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EXHIBIT II-B

MONEY FLOW INTO MORTGAGES MAY FALL 5 PERCENT IN 1966, HOME LOAN BANK CHIEF HORNE SAYS

(By a Wall Street Journal staff reporter)

WASHINGTON.—The Government's top savings and loan supervisor said the flow of money into mortgages may drop about 5 percent during 1966 but housing construction isn't expected to fall that much.

John E. Horne, Chairman of the Federal Home Loan Bank Board, said the forecasts of a decline of \$1 to \$1.5 billion in mortgage money availability this year in comparison with 1965 "suggests more of a rise in interest rates than some expected earlier."

In a speech to the National League of Insured Savings Associations' annual legislative meeting here, Mr. Horne said the situation has favorable aspects in that "lenders can be more selective and avoid those practices that a severe oversupply of funds encourages." The "mild stringency" in mortgage fund supplies, he added, wouldn't justify the district Home Loan banks in giving associations "wide-open, unrestricted access" to credit.

Separately, a Board official confirmed reports that 3 more of the 12 Federal Home Loan banks have raised the rate they charge associations for advances. The New York bank went to 5 from 4½ percent, the Topeka bank to 5 from 4¾ percent, and the Cincinnati bank to 4¾ from 4½ percent.

"SHEER ARITHMETIC"

The increases, for the most part predicted, follow several Home Loan bank rate increases of last month, when it was said that "sheer arithmetic" indicated additional rises would be necessary as the banks "can't borrow and relend at a loss," at least not for long.

Because borrowing costs of the district bank system are climbing in line with money market rates generally, some industry representatives believe a 5-percent rate on advances could soon become the most common one.

Factors tending to shrink mortgage flows, Mr. Horne said, include a "drawing away" from mortgages by insurance companies, banks' traditional mortgage cutbacks in periods of tight credit, and the "somewhat smaller" flow of savings to Savings and Loans due to keener competition from banks and securities markets.

OTHER DEVELOPMENTS

Aside from the difficulty of obtaining financing for some projects, Mr. Horne said, other developments may hold back housing starts. Inventories of unsold new houses are "higher than may be desirable," he said, even though they declined to 220,000 late last year from 260,000 early in 1964. "Any significant increase in single-family dwelling construction this year would increase inventories," he said, partly because formation of new households isn't expected to grow much this year above the 5 year average annual rate of 900,000 units.

Higher construction costs may tend to have a greater dampening effect on starts this year than in periods with "large urgent, backlogs of demand," Mr. Horne said. Homebuilding costs have risen an average 2 percent in each of the past 5 years, with a 3.5-percent jump during 1965, he added. Now is a good time to correct "imbalances" in the housing markets, Mr. Horne urged, citing the "high level of foreclosures" persisting despite general prosperity.

Mr. Horne also sought industry support for a White House-backed proposal that would give the Board additional supervisory tools. Soon to be introduced, he said, this bill would allow the Board to issue cease-and-desist orders to halt illegal actions that threaten an association with substantial loss and that would let it remove, in some situations, officers and directors.

Powers would be limited by various provisions, Mr. Horne said, and would disrupt an association less than the Board's present "last resort" ones that terminate deposit insurance or result in complete takeover. Federal Deposit Insurance Corporation, he said, intends to seek similar authority over banks.