subsidized projects is not to be delivered to more than 160 acres (320 acres for man and wife) under any single ownership. The owner must be a bona fide resident on the land. At the discretion of the Secretary of the Interior, the size limit may be reduced. Land in excess of 160 acres cannot be sold for more than its value before the project. Excess land may be taxed by districts in which located, even though it receives no water. Thus, large owners and absentees are virtually forced to subdivide and sell for a low price.

III. Irrigation Institutions and the Subsidy Question

All the institutions above except the commercial public utilities collect "subsidies" to help finance them. Irrigation water is subject to sharply diminishing returns. It cannot be sold for more than the value of the marginal units. The inframarginal values accrue to the lands served. Commercial companies cannot touch these increased rents, although they create them. But land development companies receive them when they sell the land. Mutual water companies can collect them through stock assessments. Districts can tax them. This sort of "subsidy" is economically rational, and should not really be called a subsidy, but a return for services rendered. It is a value created by the irrigating organization that cannot be recaptured through ordinary market mechanisms, a "nonsalable benefit."

IV. Irrigation Institutions and the Land Settlement Question

All of them except the commercial public utilities gave some attention to the problem, although none of them gave enough. Most of the commercial utilities built to serve lands they did not own and were ruined by slow settlement. Sometimes large landowners deliberately retarded settlement to break the water company, so they could buy it cheap.

Land development companies, whether they subsequently evolved into private utilities, mutual water companies, or irrigation districts, had some control over land settlement because they owned the land from the start. Some, like the Holland Land Company near Clarksburg, used this control to good advantage. They did not simply sell to the highest bidder (who might have been an absentee speculator); they "picked their settler and backed him to the limit." Others, like the Mutuals of Southern California, were not in a position to be much injured by slow settlement: their revenues were from water, and water was so valuable they could sell it all for a good price even before settlement was completed. Others, like the Canadian Pacific Railway, sold to speculators from Nome to Delhi, and found serious difficulties in settlement and finance.

Showing land tax is means of extending credit, solution to same problem. Use on credit subsidies, as did 47 Davis

5.

Irrigation districts have what I consider the most effective means of speeding settlement. Their power to bond themselves and tax land constitutes a means of extending credit to settlers at lower rates and for longer terms than is possible in private lending. To visualize this, contrast a bonded irrigation district with a comparable project in which the irrigation works were all installed and paid for. In the paid up project, the anticipated future yields of the land would be capitalized into its present selling price, and the settler would have to buy all that on his own credit or financial resources. In the bonded district, the district has already done that borrowing on its own credit, at $4\frac{1}{2}$ or 5 per cent. The interest and amortization payments are made by the settlers in the form of land taxes extending over 30-40 years. These anticipated taxes are, of course, capitalized into the original selling price of the land, so the credit to the settler is given in the form of a low land price.

This credit does not solve all the settler's credit needs, of course. It is the credit by which he buys the irrigation system (which he must inevitably buy in one way or another). Without the irrigation district bonding and taxing system, he buys it in the form of high land prices; with that system he buys the irrigation works by paying taxes for many years. Furthermore, his ability to borrow to meet other needs is somewhat enhanced because he has not had to exhaust his personal credit and financial resources to buy high-priced land.

New irrigation districts usually provided water free, and taxed on land value, not improvement value. Settlers who used water and improved their farms paid no more than absentee owners and speculators. This hastened settlement and development. The remarkable development of the famous Turlock and Modesto districts occurred under this institution.

Irrigation districts can construct distribution systems (often through subsidiary local improvement districts) which bring water to every few acres at district expense. Thus, this institution is well suited to creating a cooperative community of small family farms, in areas where costly irrigation works are necessary.

V. Conclusion

The most useful irrigation institution is, in my opinion, the district. However, what is really socially useful is not the name "irrigation district," but the functions I have associated with that name. Some mutual water companies, such as the Clark Colony MWC at Greenfield, the Natomas MWC north of Sacramento, and the Senior Canyon MWC of Ojai, function more like districts, and some districts serve no function at all. Such districts as the south San Joaquin, east Contra Costa, Modesto, Turlock, Fresno, Consolidated, Alta (in which Dinuba of Goldschmitt's study is located), and others represent the irrigation district at its best. We have much to learn from these outstanding examples of land settlement and water use.

USDA, BAE, Distribution by Lender Groups of Farm Mortgage & Real Estate Holdings

Jan 1, 1930-45

Harald C. Larsen

Wash, '45

p. 6 Big shift, farm mortgages, from ~~public~~ pvt to public lenders, 30s.

Subsidizing
cap. mkts.
-- govt gets
dregs.

-- public took high-risk loans

Ins. co.s specialized in corn belt loans. FCA in south --- due to
different loan requirements.

Credit, cheap

~~97~~ 96 Oppose cheap credit, say benefit capitalized, goes to landowner.
Same for cheap blasting powder. (Good, but miss diff m. point.) 569

p. 100 ∴ 45,000 farmers helped to ownership by FHA is rather insignif. ---

But they demonstrated good lend'g techniques, which private now follow -- long term, vble payments.

Now public agencies largely withdrawn from farm credit activity.

(FHA kaput)

Timmons. JFE 7'78. 'Farm Ownership in the US'

591

BEWARE of DYNAMITERS!

A new variety of racketeer—the “dynamiter”—is promoting the sale of home improvements at exorbitant prices and sometimes by illegal means

A method by which consumers are being swindled out of millions of dollars was described recently in a number of articles in the Los Angeles *Daily News* and the San Francisco *Call Bulletin*. The Better Business Bureaus of the three major cities of California—Los Angeles, San Francisco, and Oakland—have held public conferences on the situation, attended by law enforcement officers as well as industry representatives and the press. The District Attorney's office of Los Angeles has a widespread investigation under way. And, according to local news stories, the FBI is also making an investigation.

Business Week captioned a story about it with the headline, “Con Men at Work,” and the subhead, “Latest sales racket to hit California is bilking homeowners through misuse of FHA-insured loans.” A San Francisco *Call Bulletin* story quoted a former FHA (Federal Housing Administration) official of that area, Mr. D. C. McGuinness, as saying: “Literally thousands of persons are being victimized by the irresponsible activities of this phase of FHA operations. . . .”

Although the publicity about the racket has come primarily from the West Coast, there is little reason to believe that it is limited to that area. On the contrary, since the combination of conditions that makes racketeering possible in this field could occur almost any place in the nation, it is important that householders the country over understand how the fraud operates so that they may protect themselves.

The swindle operates in the field of home improvement, in connection with the sale of such things as siding, painting, roofing, heating and ventilating equipment, air conditioning, garbage disposal units, water softeners, insulation, patios and porches, etc. It rests on a loophole in federal law which opens up an avenue to easy, ready cash which is, of course, the racketeer's objective in any field.

Loans under Title I

The law in question is Title I of the National Housing Act under which loans for home improvement and repairs are insured by the Government. About one-and-a-half billion dollars of home improvement loans insured by the Government are now outstanding. The racket potential involved is big enough to attract underworld talent. Laxness all up and down the line from branch banks to government officials with regard to these loans, the difficulty faced by law enforcement officials in investigating and prosecuting dishonest building contractors, and the readiness with which many local radio and television stations sell time to almost anybody with cash—all these factors add up to encourage a highly profitable racket in which the illegiti-

mate operator is aided, consciously or unconsciously, by allies in legitimate circles.

The public is only now learning about conditions that honest businessmen in the home-improvement field have worried over for several years. And though publicity about the racket will certainly hurt the honest operator as well as the racketeer, the campaign of public education launched in California was initiated by honest dealers and suppliers in this business. As one of them put it: “Public knowledge of the mess we are in will hurt us; but, in the long run, it will not hurt the business nearly as much as the racketeers are now hurting both us and the public.”

Enter the dynamiter

There are, of course, many honest, conscientious salesmen. But the salesman who works this racket is a different kind of animal. In the language that has grown up around the racket he is known as a “dynamiter” because he can generate a sales pressure that blasts a customer into signing a purchase contract almost before the customer realizes what he has done. He is sometimes referred to as “a suede shoe boy” because he usually dresses on the flashy side; and he is likely to be driving the biggest, most expensive car on the road. In the news stories he was named “living room racketeer” because his M.O. (method of operation) is selling in the home of his victim.

He has various ways of getting into your living room. He may start cold by ringing your doorbell, although a popular variation is to send a canvasser ahead to do the doorbell ringing and make the appointment for the dynamiter. (“One of our vice-presidents is in town checking up on our product and I would like you to hear from him what we can do for you.”) He may come to you with an introduction from a friend or an acquaintance, often one who has also been victimized and who has been promised a commission on the sale to you—a promise which, incidentally, is seldom kept. Or you, yourself, may have called him after hearing the advice pounded relentlessly through a hard-hitting radio or television program: “Call such-and-such a telephone number right after this broadcast, win a prize, and at no cost to you our salesman will call on you, personally, to explain the many advantages of this marvelous offer.” The average radio or television listener is not aware that the salesman who calls on him is not a responsible representative of the advertiser but an independent operator.

Once he gets in you have to be tougher and rougher than a good many people are, to get him out. Some victims have reported instances of a dynamiter's staying five hours. “He

of tolerance of the individual . . . and toward endeavoring to maintain or to build up adequate general and local resistance of the skin." From this point of view, such measures as treatment of shoes with formaldehyde, stepping into and out of special foot baths before entering a pool or beach, and similar precautions are of no value. To quote further from Drs. Sulzberger and Wolf, "Wearing of sandals or perforated shoes and highly absorbent socks [cotton] is often the best prophylactic measure." The wearing of perforated shoes permits evaporation of perspiration; the retention of sweat or moisture favors the growth of fungi. Cotton socks are helpful in that they aid absorption of moisture from between toes. Another recommended practice is the insertion of pledgets of lambs' wool between the toes; this keeps the toes apart and permits circulation of air and evaporation of the sweat. Of course these precautions are useless if the shoes are so tight as to constrict the toes and produce friction, since the damaged skin resulting from friction encourages the growth of fungi.

Keep toes dry

An important precaution against ringworm infection is thorough drying of the toes after each bath, shower or swim. It is especially important that the skin between the toes, and the folds of the skin around the nails be thoroughly dried. The feet, especially between the toes, should be dusted freely with talc every morning and after bathing; the powder should also be dusted into socks and shoes. Talc is much cheaper and, in the opinion of many dermatologists, just as effective for prophylaxis as the fatty-acid powders such as *Desenex*, *Sopronol*, and others.

When prophylactic measures have failed and the skin of the toes or soles becomes itchy, reddened, scaly or blistered, it becomes necessary to institute active treatment. In severe cases the services of a physician should be sought. Regardless of the severity of the infection, successful treatment requires some knowledge of the method of operation of the disease. The fungi and their products sensitize the skin locally and generally, and cause eruptions of the skin. Fungi elaborate "allergens," not toxins, and these allergens are chiefly responsible for the eruption of the skin of the feet, and the secondary, blood-borne eruptions of the hands—the so-called "id" eruptions. Because the eruptions are essentially allergic eczemas, treatment is carried out along the same broad lines and with the same precautions as in

other acute or chronic eczemas.

For the acute, blistering, reddened, weeping type of ringworm infection the safest home treatment is wet compresses or foot baths of a soothing, mildly astringent agent, such as Burow's solution, diluted with 15 or 20 parts of cool tap water. The wet dressings should be applied for about a half hour, once or twice daily, until the acute redness and oozing has subsided. Once the acute inflammation has subsided, the application of calamine lotion is all that is needed. There is no advantage in the employment of proprietary preparations combining calamine lotion with antihistamine drugs or local anesthetics.

Dermatologists caution that in the acute inflammatory stage of a ringworm infection indiscriminate use of antiseptic agents or proprietary athlete's foot remedies may actually intensify and prolong the infection. Such organic mercurial antiseptics as merthiolate and metaphen are among the more common offenders.

In the past few years the fatty acid chemicals have been extensively advertised as "fungistatic" or "fungicidal." Among the best known are *Desenex*, *Sopronol*, and *Naprylate*. Some dermatologists are enthusiastic about their value in preventing and treating ringworm of the feet. Others believe that their chief value lies in their low capacity to irritate or sensitize the skin, and their consequent usefulness for long continued use.

Still others agree with Dr. James H. Mitchell of Chicago who gave the Distinguished Lecture in Dermatology at the 99th annual session of the American Medical Association on June 29, 1950, and who said: "Regardless of the opinion of others, it is my experience that both *Desenex* and *Sopronol* are of very little value in treatment of fungous infections."

According to Drs. Sulzberger and Baer in the Year Book of Dermatology, 1952, "In our experience, once the more acute phase has subsided under suitable treatment, prolonged therapy or prophylaxis with a simple mild foot powder is adequate to suppress clinical manifestations of fungous infections in most patients." An excellent simple, mild foot powder is talc.

Self-treatment of athlete's foot infection with strong chemicals such as Whitfield's ointment or salicylic acid ointments can lead to severe inflammation. These drugs are potent chemicals and should be used only by or under the direction of a physician.

QUOTE WITHOUT COMMENT

"Pitch of current detergent advertising—the use of detergents eliminates the need for bleaches—has aroused the wrath of bleach makers. . . . Most bleach makers were vocal in their complaints. . . . 'Damned unethical,' declared one. . . . 'We hope that some day hypochlorite manufacturers can get together to combat just this sort of thing.'"

"It's malicious advertising," growled

another, 'we did our own research . . . and we know they're wrong.'"

CHEMICAL WEEK

"Make 'salesmen' of your TV Servers. They have entry to the home, and folk have confidence in what they have to say as unbiased experts. Train the TV technician to suggest room air conditioners to customers. Offer some sort

of commission set-up."

TELEVISION RETAILING

"Credibility is a tiny factor—necessary but minor in any advertising success. The past 50 years of advertising development as a science have discredited credibility in favor of effective presentation."

An ad agency representative at a panel on cigarette ads, reported in TIDE

just wears you down and no matter how you say 'No' he's got another argument."

He plays upon fear. If he is selling furnaces he finds that "your furnace is sending poison gas through the house." If water softeners, "your water is ruining your health." If garbage disposal units, "your sink and garbage can are dangerously unsanitary." If asbestos siding, "your house in this condition (without the siding, of course) is a firetrap." And so on and on.

He capitalizes on feelings of inferiority. "Look here, you are just the kind of folks I like, real people, and I want people like you to have the best there is. It's about time you people, good people, were able to get something decent for yourselves for once. That's why my firm has joined up with the Government to make these low-payment, FHA loans possible, and you know that what we're selling must be the best there is if the Government guarantees the loan. I'm tired of seeing folks like you kicked around and told they can't have things just because they can't fork over the cash all at once."

Sign on the line

He will promise almost anything he figures it will take to get you to sign on the dotted line. Here are five examples of the most frequently used come-ons:

- 1 Ten-year, 20-year, or even life-time guarantees on the material or the product (these guarantees are generally so worded that they are worthless).
- 2 Low monthly payments on a loan, insured by the Government without a mortgage, so that if something happens to you, you don't lose your home in a foreclosure. "Uncle Sam wants to see people like you keep your homes and keep them up to date."
- 3 Commissions on future sales which will amount to more than your payments. "You are lucky. You happen to be the first customer we have called on in this neighborhood. We want to use this job for advertising purposes; so we'll make you a special low price if you will agree to let us use your house as a model home. Of course, we'll pay you for using your house. You'll get a commission on each sale made from showing people the kind of job we can do right here." This is known as "the model home gag."
- 4 Consolidation of any existing installment debts you may have into the loan to pay for the new job he is selling. "It doesn't make sense for you to trot around all over town paying here and paying there. What do you owe? Add 'em up. I'll add that amount to the loan for this job, then I'll pay your debts and all you'll have to do is pay one small payment each month to one bank." This is the "debt consolidation gag." The unwary victim usually does not know what the salesman knows, that such a proposition is illegal; that it is, in fact, a felonious violation of Federal law, because FHA-insured loans cannot legally be used for purposes other than home improvement. Furthermore, where a sizable sum has been added to the home-improvement contract, the borrower sometimes finds, after the job is completed, that the salesman has disappeared and the dealer denies knowl-

edge of the promise. Thus, the customer is left with a big loan to pay back to the bank in addition to the installment debts he had before.

- 5 Ready cash, if you need it. "It doesn't make sense for you to pay the high interest they charge you on small loans. That's just robbery, fellow. Let me put this insulation in your house, we'll write up the contract for \$1000, then I'll give you the extra \$500 so you can take this little lady here, on the kind of vacation she deserves." This cash come-on is, of course, a variation on the debt consolidation idea, and it is also illegal.

There are many, many people today who, despite good credit ratings, are unsophisticated in business dealings and in the laws pertaining to contracts. And not all the innocents are in the low-income brackets, either. Whether you are rich or poor, however, the dynamiter will use whatever means he can devise to get your signature on a contract. Your signature is what he wants. He does not worry about your money. He gets his money from the dealer, or contractor, to whom he sells your signature at the bottom of an order for home improvement or repairs. As soon as the job so contracted is finished (jobs the dynamiters sell are started and finished in a hurry; sometimes men are sent out that very night to tack up a couple of pieces of siding), the bank pays the dealer the amount stated on the contract, and the dealer in turn pays the dynamiter.

