

Report No. 13

REPORT ON
USURY LAWS RELATING TO RESIDENTIAL MORTGAGE LOANS

North Carolina
Legislative Research Commission

Raleigh

1967

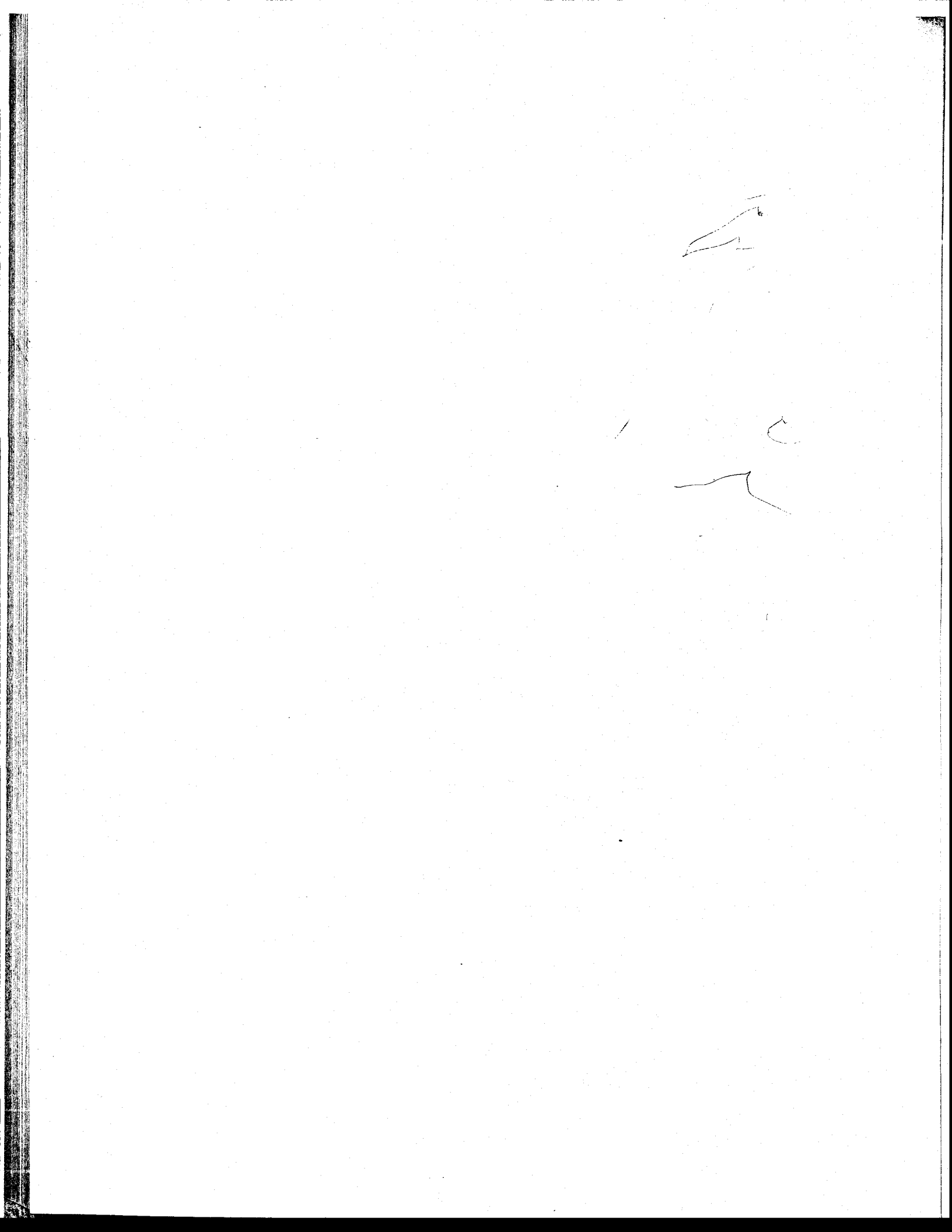
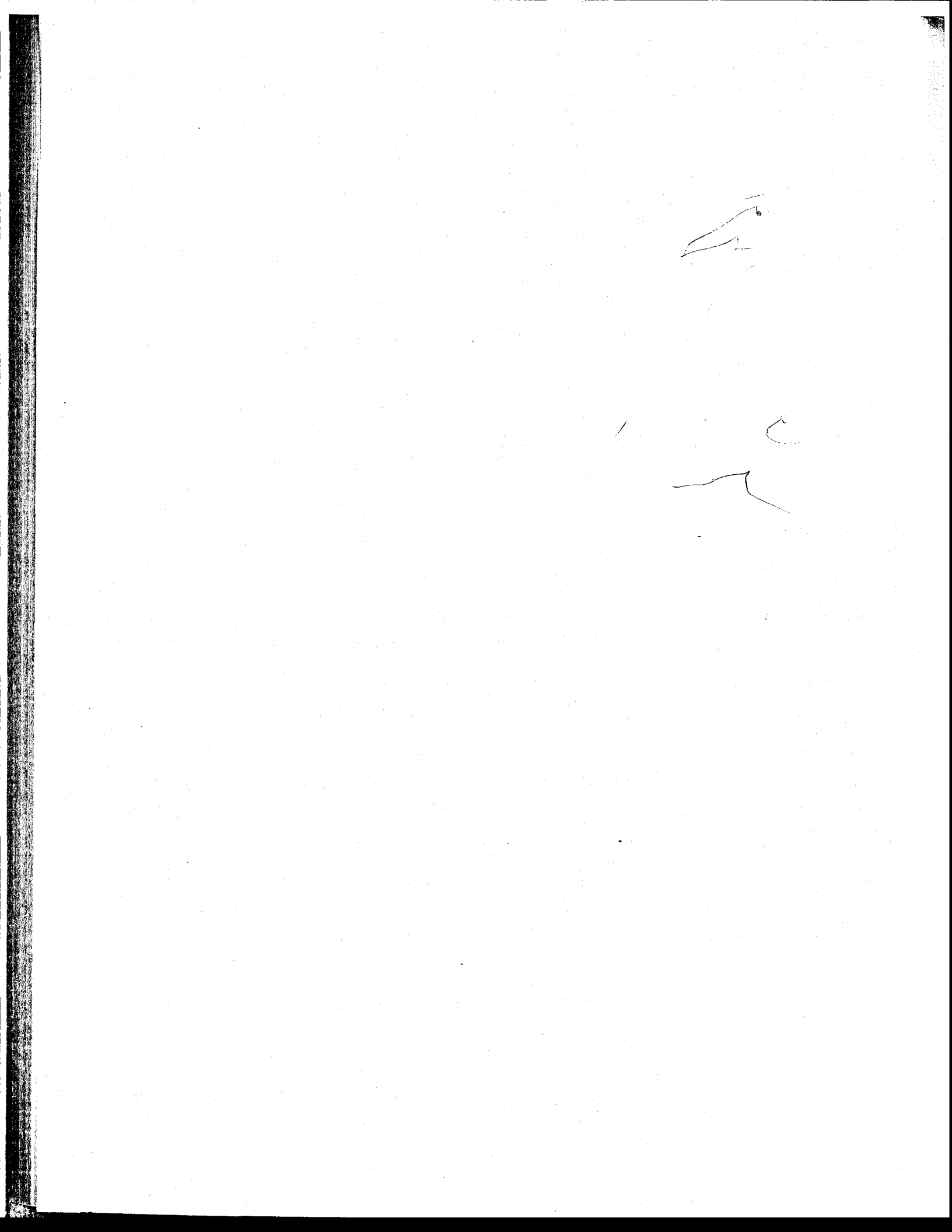


