The Housing Market and Home Financing to the Retail Lumberman

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In recent years many of the more progressive retail lumber dealers of the United States have recognized the desirability of developing a merchandising program that makes their organization a veritable "department store" for homes. This trend towards selling "packaged" homes not only appeals to an existing market, but by eliminating the many aggravating problems that the average home builder had to contend with in the past, this type of merchandising creates a market. One of the most difficult and predominantly discouraging factors in the process of home building has been the financing of such a home.

The idea behind "packaged" homes as sold by the retail lumber dealer in his "department store" for homes is to provide a medium whereby the individual desiring to build can complete the transaction with one agency. The buyer going to a dealer with such an organization can inform the dealer of his requirements and financial status and receive expert advice and service from the various departments of the organization. First, a financial plan is worked out and put into effect with the aid of the lumber dealer, or if the lumber dealer is large enough and has his own financing department, he may finance the construction himself. Secondly, the buyer is afforded expert advice in the purchase of real estate even though the lumber dealer is not in the real estate business.

After a selection of a suitable building site, the dealer arranges for its purchase and the necessary legal transactions. Thirdly, the dealer's architectural service draws plans and specifications in keeping with the customer's requirements and financial plan. Such specific services rendered carry additional profit to the dealer. The standard fee of the American Institute of Architects for architectural service including supervision on residential work is six per cent. The standard fee for remodeling, which always involves a greater amount of work, is ten per cent.

Fourthly, the dealer arranges contracts with various reliable and competent contractors and supervises the performance of their contracts according to the original plans and specifications. This important service eliminates the necessity of the buyer having to contact numerous contractors who may be unfamiliar to him and thereby could not rely on the quality of their work to be satisfactory. Of the many crafts that are required in the construction of a home, entailing carpenters, masons, plasterers, electricians, plumbers, etc., the lumber dealer would be in a far more advantageous position to secure the services of the better qualified. Fifthly, the lumber dealer supplies all of the material that goes into the house. This fact is especially desirable, for many of the construction items such as paint and hardware bring a larger profit per dollar of sales than lumber. Too many dealers have been content with the fact that the bulk of their sales was in lumber and did little to promote sales of building materials other than lumber. The average distribution of sales for retail lumber yards is: lumber, 64%; millwork, 24%; and specialties, 12%. In contrast to these figures, a yard operating on the one-stop principle reported that 62% of its sales were other than lumber. Furthermore, since adopting the one-stop policy, its board foot volume sales of lumber had increased in addition to the marked increase of the more profitable non-lumber items.

Finally, landscape details are drawn up by qualified personnel in the architectural department and the work contracted to a competent landscape contractor. This is an important factor in completing the home, and often it is overlooked or not accounted for in the financial plan. Usually this cost amounts to three or four per cent of the cost of the building. The home is now ready for occupancy, and the dealer can turn over the key to the buyer with the satisfaction of having benefited the buyer as well as himself.

It is generally conceded that there are far too many retail lumber yards, and as a consequence, in normal times the business is extremely competitive. It appears likely that the more successful yards will operate on the basis briefly outlined above. Few of the some 23,000 retail yards in the United States have the required capital, facilities, or personnel to immediately adopt such a plan of operation. The first step in this direction, however, and one not requiring any additional capital, is the familiarization of the yard personnel with methods of financing.

This applies to the financing of remodeling and repair as well as to new construction. Familiarization should include a complete knowledge of Federal loan agencies and local private institutions and the details of the services they render. There are many individuals who want to make repairs, remodel, or build, but they fail to do so since they are either ignorant of financing possibilities or believe the process of negotiating a loan too troublesome. The informed retail lumberman can find no cheaper and more simple way of stimulating sales than by showing a prospective buyer how he might finance the project he has in mind and to assist such a prospective buyer in negotiating the loan.

The following material is a discussion of the more common means of financing by agencies other than the dealer's organization itself and a general survey of the housing market today.

II
THE EXISTING AND POTENTIAL MARKET

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THE EXISTING AND POTENTIAL MARKET

A housing survey of the United States, conducted in 1946 by the noted analyst Elmo Roper, showed conclusively that this country is suffering from the worst housing shortage in its existence. Two-thirds of the people are aware of housing shortages in their own communities. One-fifth of the people surveyed said that they were doubling up because of lack of homes. Another fifth were out looking for a place in which to live. It was concluded that if homes were less difficult to find, nearly a third of all families would be house hunting. It was interesting to note that the Pacific Coast had a greater percentage of families doubled up than any other section of the country and a more drastic shortage of housing as well. This fact was undoubtedly due to the much-greater-than-normal migrations to the West Coast during and after the war in addition to the other contributing factors responsible for a housing shortage in other parts of the country.