How much does the dynamiter get? That depends. These super-pressure salesmen work on commission. In some fields it is called "par selling." This means that a contractor sets a figure as his take from any job. In asbestos siding, for example, the figure might be \$33 per hundred square feet, or "square," as it is called in the trade. If the dynamiter can sign you up on a contract for an amount that comes out to \$90 a square, he takes the extra \$57 a square. Since a siding job for an average five-room house will call for about ten squares, his commission at these figures would be \$570.

The price is high

Racketeering home improvement sales are invariably sales at exorbitant prices. Twice the price an honest dealer would charge appears to be characteristic of a dynamiter sale of garbage disposal units and water softeners. For siding, painting, roofing, insulation, and patios the dynamiter's percentage hits tops—anything from 100% to 1000% above an honest price.

Because there is a combination of materials and installation charges, with installation work and problems varying from one job to another, and often with several crafts employed, it is almost impossible for a layman to judge the fairness of the price proposed. But why would FHA insure a loan of say \$2500 for a home-improvement job worth, at the very best, no more than \$1000?

The answer to that question is appallingly simple. FHA insures Title I loans without investigating them. Instead of making an investigation, the Government depends on what FHA officials refer to as an accredited lending institution's *policy of prudent lending*.

This FHA practice means, in effect, that FHA will insure

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RACKETS continued

any loan the bank sends in so long as the number of loans that go sour at that bank does not rise too high above the average delinquencies for the district, or the region. Always provided, of course, that the loans submitted for government insurance are within the specified limits—\$2500 as a top for an individual homeowner's loan, to be paid back, with interest, in monthly payments over not more than 36 months. And provided, too, that the loan is submitted by a contractor whose name is not on the current list of dealers whose paper FHA refuses to insure. Banks do receive such lists from FHA. When, as a result of complaints, an investigation is made by FHA, that agency may refuse to accept any more contracts from an offending dealer.

As for the banks themselves, they make no serious attempt to investigate the worthiness of the loan when it comes from a dealer whose credit is good and who is not on the FHA bad list. From the point of view of a banker, the prudence of a loan rests, primarily, on the degree of risk involved in making it.

To put it another way, from a banking point of view, an FHA Title I loan of \$2000, even if it is for a \$500 job, is a prudent loan, since the bank risks no loss, and at the same time earns a good rate of interest. Title I loans not only are insured by the Government so that a bank cannot lose on them, but these loans also earn for the bank, on a true annual interest rate, about 9.6%—a very good banking deal; so good, in fact, that when FHA first began insuring such loans, back in 1934, conservative bankers "were astounded and even shocked when the United States Government authorized them to charge . . . an actual rate of charge amounting to almost 10% per annum in simple interest" (*The Role of the Sales Finance Company in the American Economy*, published and distributed by the Baltimore Commercial Credit Company).

Unlike the Title II mortgage insurance program, where each property is inspected and evaluated before the Government will insure the mortgage, with Title I loan insurance, there is neither inspection nor evaluation before insurance is granted. This lack of evaluation is the Achilles heel of FHA's loan insurance program. No wonder that racketeers, schooled in searching out new and better sources of easy money, have discovered and exploited this weakness in the FHA-loan insurance pattern.

Who gets the money?

It was not hard to find. In a booklet called *Dealer Guide for FHA Title I Loans*, published in 1951, FHA makes it abundantly clear that not only does the dealer originate the loan, but he also receives the whole amount of the loan from the bank, himself, after he has completed the job he sold. The customer is responsible for the loan and pays it back to the bank in monthly installments, but the dealer who does the job is the one who gets the cash directly from the bank.

For the dynamiter, what he sells is nothing more than loan bait. For all his persistence, the high-pressure seller

of painting, siding, garbage disposal units, water softeners, air conditioners, etc., is interested in these things only because FHA will insure a loan on them, sight unseen.

Furthermore, unlike the established, reputable dealer, the racketeering dealer with whom the dynamiter often works has no long-standing experience with either the materials or the skills in the field. Hence, shoddy workmanship as well as exorbitant pricing is apt to be a part of the picture. And when and if he gets into trouble, the racketeer moves out of the area, leaving honest operators to face the public disillusionment resulting from his wreckage. As the Chairman of the Board of the Los Angeles Better Business Bureau, Mr. Philip Corrin, put it: "The people who are running legitimate institutions are having their pockets picked. . . . This relentless diversion of business from legitimate sources goes on at a pace to make the legitimate ill and the illegitimate rich."

Easy money

It was not the purpose of Congress when it passed the National Housing Act to make anybody rich. Its purpose then, back in 1934, was to help bring the nation out of depression doldrums. Government insurance for home-improvement loans was designed to create jobs for men and markets for goods. The insurance plus the generous interest rate was intended to encourage banks to lend for home improvement without requiring the borrowers to put up mortgages on their homes as security for the loans. And Congress hoped that borrowers, since they would not have to risk their equity in their homes, would borrow in order to spruce up their properties, thereby putting men back to work.

Everything was done to make it as easy as possible for loans to start flowing so that men could start working. Banks were designated as agents of FHA and, in their turn, the banks designated dealers and contractors as agents of the banks.

It was not until years later, however, that FHA loan insurance became a sizable program. During the depression years, loans never went above \$250,000,000 in any one year. It was after World War II that FHA Title I loans took their big jump. They have climbed steeply since. Last year, for example, they were up 31% over the year before. And today outstanding loans bulk into the large total of around a billion and a half dollars.

What the racketeering exploitation of Title I can mean at the grass-roots level is illustrated by one recent case history. It concerns a family of four whose sole monthly income, the wages of a semi-skilled workman, amounts to \$270 a month. They live in a GI tract in a house mortgaged by a loan guaranteed under the Government's veterans' housing program. They moved into their new house in March 1952; fell prey to their first dynamiter that same month; were signed up for their first Title I loan of \$268 for insulation (which they did not need). This first Title I loan was financed through a different bank from the one holding the GI mortgage. Two months later their second Title I loan went through still a different bank. This time it was \$400 for a water softener—twice the price charged by reputable dealers for a product that, according

to local health officials, was not needed in that relatively soft-water city. In June came the third Title I loan for a garbage disposal unit. Still a different bank took this loan for \$345, although installed disposers were selling generally around \$150. In September, the first payment was due on the fourth Title I loan of \$805 for a patio.

Last fall the father fell ill for a few weeks. Those few weeks were enough. By January of this year all loans were delinquent. By June of this year, three of them were in FHA's hands for collection. The dynamiters and the dealer had, of course, been paid off, months ago; the banks got their money back from the FHA insurance. Now the Government must press this GI, whose home it has protected by mortgage insurance, for more than double the value of the goods he was sold. At the moment, it is Uncle Sam who owns the very expensive garbage disposal unit, water softener, and shoddy patio out there in a GI tract in California.

The dealers, not the family, had chosen the four banks which took the contracts. Each one of the four apparently failed to contact either the bank holding the mortgage, or yet another bank that held about \$600 worth of installment paper on furniture purchased for the new house. Thus, six different lending institutions became involved in that family's affairs in less than a year and six "prudent lending policies" contributed to the financial fiasco facing a family that wasn't tough enough to say "no" to the dynamiters.

Since delinquency rates for the country as a whole are still fairly low for Title I loan payments, there may not be many such cases on record. And so long as employment holds up, it is likely that the ratio of delinquencies will stay low. There is no denying, however, that many low-income families have been saddled with heavy payments for over-priced home improvements and have thus had their purchasing so curtailed that they cannot buy things they need: a refrigerator, dental care, more meat and more milk, etc. In short, not only have reputable home improvement dealers and dynamite victims suffered, but butchers, bakers, appliance dealers, and cattle growers have also lost to the living room racketeers.

Operation Clean Up

It is this realization that has sent the business community, itself, in California's three biggest cities to the support of what the Los Angeles Better Business Bureau calls "Operation Clean Up." One of the first dynamiter activities subjected to the public-education treatment in this campaign was the steamed-up promotion of a product called mastic paint, which took a heavy toll this spring. Houses that could be painted for \$800 were, under dynamite pressure, being covered by a mastic job at \$2500. So serious was the mastic paint racket that the San Francisco Better Business Bureau issued a pamphlet to help householders protect themselves.

The pamphlet points out that few individual homes can profitably use mastic paint as a covering, even under the best of circumstances, since it is not designed for such use. The booklet, called *The Facts on Mastic—Not Fantastic*, is available from the San Francisco Better Business Bureau at no cost, providing a stamped, self-addressed

envelope is sent along with the request. Address the San Francisco Better Business Bureau, 420 Sutter St., San Francisco 8, California. On the last page of the pamphlet there appears, under the heading, "Take These Simple Precautions," some advice which, if carefully followed by a potential victim, makes it possible for him to protect himself against any dynamiter who chances to get into his living room. CONSUMER REPORTS suggests that readers who are interested in the mastic paint problem write for the pamphlet; but because the rules laid down in the advice are important for all kinds of Title I contract purchasing—many apply to any major home improvement job—they are reproduced here:

Simple precautions

- Be sure of the identity and reputation of the salesman before you sign a contract. Be sure he represents the firm named on your contract.
- *Do not sign contract in blank.* Read every word of every paper you are asked to sign. Do not sign a sheaf of papers thrust before you, but take time to read each one carefully.
- Find out the name of the lending institution which will finance the contract, and the rate of finance charge you will be required to pay. Then, call the lending institution for verification. *You have to pay back the amount of money borrowed from the lending institution whether or not the work proves to be satisfactory.*
- Do not sign a contract which does not correctly state the facts. For instance, if a down payment is specified, it must be the amount paid by you. Title I, FHA Contract Forms include this warning: "Any person who knowingly makes a false statement or misrepresentation in this application shall be subject to a fine of not more than \$3000 or by imprisonment of not more than two years or both under provision of the United States Criminal Code."
- Be sure the contract includes clearly defined specifications concerning the work to be done.
- Do not sign a completion certificate until the work is completed to your satisfaction. The completion certificate enables the contractor to collect in full from the lending institution.

If you encounter any difficulty, and you are not able to work out an amicable solution with your contractor, consult the Better Business Bureau or the contractors' licensing agency in your area.

Better Business Bureaus never recommend or endorse any person, firm, or proposition; but they do give factual reports without charge.

Before you invest, INVESTIGATE!

And, if CU may add a word of advice, always get written bids from different dealers for any home-improvement job that runs into a sizable sum of money, and be sure the different dealers are reputable, well-established dealers, and are bidding on the same written specifications.

THE VAPORIZER HAZARD

The widespread sale of lindane vaporizers as household insecticides may be a serious menace to public health

There have been many ads in the papers in recent months for a product variously labeled and variously priced, but generally designed to be used in the home for the vaporization of an insecticide called lindane. The prices, from about \$3 to many times that amount, represent a range from simple cup-like devices to be hung over an ordinary light bulb to more elaborate units with built-in heating elements. These devices give off lindane vapor which is supposed to keep the treated space free of insects.

Suspicious consumers are likely to raise a question as to the safety of such a device. And their suspicions are shared—and have been for some time—by government agencies and medical men, who have seen similar though somewhat more elaborate devices sold to and installed in factories, stores, and even schools in the past year or two. The problem was considered serious enough to warrant a special report by the American Medical Association Committee on Pesticides.

The Committee's report, which was published in May 1952, was carefully hedged, but revealing. While recognizing the potential though unknown toxicity of lindane vapors, and the various added hazards of uncontrolled use, the report, in effect, approved thermostatically controlled devices for limited commercial application, though it rejected the simpler, uncontrolled vaporizer offered for home use. But perhaps more revealing than the report was the dissent registered by a member of the Committee, Dr. Herbert K. Abrams, formerly chief of the Bureau of Adult Health of the California State Health Department, in a statement to the Committee on Pesticides on January 31, 1952. Said Dr. Abrams:

1. There have been no convincing studies done to my knowledge which demonstrate that any of the insecticides, even DDT, are safe under conditions of long term, low level absorption.

2. In the absence of such studies, the commercial marketing of a device which has not been demonstrated to be safe, violates the principles of good public health and should be viewed with concern by the medical profession.

3. There is not demonstrated a need for this type of insect control which is so urgent and over-riding as to justify its use in the face of its potential danger to human beings.

4. The proposed statement [of the Committee on Pesticides] contains several contradictions:

a. How can you reconcile a statement opposing its use in homes and at the same time approve its use in industrial and commercial establishments where a large segment of our population spends one-third or more of their lives, not to mention other members of the population who are exposed when eating or doing business in these places.

b. After specifying the conditions for use the statement recognizes that 'few if any of the devices which are currently in operation have the protective features previously enumerated.'

5. I believe this is a matter which under existing deficiencies in legislation, differing legislative patterns between the various states and localities, deficiencies in public health personnel available to discharge even the most elementary public health responsibilities, the thousands of such devices which are already in use or will be in use will be a problem absolutely impossible to control.

6. Is it wise now to approve for general use a procedure which deliberately contaminates the air and which has not been demonstrated to be either harmless to human beings or so urgently necessary in insect control as to justify its use?"

The Food & Drug Administration, which has no jurisdiction over the vaporizers but does have jurisdiction over food contamination, has been performing tests which show the ability of lindane vapors to penetrate wax paper, cellophane, and brown paper wrappings, and to contaminate the wrapped food with lindane.

Under the Federal Insecticide Act passed in 1947, the Department of Agriculture licenses the sale of so-called "economic poisons," and prescribes proper labeling which includes both instructions for use and precautions. State control is, in most cases, much like the Federal. At both Federal and state levels, lindane, as an insecticide with prescribed procedures for use, is licensed and its labeling registered. However, no lindane vaporizer sold for use in the home has been approved.

Unfortunately, some state departments of agriculture have taken the position that since "under proper use" lindane vaporizers are not known to be dangerous, their use cannot be halted. The fact that lindane vaporizers are not known to be safe is precisely what worries public health departments, whose job of protecting the public is not made easier by the attitude of the various agriculture departments.

In some communities there is pressure for the passage of city ordinances to license and control the sale of lindane vaporizers. Such an ordinance would make it more difficult for public health departments to keep vaporizers out of restaurants and to issue public warnings to communities. Under an ordinance specifically licensing vaporizers for sale to homes, the city's householders would be the guinea pigs in the test of lindane.

Until the scientists and the health officials are able to determine with reasonable certainty the condition—if any—under which a lindane vaporizer can be safely used, consumers should not buy them.

Margin requirements?

Nat. Banks not allowed to lend to urban subdividers.

*If you can't borrow, w/o owning land, to improve, how will you improve March 16, 1951
if you have no equity? Have banks historically shied away from I.D. land?*

FINANCING AGRICULTURAL DEVELOPMENT

Credit Limitations in Agricultural Development

Equity Capital.--The majority of capital used in agriculture is not borrowed. It comes largely from retained earnings either by present operators or former operators from whom it was acquired by inheritance or other family arrangements. Although a large part of the developmental work on farms has resulted from the gradual "plowing back" of farm earnings, often those whose farms are most in need of development have saved little and have the least ability to save.

Agricultural Development.--The problem of agricultural development concerns both the farm owner with accumulated savings and the farm debtor. Agricultural development follows such lines as the expansion of resources for more efficient production, the shift to more profitable enterprises, the conversion from dry land to irrigated farming, and conservation practices designed to increase soil productivity or decrease production costs. Conversely, the effects of lack of development, such as a progressive soil depletion, may result in a decrease in net farm returns.

Capital Appreciation.--Increased net returns to the farm operator resulting from farm improvements not only make possible a higher level of farm living but contribute to a permanent increase in the value of the farm. Normally, this increased real income would provide a borrower with the ability to repay the capital expenditure, and the increased land value would secure the additional capital required.

Use of Credit.--The purpose of credit is to put buying power in the hands of those who can make the most effective use of it. The justification for borrowing on the part of the borrower is the belief that he can make the borrowed funds earn more than he has to pay for them. The borrower is thus compelled to make an estimate of the returns out of which interest and principal payments can be made.

Limitations to Borrowing.--Unfortunately, the development capital must be expended before the enhanced efficiency can be realized. The uncertainty of realization becomes the impediment to adequate credit supplies in terms and conditions suitable to the needs of the borrower.

Appraisal Policy.--Under existing practices, it is very difficult for institutional lenders wisely to extend credit for financing land improvements as not enough is known concerning the productivity of improvements. The appraisal standards of many lenders do not reflect the future income potential of the farm which is likely to result from proposed developments. Anticipations are not to be considered as a factor in land valuation. For example, the Equitable Life Assurance Society bases farm loans on normal agricultural values consistent with normal incomes and perquisites for the farm under its present development.

Low-Income Farmers.---Farmers with incomes barely sufficient for family living and the retirement of the purchase money mortgage are not free to solve resource allocation problems on the basis of economic considerations.

The Tenure Problem.---Inadequate capital may not be the fundamental problem. In many cases the step from farm tenancy to encumbered ownership should never have been undertaken. The process of getting started in farming and in making the transition to full ownership is following a new pattern. The old agricultural ladder started with the (1) unpaid family labor to (2) hired man, (3) tenancy, (4) encumbered ownership, and (5) full ownership. Now the tenancy rung of the ladder is being replaced by a full-fledged operating contract or father-son partnership, and the encumbered ownership rung is being replaced by the first stages of the transfer process under which the son obtains a specific ownership claim on the farm business. Despite the objections to tenant farming, encumbered ownership is a mistake unless sufficient capital resources have been accumulated to purchase an adequate farm unit.

