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What Was the Effect of the Emergency Housing Program on Single-Family Housing Construction? CED-78-155; B-114860. November 21, 1978. 57 pp. + 5 appendices (11 pp.).

Report to the Congress; by Elmer B. Staats, Comptroller General.

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Authority: Emergency Home Purchase Assistance Act of 1974 (12 U.S.C. 1723e). Housing and Urban Development Act of 1968 (12 U.S.C. 1717). Emergency Home Finance Act of 1970 (12 U.S.C. 1452). Tax Reduction Act of 1975 (P.L. 94-12). Housing Authorization Act of 1976. Housing and Community Development Act of 1977. Emergency Housing Act of 1974.

The goal of the emergency housing program was to stabilize the housing market against cyclical downturns by increasing the supply of reasonably priced mortgage credit, thus increasing the demand for new homes. Findings/Conclusions: The emergency housing program for single-family homes has helped many to buy homes and has generated additional housing and jobs during a depressed period for the housing industry. However, most of these benefits were lost when the long-run impact of the program was assessed since housing starts, jobs, and gross national product generated were borrowed from future periods. Most buyers bought when they did because of the program, but many said they would have purchased a home without benefit of the subsidized loan. Most lenders made the same amount or more available for loans as they would have without the program. Direct costs of the program averaged about $2,200 per mortgage assisted. Questions exist about proposed changes which would target the program to families with lower incomes than those of families that participated in the past program. This would allow the purchase of homes by those who could not otherwise afford them but would limit participation of those who could be needed to achieve program goals. Recommendations: The Congress should reexamine the program's provisions concerning the home price ceiling and the discretionary authority given the Secretary of Housing and Urban Development to target the program to moderate-income home buyers. If the Congress determines that the past level of moderate-income family participation is sufficient, it should eliminate these legislative provisions. If it determines that such participation should be increased, the

discretionary authority to target the program should be clarified. (HTW)

BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

8415

# What Was The Effect Of The Emergency Housing Program On Single-Family Housing Construction?

This report assesses the impact of the most recent Federal Government intervention effort in 1974 to 1975 to stimulate single-family housing construction through the Government National Mortgage Association, Department of Housing and Urban Development.

The Emergency Housing Program did influence the demand for new homes and supply of mortgage credit. As a result, some additional housing starts and jobs were generated at a time when the housing industry was suffering from low production and high unemployment.

The report should help the Congress and executive branch decisionmakers in formulating the design and funding levels of future single-family emergency programs. It also contains a recommendation to the Congress concerning the extent to which such programs should be targeted to moderate-income families.

UNITED STATES GENERAL ACCOUNTING OFFICE

CED-78-155
NOVEMBER 21, 1978

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114860

To the President of the Senate and the
Speaker of the House of Representatives

This report assesses the impact of the Federal Government's effort to stimulate single-family housing construction through the Government National Mortgage Association, Department of Housing and Urban Development.

The report addresses the effect of the Emergency Housing Program to influence builders, lenders, and home buyers to generate new housing starts and jobs at a time when the housing industry was suffering from low production and high unemployment. It also points out the need for the Congress to reexamine certain legislative provisions of the program.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretary of Housing and Urban Development.

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

# WHAT WAS THE EFFECT OF THE EMERGENCY HOUSING PROGRAM ON SINGLE-FAMILY HOUSING CONSTRUCTION?

## D I G E S T

The Government's emergency housing program for single-family homes has helped not only many to buy homes who otherwise may not have purchased them but also generated additional housing and jobs when the industry was suffering from low production and high unemployment.

But were these program benefits sufficient to justify the costs? And what are the advantages and disadvantages? Such programs may help to alleviate periodic scarcity in and high cost of mortgage credit, but they cannot prevent this problem from surfacing. Also, the program is not targeted toward a lower income group, thus eliminating higher income families from participating at a critical time when they may be needed to help achieve the program's goal of stabilizing the slumping housing economy.

