

WHAT DID IT TAKE TO OWN A HOME IN GEORGE BAILEY'S AMERICA (1907-1941)?

The film *It's a Wonderful Life* assumes that the desire to own a home is important to people because it connects them in a positive way to the world immediately around them. In being connected, they become more confident and caring toward people who are their neighbors and who also want to own a home. As the film shows, the process of buying and owning a home is not easy, but there are institutions that have made it possible for people to do so.

The American financial system depends on several different institutions to help people and businesses manage the money they need to meet daily obligations. These institutions also provide people with ways to save enough money to buy a house. **Banks and brokerage firms** are the oldest of these institutions. In the beginning, these institutions existed because people who made enough money could afford to open a savings account at their local bank. However, banks were not a good choice for the working family because banks could call in their loans on short notice, and the average working-class American could not afford to have their funds held up indefinitely or disappear completely. As an alternative, **“building and loan” associations** were created in the late 19th century to give the “working man” a way to save enough money to buy a house.

Building and loan associations were the forerunner of two types of financial institutions that are common today. **Savings and loan associations** are owned by their customers or shareholders, and although they provide a wide variety of banking services, their main goal is to provide homeowners with affordable mortgages. **Credit unions** are nonprofit financial institutions that are owned and operated by their members but provide the same services as a typical bank.

Building and loan associations made home ownership possible through a clever process. Each depositor could set up a savings account and purchase a single share of stock in the company. Company owners could pool small deposits of hundreds of people and loan out the money to people who wanted to build a home. The new homeowner repaid the loan in installments with an added fee, which went back into the pooled funds. This process enabled people who did not have large sums of money at their disposal to have enough money to buy a home on a time payment. Americans who used building and loan associations could not have otherwise afforded borrowing money. These loans resulted in the associations' growth in the 1920s.

A building and loan association could help the aspiring homeowner in two ways. They could offer a higher interest rate on a **“nest egg” account**, which is an account in which a person stores a large amount of money for a future purpose, such as buying a home or retiring. In addition, the association could offer to finance as much as two-thirds of the homeowner's first

mortgage over twelve years. But even under these terms, homeownership still remained generally restricted to those in the upper middle class and above.

Over the past century, it has gradually become easier for Americans to buy a home. Before President Franklin D. Roosevelt enacted the New Deal in 1933, the federal government had not provided any assistance to either borrowers or lenders. The earlier economy simply did not have the money to support credit arrangements that could stretch to make homeownership available to the vast majority of wage-earning Americans. Even though the number of Americans who owned their own homes in 1950 did not go above 50%, today nearly two thirds of Americans own their home. This figure has been remarkably stable for the last fifty years.

While the Great Depression of the 1930s and early 1940s plunged many Americans into poverty and made homeownership impossible, interest rates for mortgages gradually lowered and made it possible for more Americans to buy homes. The interest rates of today (7.00% to 7.5%) are a bit higher than those during the Great Depression. During that time, interest rates fell a bit (from 6.25% to 5%) but were maintained high as the Federal Reserve sought to keep large depositors from fleeing in a panic. During World War Two, the Federal Reserve kept rates low (under 1%) to help finance the war effort.

While the creation of building and loan associations enabled some white immigrants to find success in America and purchase a home, this is a fact that is absent from *It's a Wonderful Life*. The homeownership process portrayed in that film was generally reserved for whites only.

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