Credit Facilities for Development Capital

The Ideal Mortgage.---Given land that has a high degree of productivity, located favorably with respect to primary and local markets, under competent management, and free from senior liens in the form of irrigation or reclamation district obligations, a mortgage loan that leaves a generous margin of safety with respect both to average earnings and to the value of the property can be regarded as a sound investment.

Mortgage Limitations.---Certain distinct disadvantages inherent in farm mortgages are (1) poor marketability if the investor finds it necessary to sell; (2) the assumption of numerous duties and responsibilities involved in looking after the loan; and (3) scant diversification of risk. However, the yield on the best farm loans is still considerably better than on corporate securities of good standing.

The Lenders' Problem.---From the lenders' point of view, the problems of extending development capital include (1) insufficient basis for appraising the probabilities of future income in order to determine recovery value in the event of foreclosure and (2) the reluctance to defer principal repayments for development purposes. Nearly all types of lenders are hesitant to reopen a mortgage and extend additional credit for obviously desirable improvements. Where a mortgage already exists on the farm, practically the only way additional credit may be secured is through a complete refinancing of the mortgage.

Sources of Credit.---A review of the principal sources of long-term credit will provide a better means of evaluating possible remedies to development capital problems. *expensive*

COMMERCIAL BANKS

Purpose.---Designed primarily to receive deposits, to make loans, to transfer money and credit, to supply a circulating medium to individuals and business enterprises, to fulfill the short-term financial needs of trade and commerce and so assist in the promotion of agriculture, trade and industry.

Laws, Rules and Policies.---The proper field for bank loans is determined by (1) the limitations imposed by law; (2) the obligations of a bank to its customers in the way of deposit liability; (3) prevailing business conditions or trends in business; and (4) the policies established by the bank's board of directors.

Liquidity of the Loan.---A bank may maintain the liquidity of its funds by (1) repayment of the loans; (2) rediscounting notes of its customers with the Federal Reserve bank; (3) direct sale of the notes or security behind them to another party; and (4) rotation of loans.

Safety of Principal.---No advance will be made unless the bank is convinced that the borrower can and will repay the amount borrowed.

willingness, attitude of borrower important.

Pillars of Credit.---Bases used by banks in extending credit: (1) character---by interview, the banks' records and other credit sources; (2) capital---by a financial statement; (3) collateral---property or property rights pledged as security for a loan; and (4) capacity to pay---repaying ability estimated by an analysis of anticipated income and expenses.

National bank law
Powers and Limitations.---The power to make loans on improved real estate is within the limits prescribed by banking law. The legal limit to any one individual is limited to 10 per cent of the capital and surplus of the bank. Real estate loans may not exceed 60 per cent of the appraised value of the property and must be amortized at a minimum rate of 4 per cent of the original principal annually with a maximum maturity of 10 years. Loans up to 50 per cent of the appraised value of property may be made flat for 5 years.

Elements of Strength.---There are about 14,000 independent units in our banking system today (compared to 29,000 in 1920). Developments that give confidence that our banking situation today is much stronger than in times past include (1) improved public supervision correcting many earlier deficiencies of banking practice; (2) the FDIC which insures deposits thus helping to prevent future withdrawals of currency by depositors; (3) the expansion of the powers of the Federal Reserve banks to extend credit to banks; and (4) the dominant place of liquid federal securities among the assets of banks.

INSURANCE COMPANIES

Investment Policy.--Insurance companies attempt to serve the best interests of their policyholders by investing available reserve funds so as to gain as high a return as possible, consistent with safety. Farm mortgage loans are made in selected areas where rates are relatively high and the security and volume of long-term credit is satisfactory.

Source of Funds.--The reserves of insurance companies are, with the exception of policy loan and policy surrender demands, not subject to extensive fluctuations, so that they may be invested for long periods of time.

Lending Methods.--Insurance companies obtain farm mortgages primarily through correspondants, brokers, and local loan agents. Companies are now developing professional staffs to handle real estate acquired, appraisal of land, and negotiation of loans. Competition among lenders has served to increase the amount loaned, with less emphasis on terms of payment and interest rate. Prepayment of loans often carries a penalty. Life insurance companies are limited by state laws to maximum loans of 50 to 66-2/3 per cent of the appraised value. To a degree life insurance companies must have liquid investments that yield regular income in order to meet indemnities.

Composition of Loans. Farm mortgage loans of life insurance companies are of two major types: regular mortgages and purchase-money mortgages. Purchase-money mortgages arise directly out of the sale of real estate owned by the mortgagee. A relatively large number of sales contracts also arise from the sale of real estate held outright.

INDIVIDUALS

Purpose.--Individual investors hold mortgages in many cases because they took real estate mortgages as part of the sale price of farms, or of farm equipment and supplies.

Lending Methods.--Since many mortgages held by individuals have originated in business transactions in which the lender is financially interested, the terms and conditions are varied. The conditions usually influence the interest rate charged and the security accepted. Very often the loan is large in respect to the land value and bears a relatively high rate of interest and a short maturity date. Conditional sales contracts are often used by farm purchasers who are unable to make a large enough down payment to obtain immediate title to the land. Land contracts are an important means of selling farms to tenants with a relatively small down payment.

Before depression, Fed. ~~Land~~ Land Bank had become purely private. In depression, govt took over again, & now still \$70m govt credit still in it.

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FARM CREDIT ADMINISTRATION

Authority.--Presidential Executive Order No. 6084, effective May 27, 1933, placed the responsibility for federal farm credit policies and activities on the Governor of the Farm Credit Administration. In 1939 the FCA was placed in the Department of Agriculture.

Purpose.--To provide a complete and unified agricultural credit system to handle the credit needs of farmers from a farmer's point of view and on a business basis at the lowest possible cost, by affording farmers a complete and coordinated system essentially cooperative in form and largely farmer controlled to tap the sources of private capital for obtaining loan funds not readily available from other credit institutions.

Federal Land Banks

Authority.--Federal Farm Loan Act approved July, 1916.

Source of Funds.--Direct government appropriations to capital and surplus, a \$5.00 stock subscription requirement for each \$100 borrowed by farmers, and the sale of tax exempt federal farm loan bonds secured by the unmatured principal of farm mortgages, authorized to 20 times the amount of capital stock.

Sound Loan Policy.--"A Federal Land Bank loan is sound if (1) it serves a useful purpose; (2) the amount and terms of repayment are within the debt retirement capacity of the farm and the borrower; (3) the borrower is an acceptable risk and his equity in the normal value of the farm and his equity in his other assets are such that he will be encouraged to protect his investment at all times; and (4) the quality of the farm is such that the bank and association will be afforded reasonable protection against loss should acquisition become necessary."

Purpose.--To supplement other sources of farm mortgage credit and to provide a type of long-term amortized loan which is especially adapted to the particular needs of farmers which is not readily available from other mortgage credit institutions. There are 991 national farm loan associations in the 12 districts served by Federal Land Banks (compared to 5,034, December 31, 1935).

Terms.--Interest rate, 4 per cent; maximum loan, \$100,000 but not to exceed 65 per cent of the appraised "normal" value of the farm for agricultural purposes; maximum maturity, 40 years; payments amortized annually or semiannually.

Normal Agricultural Value.--"The normal agricultural value is the amount a typical purchaser would, under usual conditions, be willing to pay and be justified in paying for the property for customary agricultural uses, including farm-home advantages, with the expectation of receiving normal net earnings from the farm. This value is based upon agricultural assets only, an informed typical purchaser, and a substantial down payment, the purchaser to assume unmatured drainage, levee, irrigation, and similar liabilities."

Bonds of the Federal Land Bank.--The following factors are responsible for the high rating and low yield enjoyed by the Land Bank bonds:

No wonder
lends
cheap: is
subsidized.

Land Bank was private until FCA set up.

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1. They are the joint obligation of the 12 institutions.
2. The total volume outstanding must not exceed 20 times the capital and surplus of the banks.
3. They are supervised by federal authorities.
4. They are fully backed by cash and mortgage loans. The mortgage loans cannot exceed 65 per cent of the normal value of the land and improvements. A loan is granted only to an owner who is actually living and operating on the farm pledged as security.
5. The principal is exempt from state and local property taxes and the interest from state income taxes. *Not federal?*
6. The mortgage must be endorsed by the local Farm Loan Association.
7. The bonds are legal for trust funds in many of the states, and banks may use them as security for federal deposits.

Purposes of Land Bank Loans.—Federal Land Bank loans closed in California, Arizona, Nevada, and Utah, the last 100 loans closed prior to December 15, 1950, amounts of loans granted for various purposes.

To refinance real estate mortgages held by:

Federal Land Bank	30.4 per cent
Insurance companies	.1 " "
Commercial banks	9.4 " "
Others	17.2 " "
Total	<u>57.1</u> " "

To refinance chattel mortgages, notes and accounts held by:

Commercial banks	4.1 per cent
Production Credit Administration	.7 " "
Others	5.1 " "
Total	<u>9.9</u> " "

To buy real estate	8.1 per cent
Repairs and improvements to buildings	3.3 " "
Repairs and improvements to land	7.6 " "
Purchase farm machinery	3.0 " "
Purchase livestock	3.4 " "
General farm operations	3.2 " "
All other purposes	4.4 " "
	<u>100.0</u> " "

*So land bank doesn't originate many loans.
Is it then fulfilling its purpose?*

Confidential

FARMERS' HOME ADMINISTRATION

This primarily takes care of those with no collateral

Authority.—Public Law 731, approved August 14, 1946 transferred the Farm Security Administration and the Emergency Crop and Feed Loans of the Farm Credit Administration to the Farmers' Home Administration, an agency of the Department of Agriculture.

National Goal.—The use of credit to achieve ownership of full-time family farms with sufficient earning capacity to support an adequate standard of living.

Definition of a Farm.—To qualify, a farm must constitute an efficient family type, farm management unit defined by the administering agency as follows: "a farm which furnishes full, productive, year round employment for an average farm family and which an average farm family can operate successfully without employing outside labor, except during brief peak-load periods at planting or harvest time." In addition, such a farm must have "the capacity to yield income on the basis of long-time prices which will maintain an average farm family according to acceptable living standards, pay annual operating expenses, pay for and maintain necessary livestock and farm and home equipment, and pay off the loan." The legal definition is a parcel or parcels of land that constitute a single operating unit on which agricultural products worth \$1.00 or more at 1944 prices are or can be produced. (The Bureau of the Census defines a farm as an "agricultural enterprises of as much as three acres or smaller tracts with annual production of \$250 or more.")

Loan Policy. To provide credit and other aids for farmers (but not including corporations or cooperative associations) who need assistance, beyond that which is fully self-supporting on a commercial basis, up to 100 per cent of the full purchase price of the farm bought, or of the improvements made. Loans will not qualify where refinancing constitutes the major purpose of the loan.

Repayment Requirement.—Annual payments of principal and interest sufficient to pay off the loan on an amortized basis within the term of the loan are required with variable advance payments optional. The prepayment reserve plan is designed to encourage the accumulation of a reserve for years of low income. Those who have accumulated a reserve may draw upon it as necessary to pay the required annual installment, provided the installment is for a year of below-normal income. Those who have not accumulated a reserve will be compelled to draw upon other resources to meet the required annual payment. This is in contrast with the previous authorization which permitted borrowers to pay less than a full annual installment in low-income years even though they had not accumulated surplus payments. Under the old plan variable payments were required to the full amount of net cash income available after necessary living expenses had been deducted. On June 30, 1946, 84 per cent were following the variable plan with 68 per cent ahead of schedule. Under the old fixed plan prepayment did not place the borrower ahead of schedule as does the present plan.

Refinancing Agreement.—The borrower must, upon request of the Secretary of Agriculture, apply for and accept credit from other sources as soon as he may be able to obtain a loan at rates and terms prevailing in the area.

*Census def.
of farm --
up to date?*

*How
select?*

Production and Subsistence Loans

Authority.--Title II of the Bankhead-Jones Farm Tenant Act.

Source of Funds.--Annual appropriation out of short-term production funds formerly available for the current fiscal year to the Farm Security Administration and funds of the Farm Credit Administration's Emergency Crop and Feed Loan Division.

Purpose.--Short-term, non-real estate for purchase of livestock, seed, feed, fertilizer, farm equipment and supplies, other farm needs, and family subsistence.

Terms.--The initial loan cannot exceed \$3,500 and the outstanding indebtedness cannot exceed \$5,000. Interest rate, 5 per cent; maximum maturity, 5 years. Security, crop and chattel mortgage. If deemed necessary to protect the loan, the borrower must accept farm and home supervision. Loan based primarily on ability to pay.

Farm-Ownership Loans

Authority.--Title I of the Bankhead-Jones Farm Tenant Act as amended.

Purpose.--To permit owners of undersized or underimproved farms, as well as tenants, to acquire, enlarge, or improve farms which will be of sufficient size, productivity, and capital equipment to make a living for a farm family. Also, loans may be made to make major readjustments in farming operations to meet changing conditions.

Loan Limit.--The legal limit on the loan and owner's equity shall not exceed \$12,000. This investment limitation has been broadened and is established on a county basis. County committees must certify as to the eligibility, qualification, and investment limit of the applicant.

Direct Loans. Direct farm-ownership loans are made from limited funds derived from annual appropriation. Interest rate is 4 per cent; maximum maturity, 40 years; advances up to 100 per cent are permitted.

Insured Loans.--Insured farm-ownership loans, interest rate 3 per cent plus 1 per cent premium for mortgage insurance, plus appraisal fees; maximum maturity, 40 years, advances up to 90 per cent of the farm value may be granted without limit (except that not more than \$100,000,000 of mortgage principal obligations shall be insured in any one fiscal year). A mortgage-insurance fund of \$25,000,000 is authorized as a revolving fund for the operation of the insurance program. Institutional investors are the principal purchasers of the insured mortgages, which are assignable and are eligible as investments of national banks. There is no assured secondary market for the insured mortgages due to odd amounts and no definite term. Servicing cost is at the expense of the Farmers' Home Administration. The entire credit of the federal government assures the solvency of the insurance fund.

Water Facility Loans

Authority.--Pope-Jones Act approved in 1937, amended in 1940.

Funds.--Government appropriation limited by fiscal period. *& they are squeezed out.*

Area and Purpose.--Program limited to the 17 western states for the purpose of building up the resources of the farm by assuring a better water supply. To improve, repair, or build new water facilities, including leveling; a program that takes over where the Bureau of Reclamation leaves off.

Eligibility and Terms.--An operator of a family-type unit or an organization of such operators can borrow up to \$100,000; interest rate, 3 per cent; maximum maturity, 20 years.

Security.--A farm mortgage, although the primary basis is the ability to pay.

Farm Housing Loans

Authority.--Public Law 171, Title V, Housing Act approved July 15, 1949.

Funds.--Direct government appropriation, limited by fiscal period.

Policy.--The realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family through governmental assistance for decent, safe, and sanitary farm dwellings and related facilities.

General Terms.--Interest rate, 4 per cent; maximum maturity, 33 years (generally do not exceed 20 years); security, whatever equity the borrower has in his farm. The applicant must show that he is without sufficient resources to provide the necessary housing and buildings on his own account and that he is unable to secure the credit necessary from other sources upon terms and conditions which he could reasonably be expected to fulfill.

Section 502.--Loans for houses and buildings on adequate farms: farms with adequate income but insufficient equity. A moratorium may be declared upon a showing by the borrower that due to circumstances beyond his control, he is unable to continue making payments without unduly impairing his standard of living.

Section 503.--Loans for houses and buildings on potentially adequate farms: those whose farms are expected to be so greatly improved within 5 years that their income from all sources will be adequate to carry the loan and to maintain a reasonable standard of living. The applicant must agree to adopt a plan of farm improvement, enlargement, or adjusted practices, which, within 5 years, would be expected to increase his income to an adequate level. If he cannot meet his payments during the 5-year period, the interest and 50 per cent of the principal may be waived.

Section 504.--Other special loans and grants for minor improvements: families with inadequate housing and farms incapable of sufficient improvement to bring the family income up to an adequate level. Assistance is limited to owner-occupants and may take the form of a loan or grant, not to exceed \$1,000 if in combination, or not to exceed \$500 as a grant. The grant is a temporary expedient to aid families until something more fundamental can be done.

So far the cost of this subsidized program has been slight -- because they reject so many applicants, they get only good risks.

-10-

Disaster Loans

Authority. -- Disaster Act, April 16, 1949.

Funds. -- Government appropriation, limited to need.

Terms. -- Short term; high risk; interest rate, 3 per cent; no maximum amount, secured by crop and chattel mortgage.

Distribution of Loans. --

Farmers' Home Administration
Loans Made from July 1, 1949 to June 30, 1950

	<u>Total amount</u>	<u>Number</u>
Production and Subsistence Loans	1,621,895	797
Direct Farm-Ownership Loans	183,760	18
Insured Farm-Ownership Loans	37,635	4
Water Facility Loans	293,433	101
Farm Housing Loans	735,730	143
Disaster Loans (primarily two counties)	2,189,670	537

Supervised Credit. -- As the problems of low-income, family-type farmers unable to obtain credit elsewhere have not been entirely financial, the services extend beyond the lending of funds. The combination of a credit and farm program through the association of technical and managerial guidance and assistance with the use of the loan has served to protect the government's investment and to further better systems and practices of farming.