TABLE OF CONTENTS

	Page
Introduction1
Conclusions1
Appendices	
A. Presentation by the Housing Industry Advisory Council of North Carolina: <u>Unequal Capital Rates in North Carolina</u>3
B. Letter from the North Carolina Savings and Loan League	11
C. Graph - FHA Yields from 1948 to 196613



Introduction

At the meeting of the Commission on November 11, 1966, representatives of the Housing Industry Advisory Council requested that the Commission consider for study the revision of the usury laws of North Carolina as they relate to residential mortgage loans.

The Commission was informed by these representatives that the 6% interest rate limit is having a detrimental effect on the home industry in the State, including the construction and sale of new homes and sales of other residences and home furnishings. It was reported that the scarcity of money across the nation has driven the cost of money up to the point that it is not now possible to obtain a satisfactory yield on residential mortgage loans in North Carolina. It was stated that if the State had a maximum interest rate higher than 6%, as do most other states, it would enable lenders to import more money and thus relieve the strain on the home industry as well as the home-buying citizens of the State.

Various reports and charts were presented to the Commission. Some of these are included as appendices to this report.

Conclusion

The Commission recognizes that the tight money situation at this time is causing certain problems and is sympathetic with the request for a study of the usury laws. Since the request was brought to the Commission late in the course of its meetings, however, it was not feasible to begin a study. Nevertheless, we conclude that the problem may merit consideration by the 1967 General Assembly and we present this report for information.

1

2

UNEQUAL CAPITAL RATES IN NORTH CAROLINA

I. A PROSPEROUS ECONOMY....needs a free and usable flow of funds.

A. North Carolina industry including furniture, textiles and agriculture imports dollars (\$750 million per yr.)both short and long term...to aid productivity, increase inventory, expand plants and equipment, provide more jobs and higher income, and generate continued prosperity.

B. Individuals need dollars....both short and long termto keep pace with an expanding economy, to improve their personal status, to educate their children, to provide for self-entertainment and buy durable goods and housing.

C. Reasonable controls on economic growth are good as long as they permit a free, open market and an unrestricted use of money to strengthen our economy.

1. Controls on money uses are necessary....
Borrowings on Business inventory are 9 - 12 %
Accounts Receivable are 8½ %
Loans on automobiles yield 8½ - 12 %
Loans on furniture and other chattels
yield 10 - 12 %
Loans on signature only yield 11 - 12 %
Loans by credit unions are permitted to
yield 12 %
Real estate loans to corporations are permitted
at 8 % interest rate...BUT...
LOANS IN THE HOUSING INDUSTRY ARE STILL LIMITED
TO 6 % MAXIMUM.
WHY SHOULD THIS INDUSTRY CONTINUE TO FUNCTION
WITH AN UNEQUAL CONTROL OF INTEREST RATES
WHEN IT BEARS SUCH AN IMPORTANT BURDEN IN THE
TOTAL ECONOMY OF NORTH CAROLINA?????

HOUSING INDUSTRY ADVISORY COUNCIL
of North Carolina

- D. The Construction Industry in North Carolina with 86,000 employees ranks second only to textile manufacturing in number of persons employed. Furniture with 57,500 employees and tobacco with 29,000 employees follow in that order.YET THERE ARE PRESENTLY UNREALISTIC CONTROLS WHICH AFFECT THIS INDUSTRY AND THE PEOPLE DEPENDING UPON IT WHICH ARE NOT PREVALENT IN THESE OTHER PRIMARY INDUSTRIES.

II. CURRENT MONEY MARKET AND HOUSING....

- A. COMPETITION WITH INTEREST RATES....As the economic factors of our country become more complex, there is an increasing competition for the available dollars needed for continued growth and expansion. Presently these rates and yields are offered on the following:

Short Term:

U. S. Treasury Bills	5.8	%
Commercial Paper	5.87	%
Prime rate from banks	6.0	%
Corporate Bonds	6.5	%
Municipal Bonds	7.8	%

Long Term:

No. Car. Bonds due 1980	7.4	%
Real Estate Loans to Corporations	8.0	%
Real Estate Loans to Individuals	6.0	%

WHERE WOULD YOU INVEST YOUR COMPANY'S SHORT OR LONG TERM DOLLARS?

- B. REAL ESTATE LOANS ON HOMES....Where does the money come from?

	<u>Loans in 1965</u>
Life Insurance Companies	\$ 125 Million
Mutual Savings Banks	85 Million
Savings and Loans	450 Million

Our state IMPORTS 210 Million Dollars required for individual home loans. Can we continue to offer needed housing only with dollars generated in North Carolina? (See Chart A)

HOUSING INDUSTRY ADVISORY COUNCIL
of North Carolina

North Carolina ranks 22nd as an importer of Life Insurance dollars invested in housing.

