

The mortgage market will require considerably more funds in the second half of 1967 and first half of 1968 than were required during the first half of this year. There was little mortgage loan business in the pipeline in the early part of 1967 because of the drastic cutbacks in loan commitments in the second half of last year.

More recently, loan demands in lending volume have improved, and more and more new houses are being completed and coming on the market.

To illustrate: From a low monthly volume of \$850 million in January, lending by savings and loan institutions reached almost \$2.3 billion in June. It is interesting and significant, however, that the steady rise in lending was interrupted in July and the preliminary figures for this month indicate a lending volume of only about \$1.8 billion.

Quite clearly, the recent thrust upward, the long-term rates and short-term rates, is creating a cautious mood among mortgage lenders. We find many institutions reluctant today to expand their loan commitments because of apprehension that another bout with severe tight money resulting from the competition of high-rate Government and Government agency obligations may take place in the next 6 to 12 months.

Savings institutions which supply the bulk of the funds to the housing market enjoyed favorable savings inflow during the first half of 1967 because short-term interest rates dropped almost two full percentage points from the peaks of last fall and there was also some decline in long-term corporate bond rates.

Since the spring of 1967, however, corporate bond yields have begun to rise rapidly and in the past 2 months have exceeded the record peak yields established last fall. Rarely a business day has gone by in recent weeks without the appearance of numerous corporate bond issues and yields of 6 percent or more.

As for short-term interest rates, they bottomed out in June of this year and since then have recovered half of the decline recorded between last fall and this June. Thus, the trend in bond long-term and short-term rates is moving upward and with some rapidity.

If the Treasury come to the market with demands to finance the deficit of the proportions indicated by President Johnson, it will have a staggering impact on the credit markets generally and accelerate the upward trend of short-term and long-term rates. The year 1966 demonstrated that the housing industry has plenty of trouble competing with corporates for available credit; most certainly it would have even more serious trouble competing with the Treasury for funds.

A tax increase of the scope suggested by President Johnson does not mean that there will not be some tightening in money and credits in the months ahead. What it probably would do is dampen the threat of inflation and reduce Treasury borrowing so that a return to the chaotic tight money conditions of a year ago can be substantially avoided.

We believe that it is imperative to avoid a new depression in the housing industry and the hazards of major dislocations in the movement of capital. We have reached the conclusion that the imposition of an increase in personal and corporate income taxes along the general lines suggested by the President is the best of the alternatives available for dealing with the situation.