Ability to Serve Applicants. -- The Farmers' Home Administration was able to serve only 33 per cent of the production loan applications submitted in 1948, compared to 78 per cent in 1945. With the funds available, an average of about 20 applications for farm-ownership loans were received for each loan made. In 1948 only one loan could be made for every 30 farm-ownership applications.

FARM MORTGAGE DEBT: Total outstanding and amounts held by principal lender groups, California, January 1950

	<u>1,000 dollars</u>	<u>Per cent</u>
Federal Land Banks	54,333	13.0
Federal Farm Mortgage Corp ^{a/}	4,841	1.2
Farmers' Home Administration	1,856	
Life insurance companies	65,073	15.5
Insured commercial banks	77,657	18.5
Individuals and others	215,580	51.8
Total	419,340	100.0

Insurance co. is
strongest in corn
belt.

a/ Authority to make new loans expired July 1, 1947

Commercial banks: 6% incl \$10,000

5% over

4% on some very large ones.

Land bank 4%
FHA 3 1/2%

If you have land bank loan, cannot refinance with FHA.

Where is my 3d copy of land allocation paper.

-11-

FARM MORTGAGES RECORDED: California in 1949

	<u>1,000 dollars</u>	<u>Number</u>	<u>Per cent</u>
Federal Land Bank	12,852.2	1,773	10.9
Life insurance companies	13,053.0	806	5.0
Commercial banks	28,331.0	5,236	32.2
Individuals	48,361.0	7,084	43.6
Miscellaneous lenders	8,463.0	1,344	8.3
Total	<u>111,060.2</u>	<u>16,243</u>	<u>100.0</u>

Evaluation of Sources of Credit.--The government credit agencies discussed here appear to have been conceived as a permanent part of the American financial system. Their design to cope with emergency needs facilitates the Administration's program of economic and social reform. Competition with private financial agencies is made possible by lower interest rates and by the assumption of risks which are impossible except by subsidy. Even though loss occurs, these agencies can justify themselves on the ground that useful relief has been afforded or that some economic objective is being promoted. The needs of borrowers should not replace the credit worthiness of borrowers as the primary principle governing credit relations in the field of agriculture.

The Interest Rate.--In ordinary times the farm borrower should be entitled to an interest rate based on the cost of funds in the general money market. Artificially low interest rates on farm mortgages tend to be translated into higher land values without long-term advantage to either the farmer or the public. The conventional supposition is that there is available to the borrower an unlimited supply of capital resources at going prices and that additional capital investment is carried to the point where the purchase price of the marginal input equals the sales price of the marginal output. The fact that capital is limited so that marginal cost does not equal marginal revenue implies that the farm is kept below its best combination of resources.

The Factor of Uncertainty.--By uncertainty is meant the failure to realize expected price, cost and technological production rates for which no appropriate risk premium can be paid. The importance of uncertainty in agriculture means that appropriate allowance must be made for it. Lending agencies safeguard their interests from unexpected change by the ratio of credit to property value and not necessarily by interest rate. Uncertainty of land ownership, the gap between expectation and realization, results in farmers with limited assets often selecting small farms both in size and productivity. However, risk in farming may increase more rapidly than scale. Large farms and favorable conditions go

This pamphlet outlines a definite procedure with all necessary legal forms, including application form, mortgage and schedule of advances and repayments, for a loan to be made to finance a program of land improvements, including construction of grassed waterways, terraces, outlet structures, diversion ditches, stock ponds and fences, and lime, fertilizer and grass and clover seed. It might also have included clearing land of trees, brush, stumps or stones, pasture improvement in general, drainage, weeding, thinning, and tree planting.

The mortgage is in two parts, with two separate schedules of repayments. The example shows an amortized first mortgage for 60 per cent of the appraised value of the farm, with annual payments on the purchase loan of \$545. The repayments on the land-improvement part of the loan are 75 per cent of the estimated increased income resulting from the improvements, with 9 annual payments scheduled for liquidation.

Comments.--

1. The example is an exceptional farm, valued at \$22,695 before improvements and \$31,572 after improvements. Cash expenditures of \$9,714, including interest, are high considering a 60 per-cent mortgage.
2. On the ordinary farm, much of the improvement would be done by the farmer himself, instead of an all cash basis as in the example.
3. Most farmers in ordinary times will want to borrow only to cover cash costs instead of making advances on a cash-cost basis.
4. In practice many farmers will not want to borrow to finance all of the work on a "complete" farm plan, but take parts at a time.
5. In pushing the full improvement program, more work must be hired than if the program were carried out over several years. It would be difficult for the livestock program to keep up with the increase in feed and forage. This was brought out in a study made in 1940 of progress on a group of TVA unit-test demonstration farms in Tennessee. ("Progress and Possibilities for Further Progress on Fifty Unit-Test Demonstration Farms in the Valley of East Tennessee," Tennessee Agricultural Extension Service.) The cheapest way to increase herds of cattle is to raise more heifer calves and this takes time.
6. If the livestock program is to be accelerated, loans for this purpose must be included. Lack of capital and credit was one of the reasons for the lag on the TVA farms.
7. The livestock program, expected costs and receipts, should be estimated at the beginning of the program.
8. Drastic changes in land improvement are likely to reduce the farm income for the first one or two years. A full budget of expected sales receipts and expenses must allow for changes in acreages as well as yields, and for all crops, and for feeding the feed and forage crops to livestock for each year before any definite amount of repayment can safely be scheduled any year.

9. In addition to the full budget, the farm planning involves much more than planning the physical land improvements. It calls for balancing against each other the most promising cropping systems and accompanying livestock systems. The above program suggests that a physical plan was laid out that seemed ideal from the standpoint of soil and water conservation, and then a livestock system was chosen that would consume the combination of concentrates and roughage that would be produced. Such a procedure assumes that a program that is excellent from a soil conservation standpoint is also best from the standpoint of use of human and other resources. It overlooks the fact that most land can be maintained at a wide range of levels of productivity. The St. Joseph farm presupposes that a high level of productivity will pay best. A much less intensive system could be devised that would still suffice to check erosion and might fit better into the general economic situation. Often the level of productivity that is best is nothing more than the amount of land available. Given a relatively small acreage, a particular farmer may find that his best alternative is to raise the level of productivity of what he has.

10. The job of farm planning and working up budgets on which to base schedules of loan advances and repayments must be worked up for the individual farm. An ideal arrangement would be to have extension agents help farmers work up farm credit plans that the farmers could offer to their local banks for financing.

Proposed Lines of Private Action for Borrowers

Capital Accumulation Through Tenancy.---Tenants with inadequate capital who anticipate encumbered ownership will find the requirement to pay interest and principal more rigid than rental payments. Delayed ownership in some cases will accelerate capital accumulation. When farmers are faced with high capital requirements and are unable to meet the provisions set up by credit agencies, they must decide between ownership of a smaller or less productive farm and renting a larger or more productive farm.

10,000 acres around Bakerfield well improved by good leases.
Improvement Leases.---A good lease encourages the tenant to take proper care of the improvements and to maintain the farm as an efficient productive unit. Making new improvements that become a permanent part of the property is customarily the responsibility of the landlord. The farm will be better developed and cared for when the lease makes clear the responsibilities of both parties in making improvements and repairs.

Delayed Improvement.---New farm operators may benefit more by minimizing the use of long-term credit for capital improvement until experience can better serve to mitigate the unknown quantities.

avoid mass disaster
Improvements by Steps.---A step by step planned program of farm development may often be handled with a minimum of cash outlay. Short-term credit is often adequate, making it unnecessary to disturb the existing long-term credit arrangement. Farm operators can do much of their own improvement work during slack season.

Making improvements in steps requires less credit and also reduces the uncertainty of future income. Often productivity is reduced directly following certain improvement practices, such as leveling.

Since inauguration of Fed Land Bank, rural i.r. has gone way down. But has not aided new farmers to become owners.

-11-

Proposed Lines of Private Action for Lenders

Encourage Prepayments.---Borrowers are inclined to use surplus returns for improvements instead of prepayments on debt. With the uncertainties of future price conditions and to some extent, productivity hazards, this may work to the disadvantage of both lender and borrower. Flexible payments are always implied in credit instruments, but it is difficult to enforce payments that are not due, unless the maturity date of obligations are timed to coincide with borrowers' income.

Control Disbursements.---Controlled disbursements provide a measure of control where a line of credit is approved based upon the promise of certain borrower performance. A violation of agreed performance may result in a loss both to the lender and the borrower.

Technical Staff.---The use of competent farm-management experts to provide management services and supervision in addition to appraisal services help place credit in deserving hands and prevent errors of poor judgment.

Crop Insurance.---The use of some form of crop insurance to help assure repaying ability of borrowers and reduce the risks inherent in farm loans.

Proposed Lines of Government Action for Lenders

RFC
Withdrawal of Subsidies.---It is significant that agricultural credit is coming to be regarded more and more as an instrument to further social progress. However, where government subsidy makes possible the assumption by government credit institutions of risks that are impossible for private lending agencies, losses frequently result which are chargeable to the general welfare. Opposition to government credit dealings often develops, as for example, note the recommendations of the committee on federal tax policy: "Prompt withdrawal of the Federal Government from the lending field.....drastic curtailment of all federal aid, grants, subsidy and special service programs." (Wall Street Journal, March 6, 1951)

Competitive Interest Rates.---The authorization of increased interest rates by government credit agencies in line with those of private financial agencies. This would not only place the government lending agencies on a self-supporting basis, but would serve to attract additional outside capital for agricultural requirements. Borrowers would benefit by greater availability of funds and additional services that competition in the lending field would promote.

Extension of Loan Limits. The gradual extension of statutory loan limits to lending agencies due to the proportional absorption of risk through competitive interest rates would implement the power of credit to promote farm ownership.

Assured Credit Facilities.---By placing government credit agencies on a self-supporting competitive basis, their continued and necessary continuity of existence would be more assured.

Irving F. Davis, Jr.
March 16, 1951

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Subsid.

cap.

mk

1946-50, boom in "efficiency" apt.s, under NHAAct, which gave them
cheap loans -- they were build with almost no equity. 95. Built them,
not so much because public wanted them, but govt gave best deal on
them.

that boom over, govt cheap loans out., '50.

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Mon, Sept 21 1953

Subsidiz'g Cap Mkts.

Mortgage Credit For Homes Urged

WASHINGTON (AP) — Housing Administrator Albert M. Cole said Monday the government may take "direct action" unless private mortgage credit is available to sustain reasonably high home building activity.

Cole's address, prepared for the American Bankers Assn. at its 79th convention here, was the first official acknowledgement of government concern — and surprise — over the housing slowdown. Many builders have blamed a shortage of credit.

HOME STARTS DOWN

New home starts in August, Cole reported, were down to a rate of 970,000 a year, not seriously below the 1,127,000 in 1952. But a sharper future decline is indicated by a drop in current applications for Federal Housing Administration (FHA) mortgage insurance, he said.

This may mean some difficulty next year, the head of the Housing and Home Finance Agency went on, in keeping residential construction up to a level consistent with a sound economy. He told the bankers:

"I submit to you the very serious reminder that if we are unable to maintain a reasonably high continuing volume of home production—which means an adequate continuing flow of mortgage credit—we may be required to resort to some means of assistance to avoid unnecessary wrenches to our entire economy. . . .

'READJUSTMENT PERIOD'

"On this somewhat sober note I suggest in sincere candor that the bankers weigh carefully the problem they share with housers. Together you have the opportunity to demonstrate that private industry can and will handle the job without a return to direct government action in the housing field."

In harmony with the "sound money" policy of the Eisenhower administration, Cole said, the housing agency increased interest

rates on FHA-insured and Veterans Administration-guaranteed mortgage loans and took other steps to free the mortgage market from federal intervention.

"A readjustment period was expected, and most certainly has occurred," he declared.

"Frankly, it is more of a readjustment than was contemplated either in or out of government, and there are many housers and many bankers who express concern about the present situation."

Few of the 7,000 delegates seemed to expect more than a mild and brief readjustment in the wake of the mobilization boom. Most of those interviewed avoided even the word "recession." To a man they approved the "sound money" policy of the Republican administration.

Eugene Record

LANE COUNTY'S

EUGENE, OREGON, M



(AP Wirephoto)

the highway after the tragic ac-
was killed together with the
sedan at left. Another truck
mpson, made this picture.

Asks Ban nuc Arms

Y., (AP)—Russia called upon the
an unconditional ban on the pro
nogen weapons without delay.
s laid before the 60-nation gen
or policy declaration by Deput
Vishinsky.

o served notice that Russia wa
fight to get the assembly to re

Ike May Reply

T. D. C. H.

Bonds Finance Loans to Vets

SALEM (AP)—The Oregon Veterans Department sold five million dollars worth of bonds Tuesday to finance its program of making farm and home loans to veterans.

Kuhn, Loeb & Co., New York, bidding an effective interest rate of 2.36 per cent, was successful among the nine firms that submitted bids.

The department now has sold 38 million dollars worth of bonds for the farm and home loan program, and it has loaned a total of 46 millions.

The second lowest bidder was Bankers Trust Co., New York, with 2.369 per cent.

The interest rate is comparatively high, but not as high as the 2.391 per cent rate on the four millions of bonds sold last March. Until this year, the interest rates were under two per cent.

130 MINUTE TIMER
extends drying time for
rugs and heavy pieces.

Why Clothes "come clean" in a Hamilton...



Fresh - Flo Deep Rinse

You can't get clothes
clean in dirty water...
Hamilton provides a
constant flow of fresh,
clear water plus *triple*
rinsing action!

de dirt:



WATER FACILITY LOANS

By U.S.D.A. Farmers Home Administration

SINCE 1938 California and 16 other Western States have been receiving the benefits of a Federal loan program designed to assist individual farmers and small groups of farmers to develop and utilize their water resources for irrigation, livestock, and domestic water use on farms and range lands. Known as the WATER FACILITIES LOAN PROGRAM, it is administered, along with other farm loan programs, by the Farmers Home Administration of the U. S. Department of Agriculture.

In the year ending June 30, 1952, over \$530,000 was loaned under the program to 127 California farmers. More than 800 such loans have been made since 1938. Over one-half of all loans made in California have been repaid. For the year beginning July 1, 1953, \$470,000 has been allocated to California for Water Facilities loans.

No Competition

Water Facilities loans do not compete with other sources of farmer credit. Each applicant for a loan must show evidence that the loan needed

cannot be obtained from other credit sources at reasonable rates and terms.

Before a loan is made a county advisory committee of three local residents, two of whom are active farmers, consider each application.

Loans may be made to individual farm operators or farm tenants who own or operate farms that are not substantially larger than family-size farms. These loans are usually based upon written Farm and Home Plans prepared by the farm family with the aid and advice of the County Supervisor of Farmers Home Administration. The Farm and Home Plans show how the farm is to be organized and operated to receive the benefits of the loan.

Eligible Groups

Loans may be made to non-operator owners if an appraisal shows that the farm will provide adequate security for the loan and the non-operator owner has dependable income to assure that the loan can be repaid.

The Farmers Home Administration also is authorized to make Water Facilities loans to non-profit associations such as Mutual Water Companies, Irrigation Districts and Water Associations, provided they have all

corporate powers necessary to the borrowing and repayment of the loan and the operation of the project or facility financed with the loan.

Requirements

To be eligible for the loan the Association must be unable to raise the necessary funds by levying assessments or charges on its members or to borrow the funds from commercial banks, cooperative lending agencies or other responsible credit sources at reasonable rates and terms. The Association, Company or District must also show that farm owners or tenants operating farms that are not substantially larger than family-size farms will use a major portion of the water to be made available by the facility.

Engineering services are provided without cost to the farmer or group of farmers in connection with each loan.

Many Purposes

Loans may be made for construction, repair, enlargement or rehabilitation of irrigation facilities and farmstead water facilities. Included are such items as wells, pumps and motors, pressure systems, pipe lines, sprinkler systems, storage dams and reservoirs, diversion dams, etc. Loans may include funds to purchase a source of water supply or buy water stock in a mutual water company or association.

Individual loans may include funds to pay membership or assessment charges levied by a water company or association if it uses the funds to finance an approved water development or utilization program. Loans may also be made to pay hired labor and equipment rental costs for land leveling which is necessary to make efficient use of irrigation water.

Other Terms

Under Water Facilities program policies loans cannot be made that involve the development of new underground water supplies for irrigation in any locality where the underground water table is known to be declining or where it appears that the underground water supply is already overdeveloped.

Water Facility loans are usually made for periods not exceeding 20 years and are repayable in shorter periods if the borrower's anticipated income will allow for repayment in a shorter time. Interest is charged at 3% on unpaid principal balances.

Limit May Be Raised

The Water Facilities program began in 1937 with a limit of \$50,000 of federal funds loaned to assist any one project. This limit was raised by the Congress to \$100,000 in 1949, and bills are pending before Congress to raise it still higher.

Further information on the Water Facilities loan program may be obtained at county offices of Farmers Home Administration located in Yreka, Red Bluff, Oroville, Willows, Yuba City, Santa Rosa, Fairfield, Sacramento, Stockton, Modesto, Merced, San Jose, Fresno, Visalia, Hanford, Blythe, Riverside, South Pasadena, San Diego, or El Centro, or at the state office located at 1515 Clay Street, Oakland.

for Trinity Diversion

power plant in this instance.