North Carolina ranks 12th as an importer of funds from Mutual Savings Banks,

Because...we have attractive real estate and credit-worthy borrowers, but we need equal tools to continue this flow of funds in the future.

- C. INTEREST RATES IN FIFTY STATES (See Chart B)....
Forty states (80% of the total) plus the District of Columbia and Puerto Rico have permissible interest rates by contract over 6%. North Carolina is one of ten states with a limitation of 6% by contract on real estate loans to individuals including: Delaware, Maryland, New Jersey, New York, Pennsylvania, Tennessee, Vermont, Virginia, West Virginia, and YET - ALL BUT TWO OF THESE STATES (Vermont and North Carolina) HAVE LESS RESTRICTIVE PROVISIONS CONCERNING APPLICATION OF USURY LAWS. Many states, including those with 7% and 8% statutes are planning changes in 1965 to assure their region a fair share of the mortgage dollars invested throughout the nation.

- D. EFFECTS OF UNEQUAL INTEREST RATES ON HOUSING in North Carolina

45% decline in new housing
35% decline in used home sales
means...

Reduction in income for construction workers
Loss in sales for the suppliers of this industry, which includes many important North Carolina industries such as brick, tile, wood products, and distribution of all other products used in housing.

Slow-down in growth of new industries, which need housing for their workers.

Reduction in taxes on real estate---perhaps the greatest single source of income in our state.

Overbalance of unemployment as construction workers, home builders, realtors, attorneys, mortgage bankers, and many others become surplus in our employment force.

HOUSING INDUSTRY ADVISORY COUNCIL
of North Carolina

III. Comments on "TIGHT MONEY"... It's true that many states with higher interest rate statutes are also experiencing some shortage in funds, but this is a temporary problem which can and will be solved as basic factors in the economy make normal adjustments. When this condition exists, money will continue to "seek its own level in the market place".... "react to availability and competition" and those states with the highest available interest rate will get first choice.

What damage will be done to North Carolina if we permit an interruption in our growth and prosperity because we desperately need dollars?

A. How do mortgage interest rates react in states with a higher maximum?

Average Interest Rate on Residential Loans

	<u>1964</u>	<u>1965</u>	<u>Max. Contract Rate</u>
South Carolina	5.73	5.74	7
Georgia	5.87	5.91	8
Florida	5.82	5.83	10
North Carolina	5.83	5.88	6

The national average home mortgage rate in Sept. 1966 was 6.60 % (See Chart C)
(Source: Federal Home Loan Bank Board)

IT'S A STORY OF SUPPLY AND DEMAND

**MORTGAGES OWNED BY INVESTORS
IN NORTH CAROLINA**

	<u>1964</u>	<u>1965</u>
Life Insurance Companies	\$1,058,385,000	\$1,140,273,000
Mutual Savings Banks	\$ 271,000,000	\$ 320,000,000
Savings and Loan	\$1,906,300,000	\$2,094,400,000

"CHART A"

AVERAGE INTEREST RATES ON CONVENTIONAL FIRST MORTGAGES

<u>Zone</u>	<u>New-Home Loans</u>		<u>Existing-Home Loans</u>	
	<u>Sept.1</u>	<u>Sept.1</u>	<u>Sept.1</u>	<u>Sept.1</u>
	<u>1966</u>	<u>1965</u>	<u>1966</u>	<u>1965</u>
Northeast	6.05%	5.65%	6.10%	5.70%
Southeast	6.45	5.70	6.55	5.75
North Central	6.60	5.80	6.70	5.85
Southwest	6.80	5.75	6.85	5.85
West	6.90	6.10	7.00	6.20
United States	6.55%	5.80%	6.65%	5.90%

