

capital markets; and in periods of monetary restraint the system, like other issuers of securities, is limited in the amount of funds that it can raise in such markets in a short period of time. Moreover, even had it been possible for the bank system to raise additional funds in financial markets, the cost of such funds to the banks, and hence the rate they would have been required to charge associations for advances, would have limited their use by associations, because such rates exceeded the return that some associations could obtain on new mortgage loans."⁴

Last week's FHLB hike in the rate on advances to 5¾ percent was apparently prompted by its money costs.

I am arguing for purchases and sales of agency securities to offset to some degree the amplitude of the swings of availability and of rate on mortgage credit when monetary conditions change markedly. The funds would flow through the existing home credit agency, the FHLB. "Offsets" limiting conventional mortgage rate swings should, in turn, dampen the fluctuations in housing, employment and production. The importance of mortgage rates was underlined by the Federal Reserve Governor, Sherman Maisel, in a recent address:

"Governor Maisel estimated that high interest rates and the shortage of mortgage credit accounted for 55 to 75 percent of the housing depression in 1966—a loss of some 580,000 dwelling units and about \$6 billion in spending. Shifts in monetary conditions are reflected in housing starts activity about 6 months later, he said, explaining that every increase of 1 percent in interest rates reduces housing starts by an annual rate of 120,000 units and every decline of \$1 billion in savings available for mortgage investment means a drop of 33,000 in housing starts."⁵

I would extend this recommendation to cover any maturity of FHLB obligations. You are aware that this authority was given by Congress in the passage of Public Law 89-597 effective September 21, 1966. The need is for the action of this committee in the savings and loan legislation before it and for a Federal Reserve policy statement and for implementation. This is a strongly needed step beyond the present "standby" position of that distinguished body.

The National League of Insured Savings Associations, in testimony recorded in the "Study of Mortgage Credit" (p. 341), supported Federal Reserve purchase and sale of FHLB agency obligations. In the same study, the National Association of Home Builders advocated Federal Reserve purchase and sale of Federal National Mortgage Association obligations.

Let me assure you that I am not here speaking just as a Californian, but rather as a housing economist concerned with national conditions. Heavy withdrawals of savings, necessarily limited availability of credit from FHLB, and high and rising rates were a national phenomenon in mid-1966. The high withdrawals were across the board and not particularly concentrated in out-of-State savings. Milwaukee, Detroit, Atlanta, among other areas, and the mutual savings banks in New York, all felt the pressures along with California. In the first 2 months of 1968, the national ratio of withdrawals to receipts was 95.7 percent. Were the Federal Reserve to provide funds through the market to the FHLB, the administration of those funds would still be feasible via the regional FHL banks. The advantage would be that the Federal Home Loan Bank Board could more fully exercise policy according to the President's program and policy determined through its own and its bank president's evaluation of their regional mortgage markets even during a very tight money period. It is surely not appropriate to have the Congress and the President urging a policy of housing credit expansion and lower mortgage rates as in 1966 without giving the chief housing credit authority the means to implement it. Let me paraphrase a quotation of Winston Churchill's asking for U.S. military assistance in World War II: "Give them the tools so they can finish the job."

⁴FHLB testimony, "A Study of Mortgage Credit", Subcommittee on Housing and Urban Affairs, Committee on Banking and Currency, U.S. Senate, pp. 30 and 31.

⁵Aug. 31, 1967, speech before a Long Island University faculty meeting.