Two Hundred Million Project

The third application covers 1,800,000 acre-feet per annum for subsequent use for power, fish and wildlife propagation, navigation and incidental recreational purposes. Diversion is to be made at Trinity storage dam and the Lewiston diversion dam for subsequent use at powerhouses immediately below Trinity and Lewiston dams and along the main conduit. According to the Bureau, the estimated cost of the diversion works, including the power facilities, will be \$207,334,000.

The fourth application, involving a diversion of 1,700 cubic feet per second, was filed on July 23. This water would be used for power and incidental-domestic purposes by the Trinity River diversion project. Diversion would be made at the Tower House diversion dam for subsequent use at the Matheson and Keswick powerhouses. The estimated cost of the diversion works, which include the Matheson power plant and switchyard is \$39,519,000.

rded Water Bill

in Page 1, Col. 4)

on a non-political basis leaving to the Attorney General only representation where the State is a party to litigation.

Stability Sought

It is my personal view that to have the Attorney General's Office, the head of which may be changed every four years, directing and controlling the water development and problems of the State is unsound. If changing administrations can completely change the concept of water law every four years, we will never have any consistent and continued development of water policy.

I am sorry to have to take issue

U. S. Chamber Issues Resources Pamphlet

The Chamber of Commerce of the United States has just released a pamphlet entitled "OUR WATER RESOURCES. HOW SHOULD THEY BE DEVELOPED?", the purpose of which is to briefly present and explain the nation-wide viewpoint concerning a water resources policy as crystallized through that organization.

In outlining a plan for water resources development, it gives the Chamber's view on such matters as National Water Policy; Federal Responsibility; Local Responsibility; Basin Development; Board of Impartial Analysis; Interstate Compacts; Approval by Congress; Valley Authorities; Flood Control; Reclamation; Hydro-Power Development; Steam-Electric Projects; Regulation of Utilities; Stream Pollution; and Water Resources Data.

Sample Statement

To pick out a sample statement under the heading of National Water Policy, the Chamber states: "The Congress, through appropriate legislation, should establish a consistent and progressive water and land policy

Bill Passed to Help Power Projects

THE BILL eliminating the recapture provisions of the Federal Power Act, as applied to power developments of States and Municipalities, was passed by both houses of Congress in the closing hours of the last session and is now on the desk of President Eisenhower for signature. Specifically, the new statute makes inapplicable Section 14 of the Federal Power Act which provides for the taking over by the United States of any project upon or after the expiration of the license period.

The idea that the Power Act should be amended was generated in Texas several years ago when a proposed state development on the Brazos River was throttled because the license granted by the Federal Power Commission provided for recapture of the facility by the Federal government at the expiration of the fifty-year license period.

Federal funds were not involved in any way and it was felt that the recapture provisions of the Act were

♂ MEN FOR P

Good men become available from irrigation districts. As a special background and experience are put persons with a view to bringing them

Those desiring to apply through summary of not over 50 words for a personal history statement of training, health, etc., for supplying directly

Requests for further details on individuals who may want to be included to the Irrigation Districts Association San Francisco 3.

No. 6. Irrigation engineer with 30 years' experience in engineering and management of large Midwest development desires location in California. Age 51. Good health. Details of experience, together with references, will be furnished.

- 18—Mournful
 20—Posed for portrait
 22—Rock
 23—Fungus skin disease
 25—Cooking vessel
 27—Fiction story
 28—To rectify
 30—To obstruct
 32—Dance step
 36—Animal's foot
 38—More recent
 41—Paths
 43—Moccasin
 45—Pile cloth
 47—Transgression
 49—Hurried
 52—Lairs
 54—Manufactured
 55—To mend
 56—Edible seed
 57—Measure of weight
 59—Period of time
 60—Candle
 63—Note of scale

Answer to Saturday's Puzzle



Sharecropper Gains Title to His Farm

JACKSON, Miss., Feb. 13.—(UP) Roddie Pridgett, a negro farmer, today held title to his own land as first negro sharecropper in the na-
tion to pay off all notes due under
the Bankhead-Jones tenant act.

Pridgett was presented the cancelled notes at a ceremony held at Jackson College. In 52 months he had made payments which were scheduled for payment over a period of 40 years. He had applied for the loan in 1938.

He and his wife are the parents of nine children, and Pridgett pointed out at the presentation that they had also raised four mules and canned more than 600 quarts of food.

T. B. Fatheree, regional director of the Farm Security Administration returned the notes to him.

Two Youths Injured

"Joint liability" clause keeps banks from lending much, & absolutely keeps Fed. Land Banks from lending. Most loans made by individuals, 7-8%, which is standard for short term loans on W. Slope of Colo., where r.e. i.r. high. Fed. Land Banks, & "Joint Stock Land Banks" cannot lend where there is a prior lien, & govt. project charges & "joint liability" were such.

At one time 106 co.s & individuals were lending on project lands -- doesn't sound like monopoly.

1930s, no one was lending at all, because, as equity values fell, was no security to lend on. Yet, over 20s, as no. of loans got less & less, i.r. changed little -- stayed at 8% mode. Yet, at this fixed price, was tremendous change in quantity.

Private irrigation co.s went broke because, tho water is limiting factor, when land & water marry, increased value goes to land, not water. Fed. govt. applied anti-speculation provisions on Owyhee, Vale, & Kittitas projects-- privately owned lands are appraised before the project, & sale of excess lands forced -- he sys "owners are required to sell their excess lands at that appraised value", but this might mean they still don't have to sell.

Cites Elwood Mead, New Reclamation Era, Feb. 1930, 18, that in Kittitas, land thus being sold for \$2.50/acre, less than taxes. (ah, yes, here of course is the teeth of the federal law, the excess land will be taxed for the project, so natch they really are forced to sell that way. I almost forgot)

His figures on production per acre were gross -- the net income of the land need not have been in same proportion, for high yielding crops may be high cost of production crops.

Is often said that mortgage repayments should be varied according to income of borrower, to make it easier for him. But recall that lenders treasure the assurance of a steady yield. & will lend at lower overall rates if they are exempt from fluctuations. So if poor is to get this ~~the~~ luxury, he must pay for it.

B 2

The best public subsidy of cap. mths is
stern enforcement, at public expense, of
debt repayment; abolition of gross fluctuations
in economy; maintenance of steady price level, or
predictable at least; enforcement of competition -
or ceasing to enforce non-comp. - among lenders.
(A little govt. competition may do this well)

4 Drought States Ruled 'Disasters'

WASHINGTON July 31 (AP)—The Agriculture Department today designated the entire States of Alabama, Georgia, Kentucky and Mississippi as "disaster loan areas" as a result of the severe drought.

The action will make it easier for farmers who have suffered losses to obtain Federal loans.

The announcement said a prolonged drought in the four States, coupled with unseasonably high temperatures, has seriously damaged all crops, particularly feed crops and pastures.

Agriculture Department officials said they also are considering early action to place all New England and additional areas of the South in the disaster classification.

All of Tennessee and big areas of Missouri and Arkansas had been designated as disaster areas earlier.

To be eligible for a loan from the Farmers Home Administration, a farmer must have suffered substantial loss from the drought and be unable to obtain credit from local private or co-operative sources.

Acting to avoid the liquidation of livestock herds in the south, secretary of agriculture Brannan summoned agricultural officials of nine states—Tennessee, Arkansas, Missouri, Kentucky, Mississippi, Alabama, Georgia and North and South Carolina, to a conference in Nashville tomorrow.

Up for discussion, Brannan's announcement said, will be measures to halt heavy marketings of livestock resulting from burned pastures and ruined hay crops. Heavy livestock marketings have been reported, particularly in Tennessee.

No Rain Forecast for



BARBARA JEAN PERRY and
engagement was announced
and Mrs. William M. Perry, p
Christmas holidays. The brid
Mr. and Mrs. Walter Hod

Western Women Returns to Its

by **JUNE HOGAN**

The house-moving of the Western

comes full-circle this

By govt aiding one type of cap. mkt
may worsen cap allocation, by drawing
cap. from other uses. By aiding stocks,
~~the~~ draw M from mortgages. E.g.,
post bellum S , inducing govt
N. cap. easier than ag.

short number of years is evident in Table 3. The volume of FHA and VA mortgages which have been issued in Twelfth District states is shown in Table 4. At the end of 1952, over 44 percent of all mortgage debt outstanding on nonfarm 1- to 4-family houses was partly underwritten by the Government either through FHA insurance or VA guarantees. Although conventional mortgages were in the majority, representing 56 percent of all outstanding mortgages, this may be compared with the last prewar year, 1941, when conventional mortgages represented more than four-fifths of all outstanding debt.

Standardization of terms: The increase in Government-underwritten mortgage debt has greatly increased liquidity, in the shiftability sense, of mortgages. This has come about both through the decline in the amount of risk borne by the lender and in the more standard minimum terms upon which the mortgages are made. For example, Section 203 FHA-insured mortgages must be grouped according to risk characteristics. In practice this is done by assigning a numerical rating which indicates the degree of risk. Such risk is gauged by analysis of three groups of risk elements: (a) mortgage credit elements which focus on the borrower, (b) real estate elements which relate to the property, and (c) loan elements which pertain to the mortgage instrument itself. Private lenders in recent years have similarly made use of mortgage risk rating systems. This wider use of risk elements in classifying mortgages has made many mortgage terms more uniform and has thus contributed to shiftability.

Federal National Mortgage Association: In addition to furnishing this direct aid to liquidity by decreasing risk and increasing standardization of terms, the Federal Government also participates directly in the secondary mortgage market through the Federal National Mortgage Association. This agency was established in 1938 to buy and sell FHA-insured mortgages and through such transactions to establish and make a market for such paper and thereby encourage construction and investment by private institutions. Its authority was enlarged on July 1, 1948, to purchase GI mortgages. As of the end of 1952 the Association held \$2,242 million of mortgages of which

86 percent were VA-guaranteed, and currently holdings are around \$2.5 billion.

In practice, the acquisition of a large part of VA-guaranteed mortgages resulted virtually in direct lending by the Government. As the 4 percent rate on VA mortgages became increasingly unattractive to lending institutions, the authority of the Federal National Mortgage Association to purchase from a lender was increased from 25 percent of his eligible mortgages to 50 percent in August 1948, and then to 100 percent in October of 1949. This led to the use of the commitment process whereby lenders would make 100 percent advances to builders with FNMA committed in advance to purchase the resultant mortgages. As a result of this virtually direct lending the Association reached the end of its lending commitment within six months, and over \$2 billion was furnished the housing market directly from the Government. In April 1950 the funds available were increased from \$2.5 billion to \$2.75 billion, but the additional \$250 million could be used only for purchasing mortgages on an over-the-counter basis since the authority to commit funds for future mortgage purchases was eliminated.¹

In addition to adding liquidity to the mortgage market both directly and indirectly, the Federal Government has other important activities in the nonfarm residential mortgage-lending area.

Federal Home Loan Banks: The Federal Home Loan Banks constitute a system of regional banks established in 1932 to provide credit and other facilities for savings and loan associations and similar institutions in connection with their home mortgage lending if they are members of the system. In addition, the Home Loan Bank Board, which supervises the Federal Home Loan Banks, has subsequently been authorized to establish and direct the Federal Savings and Loan Insurance Corporation which presently guarantees shares in associations of the savings and loan type up to \$10,000 per saver. At the end of 1952 membership of the system included 4,028 sav-

¹ The gross authorization of FNMA was increased to \$3,650 million in July 1952, but mortgages other than defense or disaster mortgages are still limited to \$2.75 billion. FNMA's secondary market function is limited in several ways. It can deal only in certain types of mortgages, can buy only limited amounts from any one lender, and can deal only with the originating institution.

TABLE 3
MORTGAGE DEBT OUTSTANDING ON NONFARM 1- TO 4-FAMILY PROPERTIES—UNITED STATES, 1939-1952
(in millions of dollars)

End of year	Total	Government-underwritten			Conventional
		Total	FHA-insured	VA-guaranteed	
1939	16.3	1.8	1.8	..	14.5
1940	17.3	2.3	2.3	..	15.0
1941	18.4	3.0	3.0	..	15.4
1942	18.2	3.7	3.7	..	14.5
1943	17.8	4.1	4.1	..	13.7
1944	17.9	4.2	4.2	..	13.7
1945	18.5	4.6	4.1	0.5	13.9
1946	23.1	6.3	3.7	2.6	16.8
1947	28.2	9.6	3.8	5.8	18.6
1948	33.3	12.5	5.3	7.2	20.8
1949	37.5	15.0	6.9	8.1	22.5
1950	45.1	18.9	8.6	10.3	26.2
1951	51.9	22.9	9.7	13.2	29.0
1952 ^P	58.2	25.4	10.8	14.6	32.8

^P Preliminary.
Sources: Home Loan Bank Board, Federal Housing Administration, Veterans' Administration, and Federal Reserve System.

TABLE 4
FHA AND VA INSURANCE AND GUARANTEES
TWELFTH DISTRICT

Area	VA home loans, principal amount approved cumulative through December 25, 1952		FHA-insured home mortgages cumulative 1935-1951	
	Amount (millions of dollars)	Percent of United States ¹	Amount (millions of dollars)	Percent of United States ¹
Arizona	51	0.3	172	1.1
California	2,604	14.2	2,743	16.7
Idaho	40	0.2	84	0.5
Nevada	9	..	45	0.3
Oregon	105	0.6	222	1.4
Utah	57	0.3	159	1.0
Washington	388	2.0	648	4.0
Twelfth District	3,355	17.6	4,074	24.9
United States..	19,040	..	16,388	..

¹ Only the continental United States is included.
Source: Veterans' Administration, Federal Housing Administration.

of the past few years, it is estimated that the efficient production rate could rise by 1955 to a daily output of 400,000 barrels.

Plans for a long distance pipe line from Alberta to the Pacific Coast have been under more or less active discussion since 1939. Even at that time it was foreseen that a large surplus of crude oil would be developed in the Canadian Prairie Provinces which must seek an outlet on the world's markets. The increasing difficulty of finding new crude oil reserves in California, together with the rapid development of substantial supplies in western Canada, has created the basic condition requisite to the success of pipe line transportation of petroleum over the Rocky Mountains to the Pacific Coast.

The Trans Mountain Pipe Line was originally financed through the backing of a group of important American and Canadian oil companies, including several California producers.¹ The total cost of the 718-mile line, extending from Edmonton to Vancouver, with a southward extension of 30 miles to a point near Bellingham, Washington, will not be far short of \$100 million. This figure includes the cost of pumping stations, storage facilities, tidewater docks, and other facilities. Construction of the line by a San Francisco engineering company began early in 1952 and its completion is scheduled for October of this year. Having a diameter of 24 inches, the line is designed for an ultimate capacity approaching 300,000 barrels a day. It has an initial throughput, on the basis of three pumping stations, of 120,000 b/d. A fourth station is already under construction which would permit shipments by 1954 at a daily rate of 150,000 barrels. The initial tariff to be charged for transporting crude oil from Edmonton to Vancouver has been indicated at 45 cents per barrel.

The whole area of the Pacific Northwest, including most of Oregon, Washington, and British Columbia, as well as Alaska, has depended up to the present almost entirely upon California as the source of its oil supply, both for motor and industrial fuels and for heating purposes.² In years marked by severe winters this has sometimes involved a rather tight supply situation for heating oils, especially at the distributor level. The market for petroleum products in western Oregon, Washington, and British Columbia is estimated at about 285,000 barrels per day in 1952.³ Much the greater part of the petroleum requirements of the whole region has been supplied by tanker shipments from the California refineries in finished form, with relatively limited shipment of crude oil to local tidewater refineries. The refining capacity of the entire area has consisted of three small refineries at Vancouver, having a total daily capacity of about 28,000 barrels, together with two small asphalt plants located at

Portland and Seattle, plus a still smaller refinery at Spokane which has operated somewhat intermittently on crude shipped by tank car from Montana. The aggregate refinery consumption of crude oils for the whole area has probably averaged somewhat under 40,000 barrels per day in recent years.

The early availability of abundant supplies of Alberta crudes of relatively high gravity will soon change this picture drastically. Two of the existing refineries at Vancouver are to be enlarged from a total current capacity of about 20,000 b/d to nearly double that figure. More important is the decision of a leading California company,¹ not presently a factor in the Northwest refining situation, to construct a modern 35,000 barrel per day refinery at Ferndale, Washington, on Puget Sound about midway between the Canadian border and Bellingham. This plant will be connected by a 12-mile lateral 16-inch pipe line with the southern terminus of the Trans Mountain Pipe Line. Construction work on the new refinery is to begin during the summer of this year and completion is scheduled for the fall of 1954 by which time the necessary pipe line connections will also be installed.

Designed to produce over 26,000 barrels per day of gasoline and other light distillates, together with some 6,000 b/d of fuel oil, the new Ferndale refinery will mark an important event in the petroleum history both of the Pacific Northwest and of California as well. Together with the concurrent expansion of already existing refinery capacity in Vancouver, it will almost double the crude oil input of the Northwestern refining industry.² Even more significant is the fact that this whole regional development, based on the relatively short haul of crude oil from Alberta made possible by the Trans Mountain Pipe Line as contrasted with the longer distances and narrowing supplies from California, will relieve the pressure on California oil fields which are already being pushed to the practical limit of efficient operation.