In the above-mentioned survey, an encouraging indication that government aids to home financing would be extended and continued was the fact that eighty per cent of the people were in favor of the government lending money at very low rates of interest to people who want to build medium-priced homes for their own use. Long term financing depends upon the stability of the market or upon the stabilizing influences like F.H.A . These long terms should continue as long as the stabilizing influences continue.

Few lenders will advance money against the present portion of selling prices reflected by scarcity premiums and high building costs unless they have outside protection for their loans.

Much speculation on the part of the retail lumber dealer concerns the development and encroachment of the retail man's business by large-scale operations in the prefabricated housing field. Approximately seventy per cent of the people have heard of prefabricated houses, yet only about fifty per cent know much about them. In spite of advertising and public relations programs on the part of prefabricators, it is estimated that only sixteen per cent of the people desiring to build or buy a house would be interested in living in them. The relative merits or disadvantages of such housing is ouside the scope of this discussion, but it appears that the retail lumberman does not have too much to be concerned about in this regard. At the present time such prefabricated housing is comparable in price to an equivalent conventionally-built house, so there is actually little to be gained. The opposition to prefabricated housing, whether justifiable or not, is principally for reasons of unsatisfactory construction, such as not being substantial enough, not strong enough, not permanent, or not warm enough. Lack of individuality is another serious objection in the minds of many desiring new homes.

The inventory of United States housing today is around 41,000,000 units. About one-fifth of these are on farms.

About ten million of the dwellings are in such bad condition that the National Housing Agency would like to see them torn down. But most of these slums and near-slums, urban and rural, are occupied by families who cannot afford to pay for new housing at any construction costs of the foreseeable future. The ten million families living in dwellings that should be demolished are obviously not a very firm element in the long range housing market, but they have their place in the housing scheme since they would provide a ready market for the better class of existing houses that would be vacated by those building new houses.

The exact size of the housing shortage is hard to determine. The causes and the resultant effects are more clear. Most of the people now looking for houses to buy or those desiring to build are recently married couples who were living in their parents' homes before the war. In 1940 there were about twenty-nine million nonfarm families in the United States. At the beginning of 1947 there is estimated to be about thirty-five million. That is an increase of almost twenty per cent in the space of seven years in the numbers of nonfarm families alone needing housing, although the population of the country has grown only about eight per cent in the same period. During the war residential building was limited to the needs of war-workers, and most of this was of a temporary nature. Manpower and materials could not be used for normal home building as they were needed to make weapons for our Armed Forces overseas.

Aside from the wartime boom in marriages, the principal cause of the increased demand for nonfarm housing is the vast domestic migration set in motion by the war, beginning with the defense program adopted after the fall of France. Approximately four million workers (with their families it came to about nine million people in all) left their homes to work in war plants in other communities. Part of the wartime migration, of course, consisted of movements from one town or city to another and added nothing to the overall demand for nonfarm housing. It created acute congestion in some cities and left a brief surplus in others. There was, however, a new addition to nonfarm demand in the migration from farms to industrial cities and from farms to small towns and villages.

Most of the estimates on housing requirements for individual cities was based on an assumption that the war-workers would go back to the places from which they originally came. As previously mentioned, in all cities of the Pacific Coast this did not prove to be true. For example, in Los Angeles only fifteen per cent of the 782,000 war-workers who came into the metropolitan area left for their former homes. The same conditions, only on a smaller scale, were experienced by Seattle, Portland, and San Francisco.

Marriages and migrations, while accounting for the solid bulk of the housing demand in our cities and towns, was not the only factor. The high level of income and savings during the war years placed many in a position to enter the market for new housing, whereas they had been financially unable to do so heretofore. Another factor that greatly stimulated the housing demand was the record-breaking birth rate of the war years that made the living accommodations of many young couples inadequate. Coupled with the factors that had marked tendencies to increase the demand for housing was the important fact that for the past fifteen years new construction was pitifully meager. As a result of depression and war, during this period an annual average of only 330,000 housing units were built.

Early in 1946 President Truman stated that five million housing units were required to properly house the nation. At the beginning of 1947 the National Housing Administration estimated that 4,400,000 new homes would be a conservative estimate. At the present time the greatest difficulty being experienced by people desiring to build a home are the prohibitively high costs. The importance of high costs in retarding new construction can be more fully appreciated when more than forty per cent of the prospective home builders are unable to pay more than four thousand dollars for a house or more than thirty-five dollars a month for rent. These figures are based on the rule of thumb that a family should spend no more than twenty per cent of its income for housing, in rent or in carrying charges.