Although the program produced additional housing starts and jobs and contributed to the gross national product during 1974 and 1975, most of these benefits were lost when the long-run impact of the program was assessed. Most of the housing starts, jobs, and gross national product generated during the slump were borrowed from future periods. Some authorities believe that this shifting forward of housing starts dampens the housing cycle and improves the housing sector. (See p. 29.)

About $13 billion was made available to the Government National Mortgage Association, of which over half was for the purchase of single-family home mortgages. The Association purchased about 190,000 of these mortgages which were valued at $6.4 billion. Most of them have since been sold, costing the Association about $412 million. (See pp. 4 and 7.)

Major observations made by GAO based on the use of questionnaires, econometric models, and opinions of expert housing consultants were:

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--While most home buyers participating in the emergency program were influenced to enter the housing market at the time they did because of the existence of the program, 6 out of 10 said they would have purchased a home without benefit of the subsidized mortgage loan. (See pp. 10 and 12.)

--Whether participating home buyers could have purchased a home in the absence of the program would have depended, in part, on the availability of mortgage credit. Most lenders participating in the program said they made the same amount or more of their own funds available for loans as they would have without the program. However, they canceled or let expire about $1.6 billion, or 16 percent, of the funds provided under the program. (See pp. 15 and 16.)

--GAO estimated that in the short run (1) 18,000 to 35,000 additional housing starts and 33,000 to 65,000 additional jobs can be attributed to the single-family program, (2) cost for each housing start generated ranged from $12,000 to $23,000 and the cost for each job generated ranged from $6,000 to $12,000, and (3) about $1.1 billion was contributed to the gross national product. (See p. 26.)

--Direct costs of the program averaged about $2,200 per mortgage assisted. (See p. 5.)

Home buyers were the major recipients of the program's subsidy. The building industry and mortgage lending institutions received additional income. (See p. 23.)

GAO found that the program's home buyers, compared to those who obtained mortgages on the private market

--had slightly lower average annual incomes (see p. 46),

--purchased homes that were higher priced, newer, and larger (see pp. 48, 50, and 51), and

--received lower interest rate loans and made larger down payments (see p. 53).

Serious questions exist concerning the impact of recent legislative changes aimed at insuring that families who participate in future single-family emergency housing programs will have lower incomes and purchase lower priced homes than those families that participated in the past program. (See p. 38.)

Legislative changes which (1) provided the Secretary of Housing and Urban Development discretionary authority to promote homeownership opportunities for moderate-income families and (2) established home price ceilings of $48,000 to $52,000 may conflict with the program's primary goal of stabilizing housing production. Although neither of these provisions was carried out during the past program, targeting the emergency housing program toward moderate-income families will narrow the number of families eligible to participate in future emergency programs, at a critical time when they may be needed to help achieve the program's primary goal. (See pp. 38 and 44.)

On the other hand, targeting the program to the moderate-income group would be aimed at Americans who otherwise might not be able to afford a house. Approximately one-fourth to one-third of the past program's participants could be considered to be of moderate income. (See p. 39.)

The question which remains then is whether or not the family participation achieved by the past emergency program, without benefit of legislative emphasis on moderate-income families, represents a sufficient or desirable level of participation by this group. GAO believes that substantial arguments can be made for (1) eliminating the recent legislation changes so as not to encumber the program's goal of stimulating construction with a narrower eligibility group or (2) clarifying the legislation to prevent less participation by moderate-income families than existed under the past emergency housing program.

The Congress should reexamine the emergency program's provisions concerning (1) the home price ceiling and (2) the discretionary authority given the Secretary of Housing and Urban Development to target the program to moderate-income home buyers. If the Congress determines that the past level of moderate-income family participation is sufficient, it should eliminate these legislative provisions so as not to encumber the program's goal of stimulating construction with a narrower eligibility group. If the Congress determines that moderate-income family participation should be increased beyond the level achieved by the past program, the discretionary authority to target the program to moderate-income families should be clarified to specify the level of participation desired so as to prevent less participation by this group than existed under the past emergency housing program. (See p. 44.)