The outlook for future supplies

Changes sometimes occur very speedily in the oil industry. Ready examples are provided by the rapid transformation in the Pacific Coast inventory situation between 1948 and 1950 and by the upsets in the whole world supply and demand position occasioned by the closing down of the Iranian oil fields and the Abadan refinery in 1951. Confident prediction as to the probable future course of events in the oil industry is to be avoided unless the prophet is willing to hazard his reputation.

Some things, however, can be said with relative certainty. The "chronic surpluses" which plagued the Cali-

¹ General Petroleum Corporation, a subsidiary of Socony-Vacuum Oil Company, Inc.

² Two other leading California oil companies, sponsors of Trans Mountain Pipe Line, have taken preliminary steps to construct modern refineries of substantial size in the Pacific Northwest which would make use of the new Canadian oil supplies. The Shell Oil Company has just announced that it is considering the construction of a 50,000 barrel per day refinery, probably to be located at Anacortes on Puget Sound between Seattle and Bellingham. The Standard Oil Company of California has recently purchased a large tract of land north of Seattle with frontage on Puget Sound suitable for a large refinery location.

³ The original sponsors of the Trans Mountain Oil Pipe Line Company, which will operate the pipe line, were: Gulf Oil Corporation, Imperial Oil, Ltd., Shell Oil Company, Standard Oil Company of California, Union Oil Company of California, and Richfield Oil Corporation.

² The refinery of Imperial Oil, Ltd. at Vancouver, B. C., imported small quantities of Borneo crude in the first half of 1952 and since September of that year has brought in some 5,000 barrels per day of crude by tank car from Alberta.

³ Petroleum Administration for Defense, "Transportation of Oil," December 1951, page 39.

ifornia oil industry during most of its history—except during war years—seem to be definitely a thing of the past. The growth in demand for petroleum products in this area definitely exceeds the rate of increase in domestic supply. For a considerable period now California has been “producing” its crude petroleum reserves at a higher rate than most other oil-producing areas of the country. New oil in the quantities needed to satisfy the expanding markets of the Pacific Coast states is proving more difficult to find and more costly to produce. Unless there should be an early development of some new source of energy, such as atomic power for industrial use, or unless large new supplies of high gravity crude are discovered in the submerged offshore tidelands and made available at economic costs, it seems fairly certain that this region will soon have to look to other parts of the world for a substantial part of its petroleum requirements.

Where are these essential energy supplies to come from? The known surplus oil-producing areas of the world are relatively few in number and the distribution lines from these areas to the chief consuming markets are, for the most part, fairly definitely established. The great Texas and Mid-Continent oil fields will probably continue to supply the major requirements of the central and eastern sections of the United States, supplemented increasingly by the large export surplus of Venezuela and other Caribbean countries. The phenomenal increase in petroleum output of the Middle East, great as it is, promises to be absorbed by the growing needs of Western Europe as oil replaces coal as a fuel, and by the requirements of the newly developing industries of Asia itself.

The most promising sources for future supplies of crude oil to supplement the local California resources appear to be Canada, Texas, Venezuela, the Rocky Mountain area, in about that order, and possibly at some more

distant time such presently undeveloped areas as the Williston Basin of North Dakota-Montana-Saskatchewan. In the still more distant future, when we really “run out of oil,” loom the enormous shale deposits of Colorado which yield a usable substitute for crude petroleum. It is significant that one of the large California oil companies has been conducting a long-time experimental project designed to test the relative economy of obtaining liquid fuels from shale, as compared with the cost of refining crude petroleum.¹ The current heavy imports of oil from the Eastern Hemisphere are probably only a temporary stopgap to bridge over the interval until Alberta oil reaches the Coast in substantial quantities. Heavy transportation costs would handicap Middle Eastern oil, and even Sumatra or Borneo oil, in competition with the more economical pipe line transportation from Alberta, not to mention the greater hazards involved by the trans-Pacific voyage in time of war. The proposal to bring in Texas oil by pipe line to southern California refineries is also not entirely dead and might be revived if and when conditions warrant. Meanwhile California oil producing concerns, large and small, are actively engaged in prospecting for petroleum in many outside areas, notably in Utah, where the largely unexplored Uinta Basin contains distinct possibilities of significant oil discoveries. The large San Juan Basin at the junction of the four states Arizona, New Mexico, Colorado, and Utah, which presently is an important producer of natural gas but has not yet been adequately prospected for oil, is also regarded as a favorable possibility for future development of oil for the motors of California.²

¹The Union Oil Company of California. See “Western Power and Fuel Outlook,” pp. 41-48.

²See “Oil Supply and Demand in the West,” a speech by Robert L. Minckler before The National Association of Financial Analysts Societies, San Francisco, May 5, 1952. See also “Oil and Gas in the Rockies,” a report by Dorsey Hager, Consulting Geologist, for J. A. Hogle & Company, Salt Lake City, February 13, 1953.

HOME MORTGAGE LIQUIDITY AND SECONDARY MORTGAGE MARKETS

A VARIETY of proposals to improve secondary mortgage markets have been made during the past five years. These proposals have emanated from mortgage bankers, Federal agencies involved in mortgage financing, and Congress. Some of them visualize essentially a private secondary market, although Government assistance of one kind or another is often involved in the plans, while others propose a sort of Federal Reserve System in the mortgage markets. All proposals evidence dissatisfaction with the existing markets as well as the desire to have mortgages become a more liquid asset than they are at present. This article very briefly describes the secondary market, the nature of liquidity, and the extent of Government operations which affect the mortgage market. It also brings out some aspects of the areas in which further study would be desirable.

The secondary mortgage market is a term generally used to describe transactions in existing mortgages after they have been originated. In this respect this market is

analogous to the stock exchanges which deal primarily with old issues originally marketed by investment houses at an earlier date. In the secondary mortgage market the principal sellers are the commercial banks and mortgage companies who originate mortgages and sell them to longer-term investors such as insurance companies, savings banks, savings and loan associations, and others. A buyer, however, may also be a seller and vice versa. Just as a well-functioning stock exchange adds to the ability of a listed corporation to market a new issue of its stock because purchasers will be able to dispose of it readily should the need arise, so a well-functioning secondary mortgage market enhances the ability of borrowers to obtain funds at lower rates than would prevail if no secondary market existed.

The importance of the secondary mortgage market arises from the enormous dollar volume of home mortgages outstanding, the fact that the holders of such mortgages require liquidity in different degrees, and the

uneven geographical distribution of savings available for investment. The needs of some lenders for ready cash impel them to sell the mortgages they originate to longer-term investors. Similarly, the fact that new savings may exceed the amount of local investment leads to purchases of mortgages in other localities. The volume of mortgage debt outstanding is shown in Table 1, which also exhibits the holdings of different types of lenders and the changes in their holdings since 1939. Although comparable figures are not available for lenders in the Twelfth District, some useful information can be gleaned from mortgage recordings, which are shown in Table 2. The principal sharp distinctions between lenders in this District and the nation are that commercial banks and individuals are relatively more active in the District in originating mortgages, and savings and loan associations, and particularly mutual savings banks, are less important.

The nature of liquidity

The desire for liquidity is satisfied in greater or less degree, depending upon the character of the commodity involved and the nature of the market. The general meaning of liquidity is clear enough: nearness to money. Thus a 90-day Treasury bill is a close substitute for cash, a 30-year Government bond a less close substitute, and a 30-year mortgage is an asset even farther removed from money. It may be useful to distinguish two aspects of liquidity: (1) the ability to convert an asset into money promptly, and (2) the ability to realize a sum upon conversion which is close to the amount paid for the asset or to the value at which it has been carried on the books of the owner.

The first property of liquidity (which is often called shiftability) is best secured by assets which lend themselves to easy classification. Such is the case for common stocks of the larger corporations in this country. These securities are labeled, their nature generally understood, and sufficient information is readily available to permit reasonably accurate grading of the security. These factors contributing to shiftability are strengthened by the existence of organized exchanges for dealing in such securities—such as the New York and American stock exchanges. An organized exchange permits continuous information as to the prices at which persons will buy and sell a particular security. It also requires specific informa-

tion on each security as a prerequisite to listing it on the exchange. The professional trader, who flourishes best on an organized exchange, provides the important service of filling in small gaps in the market as they occur or of making the market less “thin” than it would otherwise be. This is accomplished by “making a market” for the security, that is, overcoming temporary imbalances between supply and demand by assuming a temporary long or short position in the security. An exchange, then, is useful in furnishing a greater degree of liquidity in the sense of shiftability than would be possible in personalized dealings between buyers and sellers.

Activities of the Federal Government affecting mortgage liquidity

The secondary market in real estate mortgages has long suffered from the fact that terms vary considerably from one mortgage to another, thus making this debt instrument difficult to grade and classify. Standardization of mortgage types would therefore do much towards giving mortgages more liquidity in the sense of shiftability. In this connection it is important to examine the activities of the Federal Government in the mortgage field and their influence on liquidity.

Insurance and guarantees: The most important current activities on the part of the Federal Government which influence mortgage liquidity take the form of reducing the risk on certain types of mortgages and of participating directly in the secondary market for mortgages. Mortgages on homes which are made by approved lending institutions and which meet certain standards are eligible for insurance from the Federal Housing Administration to protect the lender against loss of principal caused by default on the part of the borrower and subsequent foreclosure of the mortgage. Under the Servicemen's Readjustment Act of 1944, as amended, the Veterans' Administration is empowered to guarantee home mortgage loans up to 60 percent of the amount of the loan or \$7,500, whichever is less.¹ The extent to which such insurance and guarantees have made themselves felt in a rather

¹The original percentage and amount stipulated in the 1944 legislation were 50 percent and \$2,000. These were changed first to 50 percent and \$4,000, and in the Housing Act of 1950 were changed to the figures shown in the text above.

TABLE 1
MORTGAGE DEBT ON NONFARM 1- TO 4-FAMILY PROPERTIES
UNITED STATES, 1952

Type of lender	Preliminary estimates of loans held—		
	Amount (thousands of dollars)	Percent of total	Percent increase since 1939
Savings and loan associations...	17,590	30	417
Life insurance companies	11,800	20	808
Mutual savings banks	6,180	11	194
Commercial banks	11,250	19	462
Federal National Mortgage Association	2,210	4	2,110
Individuals and others	9,125	16	194
Total	58,155	100	268

Source: Home Loan Bank Board.

TABLE 2
ESTIMATED AMOUNT OF NONFARM MORTGAGES OF \$20,000 OR LESS
RECORDED IN 1952—UNITED STATES AND TWELFTH DISTRICT¹

Type of mortgagee	Amount in millions of dollars		Percent of total		Twelfth District as percent of United States
	United States	Twelfth District	United States	Twelfth District	
Savings and loan associations	6,452	1,071	36	31	17
Commercial banks	3,600	891	20	25	25
Individuals	2,758	724	15	21	26
Insurance companies	1,420	317	8	9	22
Mutual savings banks	1,137	31	6	1	3
Miscellaneous	2,651	464	15	13	18
Total	18,018	3,498	100	100	19

¹Includes all Twelfth Federal Reserve District states except Nevada. Source: Home Loan Bank Board.

ings and loan associations, 23 savings banks, and 5 insurance companies. From 1932 through the end of 1952 the eleven district Federal Home Loan Banks had made advances to their member institutions of nearly \$4,626 million and had outstanding advances at the end of 1952 of \$864 million to over 2,000 members. The San Francisco Federal Home Loan Bank (which serves the seven Twelfth Federal Reserve District states plus Alaska, Hawaii, Montana, and Wyoming) had the largest volume of outstanding balances at the end of 1952, such balances representing over 20 percent of all outstanding advances of all Home Loan Banks. By the middle of 1952 the Government's original investment of nearly \$125 million in the capital stock of the Banks had been repaid, and they are thus now completely owned by their member institutions which had an investment of over \$315 million in the stock of the Banks at the end of last year.

Direct Federal activities: In addition to this indirect effect on the mortgage markets, although as shown there has actually been some virtually direct lending, the Government does participate directly in the housing field through direct loans and construction and ownership of housing. The Veterans' Administration was temporarily authorized in 1950 to make direct loans to veterans where VA-guaranteed loans were not available from private sources. These loans are limited to a total of \$150 million. This authority is scheduled to expire on July 1, 1953, although a bill has been introduced to extend it. The Public Housing Administration undertakes to assist local housing authorities in the construction, ownership, and management of low-rent public housing projects by means of capital loans and annual cash contributions to serve as a continuing subsidy. This agency also directly undertakes emergency housing projects.

It is apparent, then, that the activity of the Federal Government in the field of housing and mortgage finance is extensive. For purposes of analysis it may be useful to classify the different ends served by its activities. One class of activities undertaken by the Government serves indirectly to encourage home building by standardizing the terms of mortgages which are insured or partly guaranteed. Another class of activities enters directly into the home construction market by direct loans, subsidies, guarantees, and insurance. The distinction between these activities, although one of degree only, is important. The first activity in standardization of mortgage terms serves to improve the operation of the market without interfering with the allocation of economic resources which takes place in response to prices and costs. The second form of activity, which affects interest rates on mortgages directly or which completely avoids the private market by direct lending, alters the normal forces that operate in the free market in the interests of conforming with certain social policies Congress considers desirable.

Privately organized mortgage exchanges

As contrasted with these Federal Government activities we may note some interesting developments in private

arrangements which will act to give mortgages more ready convertibility than they now possess and which, of course, do not directly affect the allocation of resources. At least two organized mortgage exchanges have been announced within the past year. One is in New York and it plans to find buyers and sellers for mortgages listed with it. The other market, which is now in operation, is in Toronto, Ontario. At present its operations are limited to dealings in second mortgages because of the high yields which are expected to attract investing interest. To accomplish its purpose it is necessary for this exchange to grade mortgages. This is done by rating them on the basis of a twenty-one point system of valuation, including a visual inspection of the property. Mortgages are then grouped into four classes and listed with the ask prices for the mortgages. Bid prices are also advertised for mortgages of different classes. The exchange, in order to provide continuity, guarantees to buy upon its own account, if necessary, any mortgage in a particular class for the bid price published. A brokerage fee is charged the purchaser and the seller, but the latter is also required to pay the necessary valuation and legal costs of classifying his mortgage. The purpose of the exchange was summarized in its announcement:

"The Mortgage Exchange was originally organized to place the sale of mortgages upon an equal basis with the sale of stock and bonds. In the past, while a ready market was found to be available for mortgages, great delays were experienced in having prospective purchasers examine properties, and in arriving at a figure for the final consummation of the sale. Further delays were experienced in completing the transactions, and doing the necessary paper work to transfer the title to the mortgage sold. This method of disposing of mortgage securities was in sharp contrast with the quick, easy and sure method of disposing of stocks and bonds on the various exchanges listing them. The quick and ready market available to stocks and bonds in spite of the fact that prices could fluctuate is a very great attraction to the investor, and while mortgages had very desirable features, the delays and uncertainty of disposing of them depreciated their attractiveness to investors in comparison to the attraction held by stocks and bonds."

This is not only a good summary of the problem represented by mortgage liquidity but also points out clearly the fact that only one aspect of liquidity is considered—the ability to readily dispose of an asset. The price may still fluctuate, however.

Problems of price stability for mortgages

Actions taken by private exchanges and the Government in their attempts to increase the liquidity of mortgages through grading and the assurance of organized trading contribute in no small measure to liquidity in the sense of shiftability. Their influence on price stability, however, is extremely limited at best. The market price for fixed-return debt instruments such as mortgages is determined by the trend of interest rates, the market appraisal of the quality of the obligation at any given time, and many other factors in the general economic situation. This necessarily implies a certain degree of price flexibility in a free economy. These realities cannot be avoided by the holders of mortgages. They have invested in long-

term loans which yield a higher rate of interest than shorter-term fixed-rate securities and in so doing have necessarily sacrificed liquidity in the sense of absolute price stability. Were it possible to remove the risk of price fluctuation from the mortgage market it would be logical to expect a decline in the interest return on mortgages to rates approaching those on very short-term Government bonds. This aspect of mortgages and the mortgage market is sometimes overlooked by those who request liquidity "at all times and in all circumstances."

Price stability in the mortgage market might be achieved, within narrow ranges, by a central agency buying and selling mortgages as temporary imbalances develop—a function analogous to the professional trader in the stock market. If a market could be organized for mortgage trading, such speculators could be expected to develop in response to the profit opportunity available. However, for very large deviations, especially if prolonged, the almost unlimited resources of a central bank of issue would be necessary. An illustration might serve to make the point. The stock market was highly organized in 1929 but it was completely unable to cope with the decline in stock prices which took place subsequently, despite some valiant attempts by certain wealthy individuals. The sums of money involved are so large, and the possible success of an individual or a group in stabilizing the market so uncertain, as to make necessary the intervention of a body which can create the sums of money necessary to give full liquidity. A central savings institution cannot serve this purpose adequately since more than the mobilization of available funds is necessary in a crisis. When most investors simultaneously desire to obtain cash by selling their investments, new money must be created if the price of investments is not to fall precipitously.

There appear to be no positive reasons for insulating the price of mortgages from fluctuations in the economy, although this might be accomplished by the creation of a central bank of issue to deal in mortgages. No one has seriously suggested that the stock market be accorded the kind of price stability in mind for the mortgage market, and the closest approach to it—the stability of Government bond prices—was a policy directly resulting from war financing and has now been rejected. In the absence of very clear reasons for this kind of favored treatment, the mortgage market can increase its liquidity only by increasing shiftability, and this will be a great step forward; but its liquidity arising from price stability can be

derived only from the more general stability imparted to the economy by more general policies affecting money, credit, investment, and the price level.