High building costs are attributed both to increased labor and material costs. Material prices at the first of 1947 reached a peak of eighty per cent above 1939. Labor costs have increased as much as three hundred per cent on equivalent jobs, due to less efficient labor, coupled with a much higher hourly rate. The one million new homes that were to be constructed in 1947 will in all probability not approach that figure as people will not and in most cases cannot pay these high prices. Milton W. Morris of the Associated Home Builders of San Francisco stated that there would be no real building boom in 1947 and that the building industry will just have to mark time until costs are lowered. The same reaction was heard from building material dealers, contractors, banks, building and loan associations, and others involved with new construction in every city on the Pacific Coast.

Today's prohibitive building costs might be compared to those which put a brake on post-World War I building. Building material prices were at their peak in 1920 during that period. In 1920 little more than 200,000 new homes were started. New dwelling units started in 1921 rose above 400,000, and in 1922 new homes went over 700,000. But meanwhile, between April, 1920, and March, 1922, building material prices dropped over forty per cent.

In view of the above situation it would be advisable for lumber dealers to keep their inventories at a minimum so as not to absorb losses on inventories that were bought in an inflated market and will later have to be sold on a falling market. A second conclusion from the facts presented seems to point to a stretching out of the building period and should afford a good volume of business over the next five years, barring any major economic depression.

III

THE MORTGAGE

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THE MORTGAGE

Almost all loans that are for home financing are based upon a mortgage. This protects the lender by having the property pledged as security for the loan until it is repaid. If the owner fails to make payment on or before a certain date, his right to redeem the property is lost, and ownership passes to the lender (the person or agency that made the loan and took the mortgage in exchange). The court will then require that the property be put up for public sale so that the first owner may receive any surplus value over and above the amount of the mortgage. This legal action is called an "action of foreclosre and sale." Although most people are familiar with the terminology of a mortgage, it is well to be sure that when discussing a mortgage with a person that he understands the terms.

The principal of a mortgage is the amount of the mortgage; it is the sum of the money borrowed.

Interest is the price you pay for the use of the money borrowed. The rate of interest is expressed as a percentage of the principal that you pay each year. Interest is not necessarily paid yearly; however; as often it is paid monthly, quarterly, or semiannually. Not all lending agencies charge the same rate of interest, and it is not uncommonn for those in the same community to charge different rates of interest. The dealer should be familiar with the lending agencies in his respective community and thus advise the customer of the interest charges as made by local lending institutions.

To amortize a mortgage means to reduce the amount of the principal by repaying part of it. Since the interest that is paid is a part of the principal, then as the principal is reduced the amount of the interest is correspondingly reduced. Thus it is quite apparent that the actual financing costs will decrease inversely with the amortization rate.

The appraised value is the value assigned to the property by the lending agency. The lending agency has a committee of men who are experienced in judging the value of land, buildings, and cost of construction, and it is their duty to make such appraisal. The appraised value of existing property may not be what the owner paid for the property. It may be more and it may be less, according to general business conditions and other circumstances.

Equity is the value that the property has in excess of indebtedness, and it belongs to the buyer. The equity may fluctuate, however, while the mortgage is a definite amount; or it may decrease at a definite rate depending on its terms. A house in existence may have different measures of value. For example, its market price is what its owner can get for it by selling it; its replacement value is the amount it would cost to rebuild at present prices; and its economic value is its worth as an investment or as a place in which to live.

A straight mortgage is one in which the borrower promises to pay the full amount of the mortgage on a certain date with no obligation to make any payment on the principal before that date. It is usually a short term loan which generally runs for three to five years. Interest on the loan is paid at regularly agreed-upon intervals. It is customary at the expiration date of the mortgage for the lending agency to renew it for a period of years. The lending agency may renew it for the full amount, but in all probability it will request a partial payment on the principal. It is good practice when giving a straight mortgage to reserve the right to make a payment on the principal at any interest-bearing period, which is usually every six months. The borrowers may not wish to use this privilege, but it is in his best interest to reserve the right, nevertheless.

When considering the renewal of a straight mortgage, it is important to recognize two factors. First, the lending agency is under no obligation to renew the mortgage at the same rate of interest. Secondly, the lending agency is not obligated to renew it at all. Business conditions may force the agency to demand payment. If this happens, and the borrower does not have the money, and if the real estate market is so poor that no other lending agency will make a loan on the individual's property, then ownership of his home is in jeopardy.

A national bank, insurance company, or other lending agency under Federal control cannot accept a straight mortgage for an amount greater than fifty per cent of the appraised value of the property. Furthermore, the life of the mortgage cannot exceed a period of five years. If the borrower desires to borrow a higher percentage for a longer time, he may be able to do so at a state bank or other lending agency under state control. The dealer should acquaint himself with the possibilities of straight mortgage terms that are available in his community.

