

In 1957, the average property value guaranteed under FHA, section 203, was \$14,261. The rise in value from 1952 was 43 percent. In this same period per capita income rose only 17.4 percent, and it will be noted that the annual income of the mortgagee rose by 38 percent, suggesting that these homes had to be built and mortgaged by higher income groups. The expense-income ratio did not change, but this is explained partly by the appeal to higher income groups. The annual housing expense, however, increased by about 38 percent.⁷³ The increase is for family and unattached individual's income, average mean after taxes.

How much does one gain from mortgaging a home? It should be noted that a 30-year \$14,000 mortgage of $5\frac{3}{4}$ percent interest costs \$157 per month in the Northeast. Of the \$157, only \$82, or roughly one-half, are for interest and amortization. It is assumed that the other items, for example, heat, insurance, will increase with the rise in prices. It can also be assumed that one-half of these payments will be made by the 15th year and that the average payment would be made in the 15th year. By this time, we might expect inflation of perhaps about one-third, and hence a reduction of costs on that account of about one-quarter, and also a corresponding rise of real income, which would also cut the burden substantially. If we allow for the increase in per capita income due to rising productivity and an inflation of about 33 percent in 15 years, and if we assume that the gains to the mortgagee from rising income would be limited to one-half of the total payments—others respond to rising prices and incomes—then roughly the net gain for a 30-year mortgage would be about 20 percent; that is, the cost in terms of stable dollars would be roughly 80 percent as much as when the contract was made.⁷⁴

That the low-income groups are largely excluded from these Federal guarantees is explained in part by the high rate of interest as well as the period of amortization. For example, it is estimated that a \$14,000 mortgage requires a gross annual income of \$7,536, if the loan is for 30 years and the rate of interest is $5\frac{3}{4}$ percent. But with a 2-percent rate and a 35-year mortgage, the required income would be \$5,808.⁷⁵

Much concern has been expressed on the issue whether the large numbers of mortgagees with heavy mortgages on property will be able to meet their obligations. Since prewar there has been a steady increase in the average term of years of mortgages as well as an increase in the loan value in relation to the value of the property. The tendency to give a large proportion of value in mortgage and to extend the term has resulted in a payment in relation to income that has not changed greatly. For example, here are some figures from 1948 to 1956.

⁷³ "Study of Mortgage Credit," p. 76; "Survey of Current Business," April 1959, p. 10; "Annual Economic Report of the President, 1959."

⁷⁴ Cf. *ibid.*, p. 82.

⁷⁵ *Ibid.*, p. 83.