Some of the problems facing a central mortgage bank in its endeavors to insure liquidity have been outlined briefly. It should also be noted, however, that the more modest present activities of the Federal Government to increase the liquidity of mortgages, which have been described above, are not without problems of their own. Predominantly, the problems arise from the fact that fixing one of the terms of the transaction (the interest rate, for example) regardless of changing economic conditions is likely to result in changes in other terms of the transaction. For example, in recent months the fixed rate on FHA and VA loans was below market rates on comparable investments, and consequently the price of these mortgages dropped below par. Furthermore, the drop in price of the mortgage loans may in turn have resulted in some increase in the price of houses to compensate the builder for the decreased market value of the mortgage. This is only one of many illustrations of this general type of problem.

Examination and coordination of the many activities of the Federal Government which affect the liquidity of mortgages is presently necessary so as to centrally marshal those activities which would prove desirable on a national basis, if some are not to be eliminated. This reconsideration of the role of Government in the mortgage markets, both direct and indirect, should be given some impetus by the facts that the authorization granted the Federal Housing Commissioner to insure mortgage lenders expires July 1, 1955, and the ability of veterans to secure VA-guaranteed loans expires July 25, 1957. The existence of the Federal National Mortgage Association may be terminated by the Housing and Home Finance Administrator, acting upon his own authority or in consultation with Congress, whenever he thinks the need therefor no longer exists. A thorough study of this subject at this time is by no means premature in light of the scope and complexity of the problems in the mortgage area. Institutions created to meet needs at an earlier time require reorientation in a period of full employment and particularly in the midst of inflation. The establishment of a series of local private exchanges, to be succeeded at some time by a national exchange, and the coordination of Federal activities to assist this development would appear to offer a promising avenue of approach.

OWNERSHIP OF DEMAND DEPOSITS—TWELFTH DISTRICT

FOR the third successive year, demand deposits of individuals, partnerships, and corporations increased in the Twelfth District and in the nation, according to the Federal Reserve System's annual survey of demand deposit ownership. In the year ending January 31, 1953, Twelfth District demand deposits rose 4 percent to a new high of \$10.5 billion while the national over-all increase was estimated at 3 percent.

On both the District and national levels, however, these figures show a smaller percentage rise than that of the previous year, and the increase is not as evenly distributed among the ownership categories listed in the survey.

Several factors have been operating in the economy to cause this slowing in the rate of increase of demand deposit balances. General business activity tended to level off in 1952 after large increases in the previous two years

Three-Way War in Housing: Lenders v. Builders v. Reformers

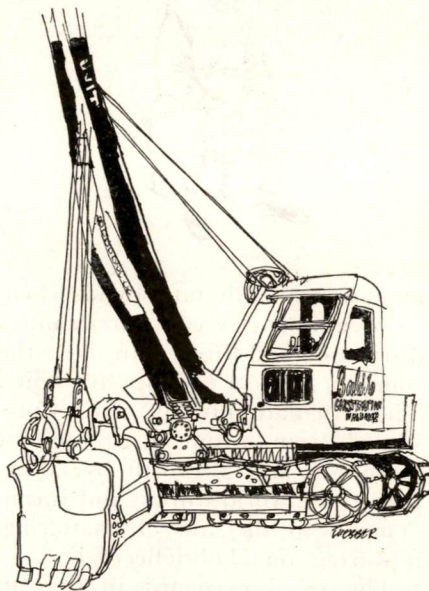
CATHERINE BAUER

THERE WAS a time when the "housing problem" was pretty much confined to the real-estate sections of local newspapers. Ever since the era of Franklin Roosevelt's "one-third of a nation" speeches, it has been moving onto the front pages, and recently it has been there more prominently than ever. This year's headlines have been about racial conflicts, about the shady profits and practices of speculative builders and dealers backed by the Federal Housing Administration, and most lately about President Eisenhower's 107-page housing bill, which has thrown Congressmen, businessmen, and civic groups into new debate about what kinds of housing are needed, who shall build them, and on what basis.

Whether the Eisenhower bill will do much to resolve this debate permanently seems doubtful. But during the past twenty-five years some issues have been resolved. Although the battle cries may still sound like "public" versus "private," the new bill proves conclusively that politics is in housing and that housing is in politics to stay. Unless the government takes most of the risks, private lenders and builders cannot and will not solve the "housing problem." By now, the government has taken on so much of the risk and provides so much of the enterprise in housing that literally no private business group wants to "get the government out of business" in this field. Housing, all factions agree, has become and will remain "mixed enterprise." The only question now is who gets the benefit of Federal aid—a question neatly dramatized by the current FHA investigations.

There is also general agreement on the magnitude of our present need. Everyone accepts the 1950

census estimate that fifteen million of our homes—one-third of the total—are substandard, and that the number of families occupying slums is probably about the same as it was in 1940. The shortage is less acute now than it was a few years ago, but in most cities the vacancy rate in low- and moderate-priced homes is still near zero and the number of families keeps right on increasing.



Dr. William C. Wheaton of the University of Pennsylvania, in an excellent study made for the National Housing Conference, has shown that to get rid of our slums, meet the needs of additional families, and overcome the shortage in the next twenty years we must build more than two million dwellings per year. Yet the most we ever built was 1.4 million in 1950, and we have averaged only 1.2 million since then.

Before going into the question of how much the Eisenhower program will do to satisfy this need, as well as to satisfy the demands of the

three major pressure groups—lenders, builders, and reformers—we must review how our present system of public-private "mixed enterprise" got the way it is and how the various groups got the way they are.

'Crash' Programs

Much of what has happened in the past twenty-five years reflects changes in production methods, consumer demand, and city planning, as well as the growing public awareness of slums and blight. But as far as government housing policy is concerned, it must be remembered that most of it was fashioned in time of emergency—the depression, the war, and the postwar housing shortage.

Housing first came into the national limelight during the depression when the New Deal was forced to bail out both mortgage lending institutions and homeowners. In 1934, to revive the prostrate building industry, came the Federal Housing Administration. FHA was given the right to insure private mortgages, which meant that the government assumed most of the risk for lenders and speculative home builders. Until recently, the risks at FHA were validated by a steadily rising market, and its mistakes and questionable practices were overlooked. But from the start, builders, lenders, and officials alike have maintained that FHA has no responsibility to serve the public interest or to cooperate with other public agencies.

FHA was not the only housing agency born during the depression. Various efforts to build housing for low-income families were included in the early public-works and relief programs, and these led ultimately to passage of the Wagner-Steagall Act of 1937, which provided for what is now the Public Housing Administration to handle Federal subsidies to local housing authorities for slum clearance and low-rent housing projects.

The war emergency pushed the Federal government still further into housing. Controls were imposed on rents and building materials, and quickie programs were started in overcrowded war production centers. "Cradle-to-the-grave" guarantees were offered to private builders through FHA. Almost half a million units of public housing for war

didn't you forget one?

easy reach. It is only thus that he can acquire the self-confidence and self-esteem that make an individual existence exhilarating or even bearable.

Where self-confidence and self-esteem seem unattainable, the emerging individual becomes a highly explosive entity. He tries to derive a sense of confidence and of worth by embracing some absolute truth and by identifying himself with the spectacular doings of a leader or some collective body—be it a nation, a congregation, a party, or a mass movement. He and his like become a breeding ground of convulsions and upheavals that shake a society to its foundations. It needs a rare constellation of circumstances if the transition from a communal to an individual existence is to run its course without being diverted or reversed by catastrophic complications.

EUROPE at the turn of the fifteenth century witnessed a similar release of the individual from the corporate pattern of an all-embracing Church. At the beginning, the release was accidental. A weakened and discredited Church lost its hold on the minds and souls of the people of Europe. There, too, the emergence of the individual was less a deliberate emancipation than an abandonment. But how different were the attending circumstances then from what they are now in Asia! The emerging European individual at the end of the Middle Ages faced breath-taking vistas of new continents just discovered, new trade routes just opened, the prospect of fabulous empires yet to be stumbled upon, and new knowledge unlocked by the introduction of printing and paper. The air was charged with great expectations and there was a feeling abroad that by the exercise of his capacities and talents and with the aid of good fortune the individual on his own was equal to any undertaking at home and across the sea.

Thus by a fortuitous combination of circumstances, the fateful change from a communal to an individual existence produced an outburst of vitality that has since been characteristic of the Occident and marks it off from any other civilization. Yet even so, the transition was not altogether smooth. The convulsions

of the Reformation and Counter-Reformation stemmed from the fears and passionate intensities of people unequal to the burdens and strains of an individual existence.

The Communist Appeal

No such exceptional combination of circumstances attended the crumbling of communal life in Asia. There the awakening of the individual occurred in a landscape strewn with the litter and rubble of centuries. Instead of being stirred and lured by breath-taking prospects and undreamt-of opportunities, he finds himself mired in a life that is stagnant, debilitated, and inordinately meager. It is a world where human life is the most plentiful and cheapest thing, and where millions of hungry hands grab at the meanest prize and the meagerest morsel. It is,



moreover, an illiterate world, where even rudimentary education confers distinction and lifts a man above the common run of toiling humanity. The articulate minority is thus prevented from acquiring a sense of usefulness and of worth by taking part in the world's work, and is condemned to the life of chattering, posturing pseudo-intellectuals.

The rabid extremist in present-day Asia is usually a man of some education who has a horror of manual labor and who develops a mortal hatred for a social order that denies him a position of command. Every student, every minor clerk and officeholder, every petty member of the professions feels himself one of the chosen. It is these wordy, futile people who set the tone in Asia. Living barren, useless lives, they are without self-confidence and self-esteem, and their craving is for the illusion of weight and importance, and for the explosive substitute of pride and faith.

It is chiefly to these pseudo-intellectuals that Communist Russia directs its appeal. It brings them the promise of membership in a ruling elite, the prospect of having a hand in the historical process, and, by its doctrinaire double talk, provides them with a sense of weight and depth.

As to the illiterate masses, the appeal of Communist preaching does not lie in its "truths," but in the vague impression it conveys to them that they and Russia are partners in some tremendous, unprecedented undertaking—the building of a proud future that will surpass and put to naught all the "things that are."

How Weakness Corrupts

The crucial fact about the awakening in Asia is that it did not come from an accession of strength. It was not brought about by a gradual or sudden increase of material, intellectual, or moral powers, but by the shock of abandonment and exposure. It was an awakening brought about by a poignant sense of weakness. And we must know something about the mentality and potentialities of the weak if we are to understand the present temper of the people in awakening Asia.

It has been often said that power corrupts. But it is perhaps equally important to realize that weakness, too, corrupts. Power corrupts the few, while weakness corrupts the many. Hatred, malice, rudeness, intolerance, and suspicion are the fruits of weakness. The resentment of the weak does not spring from any injustice done them but from the sense of their inadequacy and impotence. They hate not wickedness but weakness. When it is in their power to do so, the weak destroy weakness wherever they see it. The self-hatred of the weak is likewise an instance of their hatred of weakness.

We cannot win the weak by sharing our wealth with them. They feel our generosity as oppression. We can win the weak only by sharing our hope, pride, or hatred with them. And if it be true that in order to survive we must win over the millions of Asia to our side, then we must master the art or technique of sharing hope, pride, and, as a last resort, hatred with others.

The Lie-Detector Era

II. 'It's a Lot Easier, and It Don't Leave Marks'

DWIGHT MACDONALD

THE LIE DETECTOR is here to stay.

It is slowly but surely worming its way into the cancerous and parasitical habits of deception which have been gnawing insidiously at the vitals of human society for untold centuries." Thus one of the pioneers in lie detection, the late Dr. William Moulton Marston, in his authoritative book, *The Lie Detector Test* (Richard R. Smith, 1938).

"Lifting our gaze to farther horizons," Dr. Marston went on, "three possibilities for world-wide application of the deception test appear. . . ." The possibilities were (1) in politics ("Suppose every candidate for public office had to take a Lie Detector examination on his past record . . ."); (2) "in marital and domestic affairs" (to find out what people really think of each other); (3) "to supply a motive for moral education . . . It is one thing for a youngster to feel vague, uneasy stirrings of conscience when he lies or cheats or steals. It is quite another thing for him to know that he will be caught whenever he is compelled to take a Lie Detector test."

Alas for such Utopian visions! Far from advancing to broader triumphs, the profession of late years has been on the defensive, if not in a state of crisis.

Although the polygraph, the most commonly used type of lie detector, has been refined and improved since 1918 by a series of reputable criminologists, beginning with Dr. Marston himself, its scientific standing is still doubtful. Our courts, for example, do not yet admit its findings in evidence. The doubts proceed from two incontrovertible facts: (1) The worth of a polygraph test depends about ten per cent on the machine and about ninety per cent on the training, skill, experience, and responsibility of the examiner who uses the machine; (2) according to members of the profession themselves, only about one-tenth of the

four hundred or so examiners now giving lie-detection tests are adequately qualified. The human element, in short, is at once all-important and deficient.

THE MOST ACUTE current problem in polygraphy, therefore, is how to set and maintain professional standards. It was chiefly this problem that led to the founding in 1947 of the International Society for the Detection of Deception, with the motto "Truth Through Science." The organization's name has recently been changed to the Academy for Scientific Interrogation.

The Academy now has about 150 members and puts out a fascinating *Bulletin*, which includes full reports on meetings (except the one in Louisville last year—somebody stole the tape recorder) as well as miscellaneous news items, such as the one about the use of the polygraph to clear the manager of the Buffalo Bisons of the charge of spitting in an umpire's face. The *Bulletin* also divulges tricks of the trade such as this one reported by Sheriff "Buckshot" Lane of Wharton County, Texas, who ran unsuccessfully for Congress in 1952: "In my detector room, I have nothing but chairs, the desk and the machine, and always, in a very prominent spot, the Bible. I found the Bible works well beside the machine. . . . I use the Bible as a last resort just prior to hooking up the subject for the examination. I am lazy and sure hate to work when I can do it the easy way."

The Polygraph In Government

What was a few years ago the greatest triumph of the lie detector—its increasing use by government agencies to check up on their employees—has now become the profession's big-

gest headache. The extensive polygraph program at the Oak Ridge atomic-bomb plant was discontinued last year as being ineffective in detecting security risks, and the methods of the examiners in other government departments have caused a great deal of resentment and even scandal.

President LeMoyn Snyder warned the 1953 convention of the Academy of Scientific Interrogation: "It takes just a few fiascos, a few more Congressmen sounding off . . . to just knock the whole thing on the head. We have to do everything that is humanly possible to see that this doesn't happen . . . that persons who practice this profession are of such standard and such calibre, morally as well as scientifically, that the good name of the lie detector is protected."

WHILE THERE is no doubt that the instrument has scored some remarkable successes in criminal work, there is considerable doubt whether it can be used effectively—or decently—in inquiring into the political and personal habits of the great numbers of citizens who happen to work, or happen to want to work, for their government. For several years now, disturbing stories have been floating around Washington about the sufferings and injustice caused by lie-detection tests.

Professor Fred E. Inbau, a widely respected authority, co-author with John E. Reid of *Lie Detection and Criminal Interrogation*, has sharply criticized the government's use of "unqualified and improperly trained" examiners: "For the future welfare of this nation, let us hope that somewhere along the line of persons responsible for the security of our secret weapons . . . there develops a realization that the dependability of lie detection tests results is no greater than the qualifications and the ability of the examiner himself." Those words were written in March, 1950. Except for an angry speech by Senator Wayne Morse of Oregon in January, 1952, no high official in Washington has, from what the record shows, developed such a realization.

Now that the Oak Ridge program has been abandoned, the lie detector is used for general security screening in only three government agencies, so far at least as the official

Cd 7 buy w VA loan, then renege w/o mms?