An amortized mortgage is one in which the value of the principal is reduced by regular payments and regular interest payments are also made. With this mortgage, as with a straight mortgage, it is advisable to reserve the right to make payments larger than those agreed upon. This is usually permitted at specified periods, but it is often limited to sums in round numbers, such as one hundred dollars. Either a bank or a building and loan company will give an amortized mortgage, and each has its advantages and disadvantages. A national bank can grant mortgage loans only up to sixty per cent of the appraised value of the property, the loan cannot run any longer than ten years, and the loan must be amortized at a rate not less than four per cent per year. At the end of ten years the borrower will have paid forty per cent of the loan and may renew for the other sixty per cent on another ten year mortgage. The risk involved here is that if the borrower has not paid up in ten years, he stands the same chance of not getting a renewal as was the case in the straight mortgage. The building and loan companies can lend up to eighty per cent of the appraised value and are therefore very careful in their selection of those to whom they grant loans. The building and loan companies generally take a mortgage for a period of twelve years and arrange to have the principal paid in full at the end of that time. All the risks involved in renewal are eliminated, and also the exact amount of indebtedness for any time during the twelve year period is easily determined.

Any amortized mortgage is usually preferred by most people, because the terms are definite and fixed, and as long as each payment is met as it is due, there is no danger of losing the house.

There are two ways of paying for an amortized mortgage: fixed monthly payments and decreasing monthly payments. Either one gives the borrower a gradually increasing equity.

All mortgages obviously do not cost the same. The amortized mortgage with decreasing payments costs the least; the amortized mortgage with fixed payments comes next; and the straight mortgage is the most expensive. One might think that the one that costs the least is best, but this is not necessarily so. Each one has a place in the scheme of things, and which to use depends upon the individual's own financial problem.

Building and loan companies will not take an amortized mortgage with decreasing payments, and therefore if he must borrow more than sixty per cent of the appraised value of his house, the borrower cannot use this type of loan. Some people avoid it for other reasons. They want cash on hand for furnishings and accessories when they first build and would prefer to have the larger payments come later on when they have more money. Young couples have less money than they will have in the future years, and yet in this type of financing their largest payments come when their income is lowest, and the lowered payments come when they are better able to pay. The decreasing payment plan requires the same payment on the principal each month together with an interest payment which reduces as the principal reduces.

The amortized mortgage with fixed monthly payments can be given to a building and loan company, and although it costs a little more than the amortized mortgage with decreased monthly payments, some people feel it is worth it for the peace of mind it brings. The borrower knows exactly how much he owes when the payments are due, when he will be paid up, and there are no renewal risks. In this plan, for each succeeding month the part applied to interest decreases while the payments on the principal increase. Since payments are equal for the entire life of this mortgage, they are lower during the first years than those on a mortgage with decreased monthly payments. This characteristic appeals to those whose present earning power is low but may be expected to increase. Equal payments every month also appeal to people who receive a salary. This type of mortgage may also be written by a bank, but, again, if it is a national bank, the loan is restricted to a term of ten years with possible renewal.

An important new development in home mortgages is to include home equipment in the mortgage as part of the cost of the house. This is an especially desirable feature from the standpoint of the buyer, as it provides a means of paying for all of his home requirements in one periodic payment. Often he can finance such purchases at a lower rate of interest than if he had a conditional sales contract for each item. By having all of his time payments lumped under the one mortgage he is better able to determine what his future payments will be, along with the total amount of his indebtedness. For the retail lumber and material dealer this presents an excellent opportunity to handle such appliances as dishwashers, refrigerators, stoves, home freezers, washing machines, radios, built-in furniture, etc. A number of small-city dealers were successful in selling these lines prior to the war, and with the advent of financing home equipment with the home mortgage it should prove to be a stimulus for others to follow suit.

IV
FEDERAL HOUSING ADMINISTRATION

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The Federal Housing Administration, a subsidiary of the National Housing Administration, provides for the insurance of mortgages. The Government does not loan the money, but merely provides insurance on mortgage loans made by banks, savings and loan associations, mortgage and finance companies, and other qualified lending institutions. This protection enables lending institutions to make insured mortgage loans on desirable terms--with a small down payment in cash and small momthly payments for interest and amortization. The major portion of low and medium-priced housing built in the last ten years in the United States has been under F.H.A. financing, and in all probability will even increase in its scope. Title II appraisals (Title II appraisals applying to new home construction) have been increasing up to 161 per cent of 1941.

In general the chief features of the F.H.A. plan are: (1) the lower financing charges; (2) long-term loans extending over a convenient period of years; (3) advance by the lender of a large part of the total value (up to eighty or even ninety per cent, if circumstances warrant); (4) repayment in monthly installments--about like rent--suited to the borrower's income; (5) inclusion of taxes, interest, and insurance in the monthly payment; (6) elimination of second mortgages and the need for periodic and expensive refinancing; (7) protection of the lender by F.H.A. insurance; and (8) improvement of housing standards and conditions.