* * *

**INTEREST RATES OF CONVENTIONAL FIRST MORTGAGE LOANS
ORIGINATED ON SINGLE-FAMILY HOMES IN SELECTED CITIES**

<u>Contract Interest Rate (percent)</u>	<u>New Homes</u>		<u>Existing Homes</u>	
	<u>1966</u>	<u>1965</u>	<u>1966</u>	<u>1965</u>
	<u>Aug.</u>	<u>Aug.</u>	<u>Aug.</u>	<u>Aug.</u>
Atlanta	6.67	5.86	6.64	6.05
Dallas	6.59	5.75	7.13	6.36
Houston	6.79	5.97	6.88	5.97
Miami	6.13	5.91	6.49	5.88
New Orleans	6.45	5.78	6.49	6.04
Seattle	6.76	5.77	6.79	5.88

MORTGAGE LOAN RECORDINGS
North Carolina - Selected Cities

	<u>August</u>		<u>Change</u>	<u>September</u>		<u>Change</u>
	<u>1965</u>	<u>1966</u>		<u>1965</u>	<u>1966</u>	
Asheville	\$1,896,000	\$2,580,000	+36.1 %	\$1,922,000	\$1,400,000	-27.2 %
Charlotte	6,265,000	6,300,000	+ .6	8,393,000	7,028,000	-16.3
Greensboro	4,609,000	1,444,000	-68.7	4,322,000	1,951,000	-54.9
Greenville	769,000	316,000	-59.0	1,032,000	387,000	-62.5
Raleigh	3,958,000	3,717,000	- 6.1	4,793,000	3,194,000	-33.4
Winston-Salem	4,017,000	2,476,000	-38.4	4,692,000	2,902,000	-38.1
TOTAL	\$21,514,000	\$16,833,000	-21.8	\$25,154,000	\$16,862,000	-33.0

SINGLE FAMILY RESIDENTIAL BUILDING STARTS
North Carolina - Selected Cities

	<u>August</u>		<u>Change</u>	<u>September</u>		<u>Change</u>
	<u>1965</u>	<u>1966</u>		<u>1965</u>	<u>1966</u>	
Asheville	242	156	-35.5 %	187	96	-48.7 %
Charlotte	185	196	+ 5.9	184	103	-44.0
Greensboro	101	122	+21.8	125	83	-33.6
Greenville	5	1	-80.0	13	2	-84.6
High Point	40	13	-67.5	26	12	-53.8
Raleigh	55	26	-52.7	77	31	-59.7

Appendix B

NORTH CAROLINA SAVINGS AND LOAN LEAGUE

POST OFFICE BOX 6665 TELEPHONE 275-7647

GREENSBORO, NORTH CAROLINA 27405

November 11, 1966

The Honorable Robert B. Morgan
The Honorable H. P. Taylor, Jr.
Legislative Research Commission
Raleigh, North Carolina

Gentlemen:

I have been authorized to make the following statement on behalf of the North Carolina Savings and Loan League:

The Savings and Loan Industry of North Carolina is aware of the serious impact on the state's general economy being caused by a lack of funds available to finance homes for the people of North Carolina.

There are many things which have a bearing on the problem as it affects North Carolina. We are sure that as a member of this Commission you are quite familiar with the fact that when a conventional direct reduction loan is made at 6% for the purchase of a home, the yield cannot exceed 6%; whereas, almost all other types of loans made to individuals on a 6% add-on or discount basis yield far in excess of 6%.

From these and similar ponderables many questions arise:

1. Is the current 6% limit on direct reduction loans for home financing detrimental to the best interests of the people of our state?
2. Would an adjustment in the interest rate make more funds available for home financing?
3. Would an increased interest rate create a greater problem for people seeking to buy homes than the restricted availability of funds which now exists?

We hope that the Legislative Research Commission will undertake a study of these and other related problems as a service to the people of this state.

The Honorable Robert B. Morgan
The Honorable H. P. Taylor, Jr.
Page two
November 11, 1966

Our primary business is in the home lending field so we, too, have given considerable thought to these problems. We are currently having an independent study made and would be pleased to make available to the Commission not only the results of our study upon its completion in December, but also the assistance of our associations and our League office.

It is our opinion that this matter is vital to the people of our state and warrants full study by the Legislative Research Commission.