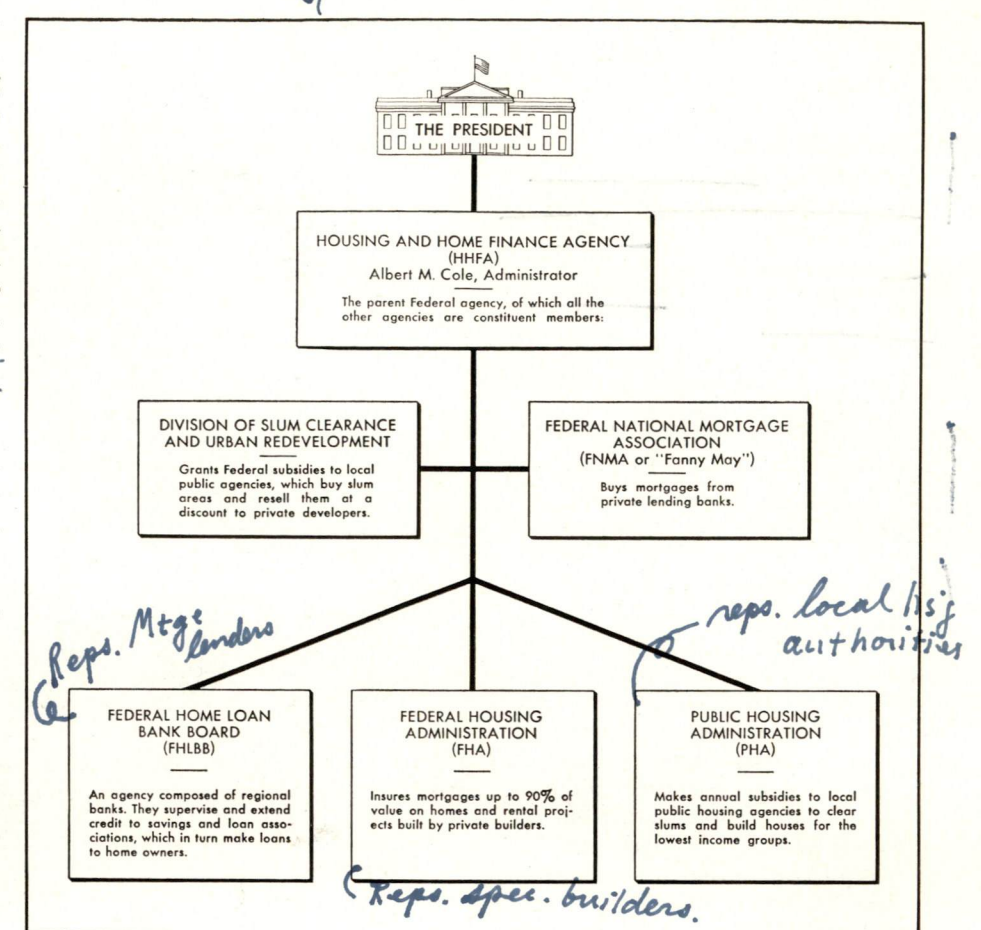
workers went up, most of them "temporary," most of them still in use.

Next came the postwar housing emergency, made acute by millions of returning veterans and by high income levels. The special wartime inducements to private builders were stepped up. The resulting FHA-VA system of mortgage insurance and builder guarantees, with little or no down payment and with outright Federal loans on mortgage purchase when necessary, has been the backbone of the building business since.

BEGINNING during the Second World War attempts to formulate a broad long-term attack on slums and blight were sponsored on a nonpartisan basis by Senators Taft, Ellender, and Wagner. But these efforts were held up by what is now known as the "real-estate lobby," a consortium of the four main interests—builders, mortgage lenders, savings-and-loan associations, and suppliers of construction materials. In the face of these efforts it was not until 1949 that Congress got around to enacting a Housing Act that stated the over-all Federal responsibility for living conditions in no uncertain terms. The Act provided for an expanded program of public housing and for an Urban Redevelopment Division to help local governments buy up slum areas and make them available at bargain prices for private and public redevelopment. Such programs have brought into being almost nine hundred city and county housing authorities and about two hundred and fifty local urban redevelopment groups.

Achievement under the 1949 Act has been slow. The real-estate lobby, having lost its fight against public housing in Congress, spent millions on a nation-wide campaign to scuttle it at the local level. Hysterical misrepresentation, fear techniques, and high-pressure tactics were systematically applied.

Federal aid for the public acquisition of slum sites for private redevelopment has earned business support in many cities. But this program has moved slowly because of the difficulty in relocating families that would be thrown out of their homes by clearance operations. The greatest weakness in the 1949 Act, and indeed in the whole approach of



The Government in Housing

the reformers since 1930, has been overemphasis on tearing down slums before the shortage in low- and moderate-priced homes could be relieved. The original theory was that people moved out of slums would move into government-financed public housing. But with strict limits on the amount of such housing, the clearing of slums has simply added to the shortage, emphasizing that privately built housing is not now available to low-income families.

The FHA-supported speculative housing boom, which reached its peak in 1950, has slackened somewhat because of tighter mortgage money, higher interest rates, and the leveling off of incomes. The home builders have skimmed the cream off the market for their standard suburban product, but nonwhite families at all income levels and millions of white families with low to moderate means still need homes.

So in 1954 we are left with an impressive array of government agencies to finance homebuilding—and with as many slums as ever, a hous-

ing shortage for most families, and a housing famine for low-income and nonwhite groups

Many Bureaus, Few Homes

What we need is not more governmental intervention and bigger subsidies. The main requirement now is to pull together the governmental powers already granted and make the credit aids more flexible to meet a wider range of housing needs. To attain the goal of two million new homes a year, not more than ten per cent of the needed units would have to be built by public housing authorities if a really determined effort were made to use private initiative. But this would mean a bona fide public-private partnership willing to accept the first principle of "mixed enterprise"; namely, that if an essential industry depends on substantial public aid it must expect to serve the interest of all the public. The nature of the public interest must be clearly determined in advance and policies guided accordingly, since the automatic adjustments of the

marketplace do not operate in an industry so heavily dependent on government support.

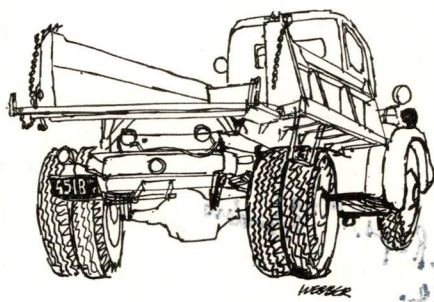
At the Federal level, despite the supposed unification of all agencies under the Federal Housing and Home Finance Agency in 1947, we still have a set of independent bureaus, each jealously guarding its own special interest, each linked to one camp in the three-way war among lenders, builders, and reformers, each ignoring the others or trying to undermine them. In one remote corner of HHFA is the Home Loan Bank Board, solely concerned for its constituents, the mortgage lenders. Their backs to the wall in another corner, the Public Housing Administration and its clients, the local housing authorities, try to fend off the cries of "socialism" directed against them by the other Federal beneficiaries. Dangling alone is the Urban Redevelopment Division, which can't make much progress on its job of transforming blighted areas without co-operation from the other agencies. Also apart, and the subject of conflicting pressures from lenders, builders, and reformers, is the Federal National Mortgage Association ("Fannie May"), which buys private mortgages under certain conditions.

Dominating the scene is the Federal Housing Administration, the Washington representative of the big speculative builders, who owe to it not only their profits but their very existence. FHA has nurtured them, it has shaped its policies to suit them, it has looked the other way when sharp practice shaded into crime. In return FHA has been defended in Congress and before the public by these constituents.

THE HOUSING JOB is too complex to be divided up among tight little hierarchies, each serving its own interests exclusively and each with its own set of arbitrary rules, rigidly compartmentalized at the Federal level. Clearly there must be more unification, more flexibility, and a clearer over-all purpose.

There is no reason why the Republicans cannot move in this direction. With all the violent controversy, housing policy has never been a partisan, Right-Left issue. With strong leadership, building

and lending interests might under a Republican Administration be less prone to hysteria and more subject to constructive guidance. They might begin to see that the only alternative to a two-way partnership with mutual responsibility is an ever-widening area of wholly public initiative, investment, and ownership. Perhaps they might come to realize that the housing reformers would honestly prefer the former to the latter. But none of this is hap-



pening, nor does the Eisenhower program give promise of its happening.

Ike Proposes

All of the Administration's pronouncements reflect an earnest desire to please everybody: lenders, builders, buyers, renters, owners of old property, downtown and suburban interests, redevelopers, slum improvers, public housers, planners, veterans, nonwhite racial groups, low-income families.

But of the three potent interest groups concerned, the lenders are happiest, the builders are worried, and the reformers (who include labor, welfare, religious, civic, and racial minority interests) are increasingly angry. At base the Eisenhower bill is a conservative bankers' program, with some minor side-shows for the rest of the crowd. Here is how the program deals with various issues:

How much housing? "A high level of housing construction and vigorous community development," the President has said, "are essential to the economic and social well being of our country." But the bill does not establish any goals, nor does it establish the machinery to work out what those goals should be. Instead, the entire research program set up under the 1949 Act has been killed outright.

Housing Administrator Albert M. Cole says that the bill will result in a million dwellings per year, and with favorable conditions in the lending market it probably would. But both the National Association of Home Builders and the American Federation of Labor agree with the National Housing Conference that what we must have is double that.

Low-rent public housing: The Administration says that public housing is needed, at least for the time being. But it is actually supporting only a token program—35,000 units a year for four years. And with the House trying to kill the program entirely, Senatorial efforts to raise it will hardly result in more than this minimum compromise figure. Low-income slum dwellers may be pleasurably shocked at finding Representative Charles Halleck and Senator Homer Capehart (both R., Indiana) ostensibly on their side, but it is unfortunately a sham battle, which will at best merely preserve some useful machinery for more positive use when the Democrats come back. The absolute minimum required, merely to make some bona fide clearance and rehabilitation possible, is the 135,000 units per year called for in 1949.

Private housing for low- and moderate-income families: With considerable fanfare, a provision has been inserted for FHA to insure forty-year loans up to one hundred per cent of the cost on \$7,000 houses for families displaced by slum clearance. This measure is almost entirely unworkable as it stands, and none of the modifications thus far proposed in Congress would enable it, as claimed, to reach the lowest-income families and provide a substitute for public housing. Even for the income groups just above the lowest, much more positive Federal credit aid is needed. New forms of nonspeculative private initiative, such as co-operatives, must also be actively encouraged. The bill recognizes no such needs.

Federal support and guidance for the secondary mortgage market: In the past, the government, through the Federal National Mortgage Association, has purchased mortgages under certain conditions from primary mortgage lenders. Next to public housing, the future of this

policy is the most controversial issue in the bill and the main source of conflict between the builders and the lenders. The builders, interested in low interest rates and easy, long-term credit, want increased public responsibility for this secondary mortgage market, to assure, in the words of the president of the National Association of Home Builders, "that homes may be provided in *volume*, in *areas*, of the *kinds*, and at the *prices* that the market demands." Such a Federal mortgage agency is essential, he says, not only to finance rehabilitation and home purchases but also break the housing jam for nonwhite groups and to build co-operative projects. On this issue, therefore, the builders and reformers are much closer together than usual.

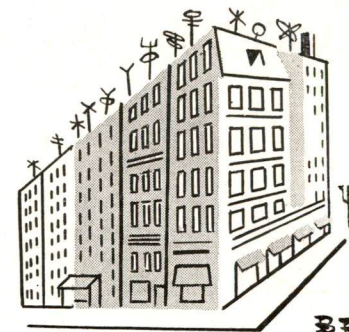
The lenders, on the other hand, want higher interest rates, and believe that the "Fannie May" should be transferred to private ownership and operation. They want a whip hand over mortgage finance and FHA policies.

The Administration's bill backs the lenders on these basic issues. It grants only a sop to the other side in the shape of a small separate fund for "special" programs, which would finance twenty thousand homes a year at best.

"Urban renewal." This term, a new one in the vocabulary of housing, is supposed to define an "entirely new approach" to slums and blight. Actually it merely means an array of special inducements aiming to improve existing houses. Well and good; conservation is a sound principle. But if these measures are intended as substitutes for outright clearance and reconstruction, as claimed by many on both sides of the housing issue, they merely mean that the Administration does not really want to tackle the slum problem seriously.

The notion that the housing problem can be solved or measurably improved by underwriting the investment risk on old homes through long-term 90-100 per cent mortgage insurance is romantic, to say

the least. In many areas these homes are crumbling wooden structures or tar-paper shacks. In any case, the



problem in expanding cities is principally one of chronic shortage: There just aren't enough existing moderate-priced homes, good, bad, or improvable, to take care of the influx. Overemphasis on the slum problem at the expense of new construction will never solve anything.

One pertinent question about the "renewal" program is whether the proposed expansion of FHA's modernization loans will be any better administered than its whole modernization loan program has been to date. Every day there is mounting evidence of exploitation by irre-

sponsible banks and high-pressure salesmen, to say nothing of official collusion. This has been "mixed enterprise" at its worst. In many respects the transformation of the FHA into a responsible public agency is the most crucial and difficult problem of all.

IF THE housing job is ever to be done, lenders, builders, and reformers will have to work together somehow and use public aid in the public interest. Since the job is so big and depends so greatly on the fullest possible use of all available initiative and resources, such a partnership would harm no legitimate interests. Indeed, it would be much more profitable for everyone concerned than the present limited and chaotic system.

Despite some evidence of real understanding and effort on the part of Housing Administrator Cole, the Administration's program won't do the job. The Republicans are tinkering with a vital segment of national policy rather than attacking it frontally, and they are throwing away a big chance.

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Issues sharpen in S&L tax fight

At end of first round, neither side is clearly on top in debate over tax exemption for S&Ls and mutual savings banks. The big question is the effect on housing

Tax exemption for savings and loan associations and mutual savings banks appears safe for at least another year. At midweek, it seemed likely that the House Ways & Means Committee would pigeonhole a bill that would have boosted taxes as much as \$550-million for S&Ls and mutual savings banks by 1966.

But even if Ways & Means side-tracks the proposal now, the issue will crop up again next year. The Administration is preparing to submit to Congress a package of proposals to close other so-called tax loopholes, and with the pressure for revenues to balance the budget, the federal income tax exemption of thrift institutions will be kept under attack. And it is conceivable that some tax formula will be approved by the time 1963 rolls around.

Higher taxes for the thrift institutions could have broad repercussions. For one thing, they would intensify the bitter competition for savings between the mutuals and the commercial banks. In addition, they would strike hard at some of the basic economic functions of the thrift institutions—to provide a place for the small saver and to provide a growing source of long-term funds for investment.

Housing effect. A lot will depend on what the Treasury calls "housing considerations." The Administration doesn't want to do anything that would slow new housing starts, which still aren't behaving as well as had been expected with all the government's moves to ease credit. The thrift institutions in 1960 invested \$7-billion of their \$7.4-billion net increase in savings in home mortgages. If preferential tax treatment were taken away, it could impair the flow of credit into housing.

This argument was pressed hard by the thrift institutions at House Ways & Means hearings last week. All told, Chmn. Wilbur Mills (D-Ark.) and his committee members

spent two solid days battling questions with 20 witnesses. For the thrift institutions, there were such spokesmen as Henry Bubb of the U.S. Savings & Loan League, Charles Wellman of the National League of Insured Savings Assns., and Edward P. Clark of the National Assn. of Mutual Savings Banks.

Speaking for so-called "tax equality" were such commercial bankers as Gaylord A. Freeman, Jr., of the Assn. of Reserve City Bankers, Reed H. Albog of the Independent Bankers Assn., and Charles E. Walker of the American Bankers Assn.

Kennedy proposal. The issue seemed simple enough: Should Congress put into law Pres. Kennedy's suggestion that the virtual tax exemption of the mutual thrift institutions be ended?

Outright exemption for S&Ls and mutuals was repealed in 1951. In its place, a compromise formula allows S&Ls and mutuals to accumulate tax-free loss reserves up to 12% of deposits or share accounts—as a protection for depositors. (The present tax formula produces a loss reserve that's equal to 24% of uninsured mortgages held by S&Ls; a Treasury proposal would cut this to about 3%.)

Because the thrift institutions have attracted funds so rapidly, deposits and share accounts have risen faster than reserves. Thus, they have been able—partly by paying out high dividend rates—to keep their tax payments at a minimum. Together, the thrift institutions paid out only about \$7-million in federal income taxes last year, even though they had assets of some \$112-billion.

Commercial banks, on the other hand, legally can pay no more than 3% for savings. And they claim the thrift institutions have an unfair advantage in the savings race in being able to pay out 4½%, in the case of most S&Ls, or 3½%, as most mutual savings banks do.

Dillon's view. This really is the key to the fight over tax equality, and the commercial bankers received an unexpected but welcome hand from Treasury Secy. Douglas Dillon.

Dillon's stand is clearly for making the thrift institutions pay. He believes that the mutuals should be allowed a "bad debt" reserve roughly equivalent to what commercial banks are allowed. Commercial banks are permitted three times their average loss experience for the worst 20 consecutive years beginning after 1927. The average now amounts to 2.4% of uninsured loans, and many banks have reserves up to their permitted ceiling (accumulated after taxes, not before).

Dillon's tax formula would work much the same way. But he would build the tax up gradually, calculating that it would reach \$134-million a year for the mutual savings banks by 1966, and \$415-million a year for S&Ls.

Warnings. Before Mills' committee, spokesmen for the thrift institutions kept emphasizing the possible damage to the housing industry. Again and again, they raised the threat of damage to the economy in tampering with institutions that since the war have supplied more than 60% of the increase in mortgage debt.

Bubb, for instance, estimated that S&L dividend rates would fall a full ½ of 1%. This, he said, means that the \$9.5-billion increase in savings estimated for 1962 would turn out to be only \$3.5-billion. Assuming that commercial banks increased their mortgage lending by \$1-billion, he figured there would still be a \$5-billion loss to the mortgage market—which, in turn, would mean a loss of about 350,000 housing units.

On the grounds of tax equity, there seemed little question but what the commercial bankers had a good deal of support—chiefly from Republican members of the committee, but also from several Democrats. For this reason, Walker of ABA tried to show that an equitable tax wouldn't really have much impact on housing. Walker said dividend rates of S&Ls wouldn't be much affected, nor would mortgage credit be significantly reduced. He claimed that dividend rates of the mutual savings banks would drop less than 2/10ths of a point, and of S&Ls a bit more than 2/10ths.

Such narrowing of the dividend gap would divert no more than \$600-million to \$1-billion in savings to commercial banks, Walker insisted—and about half of this would be lent for repair or modernization of residential real estate. **End**



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