An F.H.A. insured mortgage can be accepted by any approved financial institution. The home builder who gives a mortgage under F.H.A. insured mortgage plan assumes the payment of a small mortgage insurance premium (one-half per cent) which guarantees repayment to the lending agency of the full amount of the loan if and when the homeowner might be unable to meet the payments.

F.H.A. loans for new home construction are divided into three classes, each of which is governed by certain provisions:

1. Small loans are those which do not exceed $5400.00 and in which at least ten per cent of the appraised value has been paid in cash or its equivalent. These cases are eligible for loans:
   a. Up to ninety per cent of the value
   b. Up to a twenty-five year amortization period
   c. At an insurance premium rate of one-half per cent per year.

   The total monthly payment on a twenty-five year loan (including principal, interest, and average F.H.A. insurance premium) averages about $5.81 for each thousand dollars borrowed. For greater convenience one-twelfth of the yearly taxes and hazard insurance is added to the monthly payment, in which case the figure is slightly larger than $5.81 but was not included in the average since taxes and insurance vary with the locality. The application for a loan may be made by any responsible person with a steady income, good credit, and a reasonable ability to repay the loan. The application must be submitted and plans approved before construction is started, and the owner is required to live in the home. The interest rate charged by the lender cannot be over 4½ per cent.

2. Medium loans are those which exceed $5400.00 but do not exceed $8600.00. These cases are eligible for loans:

   a. Up to ninety per cent of the first $6000.00 of value plus eighty per cent of the remainder,

   b. Up to a twenty year amortization period,

   c. At an insurance premium rate of one-half per cent per year.

   As in the case of small loans, the home must be owner-occupied, and the loan has to be approved before construction is started. The interest rate charged by the lender cannot exceed four and one-half per cent, and both the interest and mortgage insurance premium applies only on the diminishing balances.

3. Large loans are those which exceed $8600.00 but do not exceed $16,000.00. These are eligible for loans:

   a. Up to eighty per cent of the value,

   b. Up to a twenty year amortization period,

   c. At an insurance premium rate of one-half per cent per year.

Interest charges cannot exceed four and one-half per cent a year.

While the building material dealer in all probability will not make the loan himself, he should be familiar with all of the local qualified lending institutions and aid the prospective builder in filing his application. Assistance can be rendered particularly in regards to estimating costs, and the dealer's time and effort will be fully repaid through sales he makes in conjunction with the good will that was created in assisting the customer in obtaining a loan.

The F.H.A. is organized into sections called titles. Under Title I housing renovation and modernization are included in the guaranteed loans to apply on loans made before July 1, 1947, for the purpose of financing alterations, repairs, and improvements upon or in connection with existing structures. The amount of such a loan cannot exceed $2500.00, nor can it run longer than a period in excess of three years and thirty-two days. The building material dealer should not overlook this portions of the act, as many people are desirous of making alterations or additions to their present residences, and a substantial volume of sales could be made by encouraging such work.

Title II concerns mortgage insurance on new construction, and has been previously covered. Title II loans represented the bulk of loans made before the war and will probably continue to be the most common form of loan.

Title III deals with the creation of National Mortgage Associations and is of primary concern to financial institutions and those desiring to establish a loan agency.

Title IV deals with the insurance of savings and loan accounts. Like Title III it is of interest principally to financial institutions.

Title V is miscellaneous in content and in general correlates other governmental agencies with the F.H.A.

Title VI was an act that created the war housing insurance fund and was added to the National Housing Act on March 28, 1941. It has undergone a series of revisions, and as originally intended was to facilitate the construction of housing for war workers. An amendment approved May 22, 1946, saw the rewriting of most of this act in Section 10 of the Veteran's Emergency Housing Act of 1946 to show the need for continued insurance under Title VI to assist in relieving the acute shortage of housing and to increase the supply of housing accomodations available to veterans of World War II rather than war workers. The amendment also removes the requirement that the property be located in an area in which the President finds an acute shortage of housing. The loan cannot exceed ninety per cent of the estimate of the necessary current cost (including the land and such initial service charges and such appraisal, inspection, and other fees as the Administration shall approve). The principal obligation of such mortgage shall in no event exceed:

1. $5,400, if such dwelling is designed for a single-family residence; or

2. $7,500, if such dwelling is designed for a two-family residence; or

3. $9,500, if such dwelling is designed for a three-family residence; or

4. $12,000, if such dwelling is designed for a four-family residence.

