Residential Financing

Since the end of World War II, the housing market has been one of the largest users of borrowed funds in the American economy. This is the one fact that must be emphasized in any review of residential housing.

When Americans scan their nation's landscape, they see great steel mills, massive automobile and aircraft factories, a huge network of public roads, big offices and a complexity of public buildings ranging from state capitol, small schoolhouses to enormously supported universities. This view creates the impression that demands for borrowed funds outstrip demands for mortgage money to finance homes and apartments. But the fact is that the residential mortgage need has grown more rapidly than any other type of capital or credit requirement.

**Trails Behind**

In the years since the end of World War II total corporate debt has grown more than mortgages outstanding on homes and apartments. However, when the capital and credit requirements of corporations are separated on the basis of their maturities, the growth of both short and long-term borrowing by corporations trails behind the growth in mortgages.

The increase in residential mortgages has been more than double the growth in consumer debt and the debt of state and local governments, and almost seven times the growth in farm debt.

Another perspective of the size and growth of mortgage debt emerges by comparing mortgages with all other kinds of private debt and all other private debt of individuals. Residential debt as a percentage of all other private debt rose from 21.9 per cent in 1940 to a high of 41.4 per cent in the early 1960s. Stated another way, by the mid-1960s borrowings secured by homes and apartments rose to a point where such financing was nearly half the total credit extended to American businesses and families.

**Largest Market**

Residential debt has always played a big role in the balance sheets of individuals, families and unincorporated businesses. By 1950, the mortgage debt of $35.3 billion had moved ahead of all other debts of individuals. This relative advance continued into the early 1960s. It remains the largest market for loans in the noncorporate segment of our economy.

But, the rise of residential mortgage has since eased. The tight money situation has people foregoing building. Some make up their minds to wait until a sense of reason returns to interest rates and labor and material costs. Others are rearranging their current dwelling to make room for growing families without using too much in savings or without having to borrow much of this "expensive" money. And still others are scanning the classified sections of their newspapers to find assumptions.

**Can Save**

The lucky seeker may find a suitable home with a mortgage agreement consummated as late as three or four years ago. By assuming (taking over) someone else's low interest mortgage, a buyer can save a tremendous amount.

For example, a buyer may purchase a home financed say in 1966 at 5 and 3/4 per cent and assume the mortgage at that amount instead of 7 and 3/4 per cent, which is a common rate today. If he can do this, his savings in money is about 55 per cent.

A great many sellers with low interest mortgages are aware of their advantage however, and are therefore requiring higher downpayments — so while the buyer may find savings in low interest, he should beware that there is equity in the home equal to the down payment.

**Young Buyers**

Some prospective buyers, especially the young, have become convinced that the situation will get no better and are, therefore, going ahead. (They may be right.) In addition, they have never known 4, 5, and 6 per cent interest and more easily accept 7, 7 1/4 and even 8.