GAO did not solicit written Department of Housing and Urban Development comments on the report. However, GAO discussed the report with top agency officials and their views were considered where appropriate. They generally agreed with the facts presented in the report.

## Contents

## ABBREVIATIONS

| | |
|---|---|
| DRI | Data Resources, Inc. |
| FHA | Federal Housing Administration |
| FHLBB | Federal Home Loan Bank Board |
| FHLMC | Federal Home Loan Mortgage Corporation |
| FNMA | Federal National Mortgage Association |
| GAO | General Accounting Office |
| GNMA | Government National Mortgage Association |
| HUD | Department of Housing and Urban Development |
| VA | Veterans Administration |

# CHAPTER 1

## INTRODUCTION

Residential construction is prone to extreme cyclical instability. In fact, several major cyclical declines have occurred in housing starts since World War II. Because housing is a major purchase which may be deferred when interest rates appear to be unusually high or loans difficult to obtain, demand for housing is particularly sensitive to variations in credit availability and costs. Therefore a major cause of short-run housing cycles is instability in the cost and supply of mortgage credit for which the prime source of funds is savings deposits.

During periods of monetary restraints, interest rates rise and the supply of money available for housing construction and purchase falls. When interest rates on short-term securities increase, the flow of funds dwindles to savings and loan associations and other thrift institutions that cannot pay the higher competitive interest rates for such funds. During such periods depositors shift funds from credit institutions to the higher rate, short-term money market.

The shifting of funds from the savings institutions is generally referred to as disintermediation. Occasionally, this diminished supply results in a net outflow of funds from thrift institutions which provide two-thirds of all mortgage funds. Moreover, this reduction in the supply of money will eventually be reflected in higher housing costs in America.

Housing experts have pointed out advantages and disadvantages concerning the Federal intervention to reduce cyclical savings in the housing market. Some advantages of intervention cited are (1) many homebuilders are encouraged to remain in operation, thus maintaining a steady supply of homes, (2) many construction materials have little alternative use, thus the intervention helps maintain a stabilized market for these materials, and (3) intervention contributes to greater efficiency in the mortgage money market. On the other hand, disadvantages of intervention often cited are (1) intervention in the housing sector can cause instability in other sectors of the economy and (2) intervention can undermine monetary policy by giving rise to easier credit, more intense demand, and thus aggravating efforts to curb inflation.

## DEPRESSED HOUSING MARKET OF 1974 TO 1975

The relationship between housing starts and interest rates on new homes during the period 1963 to 1975 is shown in the chart on page 3. Residential construction's most recent cyclical decline occurred in 1974 to 1975 when mortgage lending declined sharply and mortgage interest costs rose sharply. The Senate Committee on Banking, Housing and Urban Affairs, in an October 3, 1974, report, characterized the real estate industry as crippled by a mortgage credit crisis at that time.

Housing starts fell from a peak annual rate of about 2.5 million units in the first quarter of 1972 to a low of about 953,000 in the second quarter of 1975. Average effective mortgage rates had risen about 2 percentage points during this period and reached 10 percent or more in many areas of the Nation. In the second quarter of 1975, the unemployment rate in the construction industry was about 20.1 percent as compared to 8.9 percent in the total labor force. Family homes at the end of 1974 were at an annual rate of about 400,000, which was a decline of over 50 percent from the late 1972 annual rate of 800,000 home sales. In late 1974 the number of month's supply of homes for sale at the then current rate of sale was the longest supply in over 6 years.