If it is found by the Administrator that at any time or in any particular geographical area it is not feasible within such limitations of maximum mortgage amounts to construct dwellings without sacrifice of sound standards of construction, design, or livability, he may prescribe higher maximum mortgage amounts not to exceed:

1. $8,100, if such a dwelling is designed for a single-family residence; or

2. $12,500, if such a dwelling is designed for a two-family residence; or

3. $15,750, if such a dwelling is designed for a three-family residence; or

4. $18,000, if such a dwelling is designed for a four-family residence.

With the further increases in construction costs during the latter part of 1946 and early 1947, practically all sections of the country have received approval of the higher maximum mortgage schedules.

Title VI loans may be amortized for ten, fifteen, twenty, or twenty-five years, and payments are made monthly. Interest rates on the principal cannot exceed four per cent, and they only apply on the principal outstanding.

As in Title II loans, the mortgage may be paid off before maturity, if desired. The monthly payments include under the one payment:

1. Premium charges under the contract of insurance;
2. Ground rents, taxes, special assessments, and fire and other hazard insurance premiums;
3. Interest on the mortgage; and
4. Amortization of the principal of the mortgage.

In keeping with the purposes and objectives of the F.H.A., the F.H.A. is generally conceded to have accomplished the following, as reported by the Producers' Council, Inc. in their survey, "Toward a Postwar Housing Program";

"1. Its underwriting operations have protected the public, and it has had a favorable influence on environment and land planning.

2. It has kept down the rate of interest, has reduced downpayments, and has provided a means for preventing the flooding of the real estate market with foreclosed properties and the depressing of values of homes in the same neighborhoods.

3. It has eliminated the use of secondary financing and has encouraged the trend toward the replacing of unamortized mortgage debt with amortizing loans.

4. It encourages lending operations to continue in depressed periods, has created a standardized secondary market for mortgages and loans, has carried investment funds into remote localities, and has made possible the lending of mortgage

money by commercial banks which would not otherwise make such investments; and

5. It has protected private enterprise against the public housing movement."

Typical loans under F.H.A. may be ascertained from Chart I in the appendix.

V

G. I. LOANS

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Under Title III of the Servicemen's Readjustment Act of 1944, as amended by Public Law 268, 79th Congress, loans to veternas are guaranteed for a variety of specified purposes, among which is the building of a new home. The loans are available to "any person who has served in the active military or naval service of the United States at any time on or after September 16, 1940, and prior to the termination of the war and who has been discharged or released therefrom under conditions other than dishonorable after active service of ninety days or more, or by reason of injury or disability incurred in the service in line of duty." An eligible veteran may apply at any time within ten years after the termination of the war for the guaranty or insurance of a loan.

When applying for a loan, the veteran must present his original discharge papers to the Veteran's Administration to be certified for eligibility. Photostatic, certified, or other copies of the honorable discharge or separation papers will not be acceptable in determining the veteran's eligibility or for the endorsement thereon of the guaranty or insurance benefit. Many lending institutions simplify the loan procedure by accepting the veteran's discharge papers, and they, in turn, forward the discharge papers to the Veteran's Administration. While waiting for approval of eligibility, the veteran may have terms and necessary forms for the loan completed. The Veteran's Administration returns the discharge papers after endorsing the amount and type of guaranty on the papers.

Within the limitation that not more than fifty per cent of any loan be guaranteed, the maximum amount which may be guaranteed for real estate loans is $4,000.00. While the guaranty of a loan by the Veteran's Administration is primarily an aggreement between a lender of money and the Veteran's Administration that in the event a veteran fails to pay his loan, the Government will pay the guaranteed portion of the loan, there is an outright gift made that is not to be repaid by the veteran. The Veteran's Administration will pay to the lender for credit on the loan an amount equal to four per cent of the amount of guaranty used. In the case of a loan guaranty of $4,000.00 this amount would be $160.00.

The guaranteed loans on real estate may be amortized up to twenty-five years. The rate of interest on a guaranteed or an insured real estate loan must not exceed four per cent per year. Commissions, brokerage fees, or other charges for obtaining a guaranty cannot legally be charged to the veteran. Also, the debtor shall have the right to repay at any time without premium or fee the entire indebtendess or any part thereof, but not less than the amount of one installment or $100.00, whichever is less.

Generally, new construction is financed for veterans under one of two different plans. The first plan enables the veteran to get fifty per cent of his loan guaranteed (as described above), and the balance, if necessary, is loaned by the lending agency based upon their confidence in the veteran's ability to pay back the loan.

The second plan splits into two loans, although they may be repaid as one. One loan is insured by the Federal Housing Administration. The other is guaranteed by the Veteran's Administration. Under terms of the act, "if a veteran is in need of a secondary loan, it will be eligible for guaranty provided the proceeds are used concurrently with and as a part of the same transaction to purchase or acquire property or for the cost of constructing improvements, and provided further that the primary lien does not exceed twenty per cent of the purchase price or cost. This type of loan may be fully guaranteed to the extent of $4,000.00 for real estate loans or $2,000.00 for non-real estate loans if these amounts of guaranty benefit are available. The purchase price shall not exceed the reasonable value as determined by an appraiser designated by the Administrator."

