militate against the inequities that tight money gave rise to last year. Easier money, in particular, should result in a somewhat larger flow of funds into home mortgages.

To recognize this fact is not to admit that tight money alone was responsible for housing's difficulties in 1966. The evidence is persuasive that overbuilding had reached serious proportions in several parts of the country. In these instances, the tightening of money can be viewed as speeding needed and overdue adjustment. In addition, the strong and steady postwar rise in construction costs should not be overlooked as a significant factor affecting the course of demand for housing. Nevertheless, extreme swings in mortgage availability and housing starts are undesirable, and it is therefore appropriate that the Council discussed means of remedying this situation.

In this respect, the Council's suggestion that better access to the open capital market for the mortgage market is worthy of exploration. If by this suggestion the Council means that the marketability of mortgages should be improved, with the goal of creating a viable and active secondary market, then we recommend to the Administration the general outline of a proposal developed by the American Bankers Association several years ago. This proposal, drafted as a Mortgage Market Facilities Act, would authorize Federal chartering of private organizations to insure conventional mortgages; Federal chartering of private mortgage marketing organizations to provide a secondary market for conventional and other mortgages; and issuance of debentures by the mortgage market organizations upon the security of insured or guaranteed mortgages in their portfolio. This proposal doubtless needs study and revision, but some adaptation of it could well provide a practicable means of improving the marketability of mortgages.

Few would argue with the Council's contention that better liquidity and management practices on the part of many savings and loan associations would do much to help stabilize the flow of funds into mortgages and homebuilding. Noteworthy is the suggestion that the associations emulate commercial banks by accumulating secondary reserves in easy money periods that could be used to sustain leading activities in tight money periods.

After making these reasonable suggestions, however, the Council goes on to recommend a far-reaching change in the Nation's financial system; namely, Federal chartering of mutual savings banks. The Council states:

> Such institutions would have the power to invest in corporate securities and consumer loans as well as mortgages. While broadened investment privileges of federally chartered mutual savings banks might initially divert some funds from the mortgage market, such chartered banks should improve the efficiency of thrift institutions, strengthen them in competition with banks, and thereby ultimately benefit the morgage market [Report, pp. 66–67].

A complete and definitive answer to this argument cannot be provided in the absence of the assumptions on which the Council's reasoning is based. On the surface, at least, it seems contradictory to argue that legislation permitting mortgage lenders to lend more in nonmortgage forms would strengthen the mortgage market. Proponents of the chartering measure anticipate a substantial number of conversions from savings and loan associations to the new banking system. It is clear that a major reason for such a movement would be