

NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

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In the expectation that other aspects of the President's and Council's 1968 Reports will be considered elsewhere, this statement will be directed primarily to the President's recommendations for improving the flow of residential mortgage credit, and particularly to his recommendation that the Federal savings institutions bill (H.R. 13718) be enacted as a means of accomplishing this vital goal of national policy. This major and urgent piece of legislation deserves full and prompt consideration by the Congress.

It would go a long way toward mitigating the basic problem of the residential mortgage market which, stated quite simply, is a tendency to swing rapidly between periods of abundance and periods of scarcity. While mortgage flows have always been sensitive to cyclical developments in the economy, this sensitivity has significantly worsened during the 1960's. It was, of course, most dramatically evident during the great financial squeeze of 1966. And today, little more than a year after homebuilding began to recover from the depths it had plumbed in late 1966, concern is once again growing over the possibility of yet another decline in mortgage flows and housing.

While the major recent and prospective concern centers on the problem of mortgage credit scarcity, it should not be forgotten that only a few short years ago the principal problem was an overabundance of mortgage money relative to basic housing demand. This led not only to a significant reduction in the quality of mortgage credit in some areas of the country, but also strongly affected the ability of many institutions having narrow investment powers to extend mortgage credit during the subsequent period of financial stringency in 1966. Since scarcity is likely to be the major mortgage market problem in the foreseeable future, attention in this statement will be directed toward this serious aspect of the problem, with the reminder that any long-range program to counter the worsening cyclical instability of mortgage credit must also be responsive to the problem of potential overabundance as well.

The problem of cyclical swings in residential mortgage credit, and particularly the danger of a chronic shortage of mortgage funds in the years ahead, has worsened during the 1960's primarily because the major suppliers of residential mortgage credit—mutual savings banks and savings and loan associations—have found it increasingly difficult to generate funds for mortgage lending in the new economic, financial, and savings market environment that has appeared in recent years. Both types of institution channel almost all of their savings growth into residential mortgages. Together, during the postwar period, they have supplied almost three-fifths of the total increase in residential