As an example, under the second financing plan if the home to be built is to cost $5,000.00 and meets F.H.A. standards, the financing institution can make a loan up to $4,000.00 which the F.H.A. insures for the institution. This would become the first-mortgage loan. Interest paid would not be over four and one-half per cent, plus one-half of one per cent premium for F.H.A. mortgage insurance. The loan would be repaid monthly in regular installments which also include payments on taxes, special assessments, and hazard insurance.

Another loan for $1,000.00 is made for the down payment--from the same institution--to make up the necessary total of $5,000.00. This is the part of the loan the Veteran's Administration guarantees, and the veteran pays only four per cent interest on this amount. The Government pays the interest for the first year, and this loan is paid off along with the other in monthly installments.

On a house costing more than $5,000.00, the loan guaranteed by the Veteran's Administration may go as high as $2,000.00 or twenty per cent of the purchase price, whichever is less.

G.I. loans in conjunction with Title VI loans of the F.H.A. have been very popular with veterans. By amortizing over a twenty-five year period, monthly payments are brought very nearly in line with equivalent rentals, and at the same time no down payment is necessary. If it were not for F.H.A. and Veteran's guaranteed loans, few veterans could afford to build, as no lending institution could afford to loan a very large percentage on present-day inflated values. Values determine the amount that a lending institution will lend. Mortgage lenders try to anticipate values so that loans will always be under them, and the trend is to reduce the amounts of their loans in proportion to present building costs when loans are at their own risk. It is conservatively estimated that future homes will have a valuation averaging fifty-one per cent of present market prices.

Typical loans under the Veteran's Home Loans may be ascertained from Chart I in the appendix.

VI
CONCLUSIONS AND RECOMMENDATIONS

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Although progressive retail lumber dealers have long recognized the fact that the largest sales outlet for their merchandise lies in selling houses, it is more apparent now than it has ever been. In view of this fact, dealers should organize their businesses into efficient organization for the sales of "packaged homes." The first step in this direction, and one not requiring the investment of additional capital, is familiarization with financing methods and the establishment of a procedure for the facilitating of housing loans.

Building material costs at the present time are higher now than at any other time in history. Decline in building material costs are inevitable and in all probability will be as much as forty per cent. It is difficult to predict when the decline in prices will take place, but a number of authorities speculate that such a decline will take place in the middle or latter part of 1947. Dealers should maintain an efficient system of stock control and keep inventories at a minimum so as not to be forced to absorb heavy losses through serious reductions in value of their inventories.

In recent years, new methods of financing allow the the installment home buyer to include many household items in his home payments. This feature opens new fields of merchandising to the retail lumber dealer and he should investigate the addition of profitable new lines to his business. Examples are oil burners, coal stokers, stoves, radios, refrigerators, washing machines, furniture, built-in fixtures, kitchen cabinets, lawn furniture, electrical fixtures, plumbing equipment, and water systems.

Federal lending and insurance agencies have been the prime factor in stabilizing loans for home construction. Home construction is the "bread and butter" of the retail lumbermen. Retail lumbermen and retail lumbermen's associations should encourage and have active promotional programs to extend and establish new legialation for such agencies.

Veterans form one of the best potential markets for new homes in America today. First, many of them are in urgent need of housing and, secondly, they are eligible to receive financial assistance from the government. Retail lumber dealers should concentrate their efforts in making homes available for veterans as it not only provides good sales possibilities, but will tend to build up a good will in a younger element and thus have a beneficial effect over a long period of time.

VII
APPENDIX

COST CHART

90% MORTGAGE INSURANCE ON

APPRAISED VALUES UP TO $6000

Monthly Payments on a 20-Year Loan

Appraised Value of House and Lot...	$ 3,000	$ 3,500	$ 4,000	$ 4,500	$ 5,000	$ 5,500	$ 6,000
Maximum insured loan (90%)..........	$ 2,700	3,100	3,600	4,000	4,500	4,900	5,400
Monthly payments on 20 year loan:..							
Principal and 4½% interest.....	$ 17.09	19.62	22.79	25.32	28.49	31.02	34.18
Mortgage insurance (½ of 1%)...	$ 1.07	1.23	1.43	1.59	1.80	1.95	2.14
Monthly cost of buying home........	$ 18.16	20.85	24.22	26.91	30.29	32.97	36.32
Add fire insurance (estimated).	$ .40	.47	.53	.60	.67	.75	.80
Add taxes (average in Cal.)....	$ 3.72	4.34	4.96	5.58	6.20	6.82	7.44
TOTAL MONTHLY PAYMENTS..............	$ 20.28	25.66	29.71	33.09	37.16	40.54	44.56