Respectfully submitted:

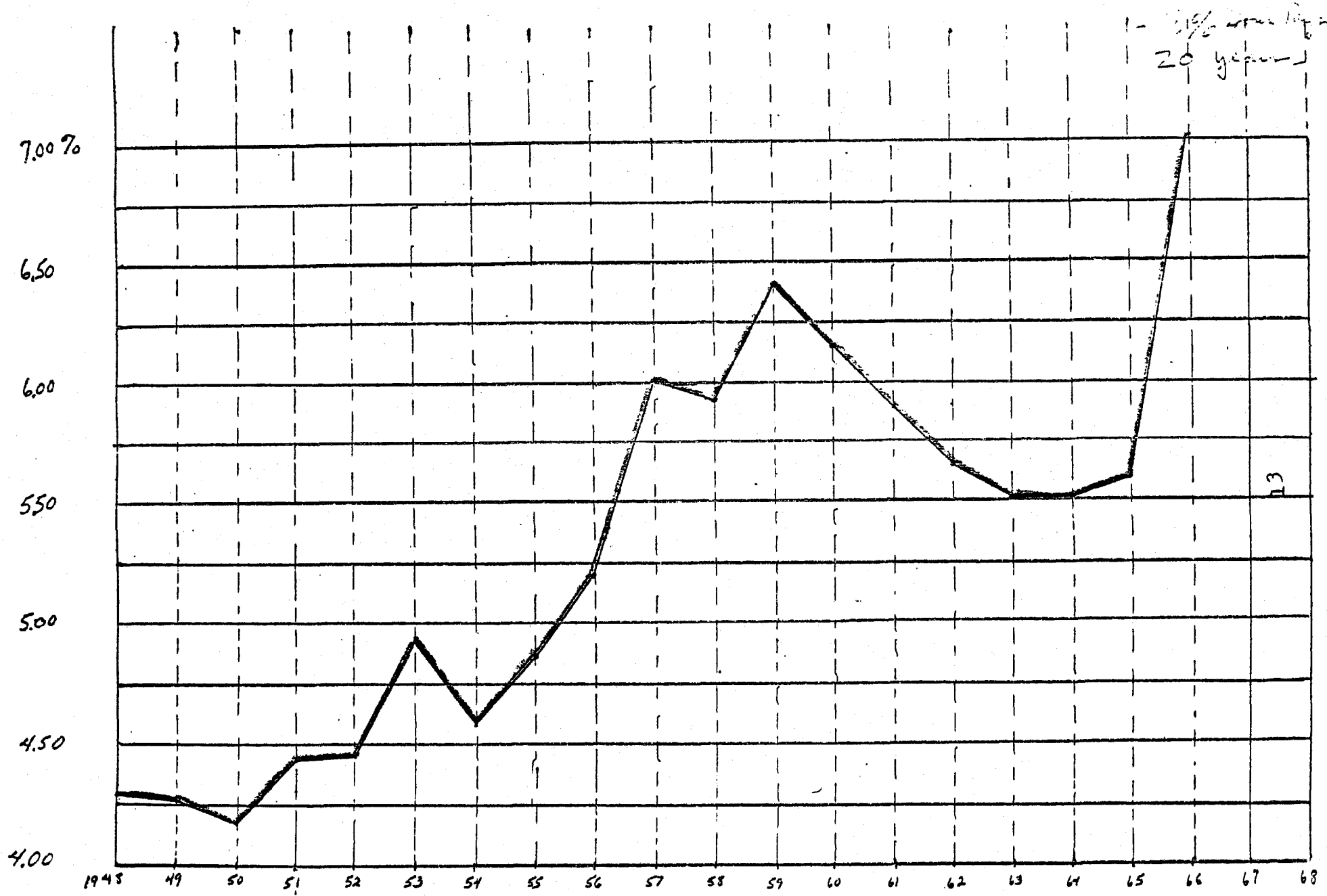
s/s Herbert Wentworth
Executive Secretary

BY: _____

BY: _____

FHA Mortgage Yields from 1948 to Present
(Based on 10% down over twenty-five years)

Appendix C



1

2