

PART II. DATA BEARING ON ECONOMIC ASPECTS AND IMPACTS OF THE PROGRAM

9. *Economic effects*

(a) *Effects on personal incomes of persons served or involved and on the distribution of personal income.*—Ordinarily the insurance of a mortgage does not have a direct or measurable effect on the incomes of the persons served, or on the distribution of personal income. The decision of a mortgagor to buy or build a residential building for his own occupancy would usually have some effect on his income distribution pattern because of the need to maintain debt service payments. And in some situations, the location of housing in relation to places of work and other factors may have some influence on the income of its occupants. However, these are hypothetical concepts that are seldom measured and are often unmeasurable.

(b) *Effects on the placement or productivity of workers, or both, and on their earnings.*—It has often been observed that the lack of adequate housing has an adverse effect on the productivity of workers who are obliged to reside in such structures. However, we are not familiar with any studies that have sought to quantify the productivity gain that may be imputed to improved shelter. We have been advised that a study of this topic is underway at the University of California at Los Angeles, using data from underdeveloped nations.

(c) *Effects on business or industrial organization and management.*—Numerous housing experts contend that current and recent levels of home construction, about 1.5 million units annually, could not have been achieved without the "social invention" represented by the FHA program of home mortgage insurance. Prior to enactment of the National Housing Act, the home mortgage system in the United States was, indeed, a shaky institution. It was characterized by nonamortizing first mortgages of limited durations, requiring payment in full at the end of the mortgage term. These first mortgages usually had limited coverage, ordinarily no more than 50 or 60 percent. In order to meet the remaining high equity requirements, the home purchaser resorted to second and third mortgage borrowings, which, although amortizing, were of very short duration and bore high interest rates.

The vulnerability of this system was exposed by the depression of the 1930's, when homeowners found themselves unable to make lump-sum payments on first mortgages, which banks, in turn, found themselves unable to renew.

The "social invention" of the FHA mortgage insurance program supplied a sound basis for financing of home purchases. Essentially, it provided for (1) a single mortgage that covered a very substantial portion of the value of the home, thus precluding the need for second mortgages, (2) fixed monthly payments throughout the life of the mortgage which covered both principal and interest and which were established at levels sufficient to amortize indebtedness completely at the end of the payment period, (3) an interest rate low enough to provide convenient financing terms for purchasers and sufficiently high in yield to attract private investment, and (4) a program of insurance, with premiums paid by the borrower, which gave protection