Monthly Payments on a 25-Year Loan

Appraised Value of House and Lot...	$ 3,000	$ 3,500	$ 4,000	$ 4,500	$ 5,000	$ 5,500	$ 6,000
Maximum insured loan (90%)..........	$ 2,700	3,100	3,600	4,000	4,500	4,900	5,400
Monthly payments on 25 year loan:							
Principal and 4½% interest.....	$ 15.01	17.24	20.02	22.24	25.02	27.24	30.02
Mortgage insurance (½ of 1%)...	$ 1.09	1.25	1.45	1.61	1.81	1.97	2.17
Monthly cost of buying the home....	$ 16.10	18.49	21.47	23.85	26.83	29.21	32.19
Add fire insurance (estimated).	$ .40	.47	.53	.60	.67	.75	.80
Add taxes (average in Cal.)....	$ 3.72	4.34	4.96	5.58	6.20	6.82	7.44
TOTAL MONTHLY PAYMENTS..............	$ 20.22	23.30	26.96	30.03	33.70	36.78	40.43

90% AND 80% MORTGAGE INSURANCE ON

VALUES OVER $6000 TO $10,000

Monthly Payments on a 20-Year Loan

Appraised Value of House and Lot...	$ 7,000	$ 7,500	$ 8,000	$ 8,500	$ 9,000	$ 9,500	$10,000
Maximum insured loan (90% & 80%)...	$ 6,200	6,600	7,000	7,400	7,800	8,200	8,600
Monthly payments on 20-year loan:							
Principal and 4½% interest.....	$ 39.25	41.78	44.31	46.84	49.37	51.91	54.44
Mortgage insurance (½ of 1%)...	$ 2.46	2.62	2.78	2.94	3.10	3.26	3.42
Monthly cost of buying home........	$ 41.71	44.40	47.09	49.78	52.47	55.17	57.86
Add fire insurance (estimated).	$ 1.03	1.09	1.17	1.23	1.29	1.36	1.44
Add taxes (average in Cal.)....	$ 8.68	9.31	9.91	10.43	11.00	12.16	13.33
TOTAL MONTHLY PAYMENTS..............	$ 51.42	54.80	58.17	61.44	64.76	68.69	72.63

80% MORTGAGE INSURANCE ON

VALUES OVER $10,000 TO $20,000

Monthly Payments on a 20-Year Loan

Appraised Value of House and Lot...	$11,000	$12,000	$12,500	$13,000	$14,000	$15,000	$20,000
Maximum insured loan (80%).........	$ 8,800	9,600	10,000	10,400	11,200	12,000	16,000

Monthly payments on 20 year loan:							
Principal and 4½% interest......	$ 55.70	$ 60.77	$ 63.30	$ 65.83	$ 70.90	$ 75.96	$101.28
Mortgage insurance (½ of 1%)....	$ 3,50	3.67	3.97	4.13	4.45	4.77	6.36
Monthly cost of buying home.........	$ 59.20	64.44	67.27	69.96	75.35	80.73	107.64
Add fire insurance (estimated)..	$ 1.47	1.60	1.67	1.74	1.87	2.00	2.67
Add taxes (average in Cal.).....	$ 13.64	14.88	15.55	16.12	17.36	18.60	24.80
TOTAL MONTHLY PAYMENTS.............	$ 74.31	80.92	84.49	87.82	94.58	101.33	135.11

MONTHLY PAYMENTS FOR VETERANS' HOME LOAN

Monthly Payments under a Combination 20-Year FHA Loan in an in an Amount Equal to 80 Per Cent of Value and a 20-Year Veterans' "G.I." Loan in an Amount Equal to the Remaining 20 Per Cent of Value.

APPRAISED VALUE EQUAL TO 100% OF LOAN..	$ 4,000	$ 5,000	$ 6,000	$ 7,000	$ 8,000	$ 9,000	$10,000
Principal and 4½% interest on 80% of loan	20.26	25,32	30.38	35.45	40.51	45.58	50.64
Principal and 4% interest on 20% of loan	4.85	6.06	7.27	8.48	9.70	10.91	12.12
FHA mortgage insurance premium (½ of 1%)	1.27	1.59	1.91	2.22	2.54	2.86	3.18
Fire insurance and taxes (estimated)	3.30	4.50	5.70	7.90	9.10	11.30	12.50
TOTAL ESTIMATED MONTHLY PAYMENTS	$ 29.68	37.47	45.26	54.05	61.85	70.65	78.44

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