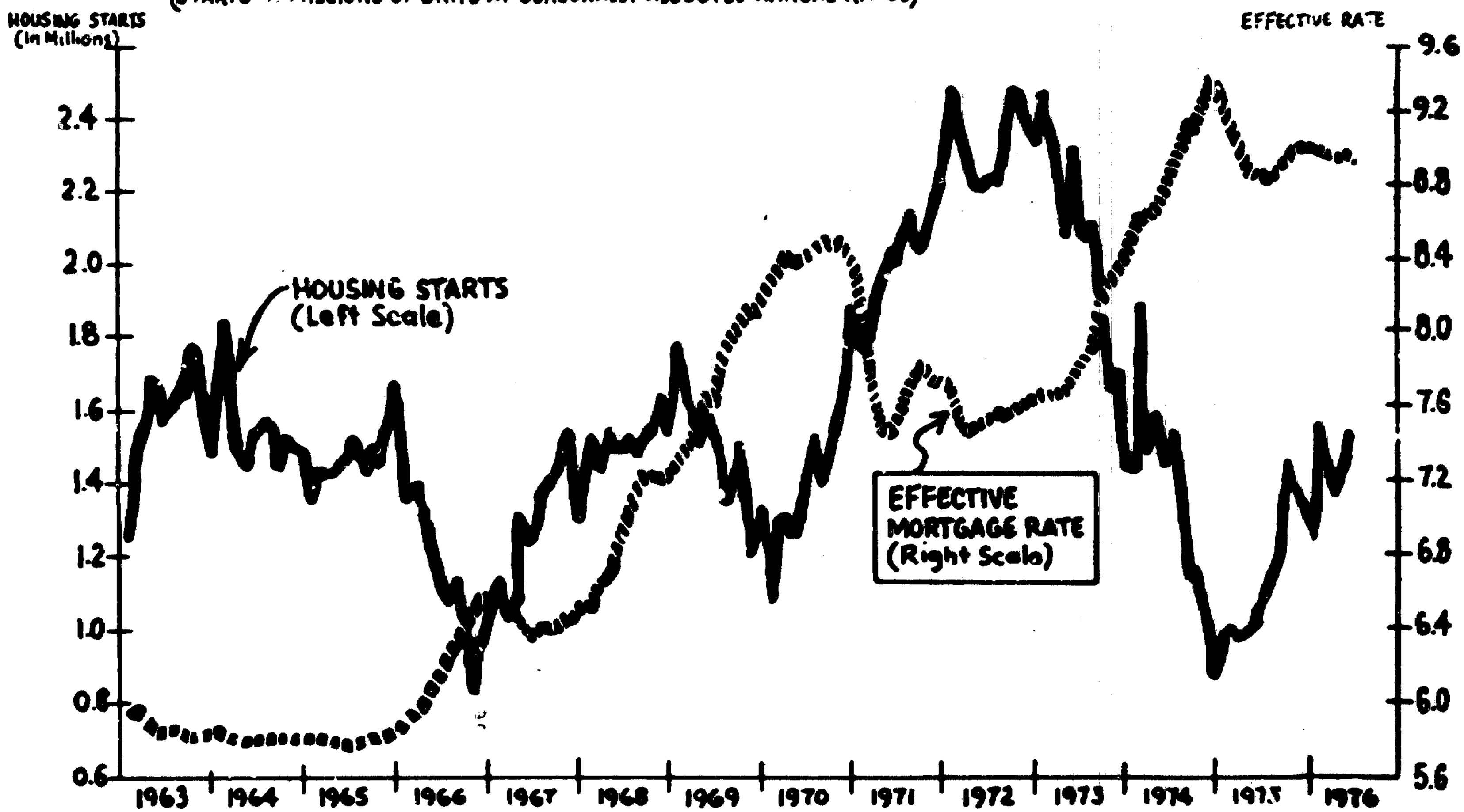
## FEDERAL GOVERNMENT'S RESPONSE TO THE DEPRESSED HOUSING MARKET

In response to this situation, the Congress passed the Emergency Home Purchase Assistance Act of 1974 (12 U.S.C. 1723e) on October 18, 1974. The act was intended as an emergency device for stabilizing the housing market against cyclical downturns by increasing the suppply of reasonably priced mortgage credit and thereby increasing the demand for and purchase of new homes. The preface to the act contains the following statement on the Congress views of the availability of mortgage credit for housing at that time.

> "SEC. 2 The Congress finds and declares that (1) in many parts of the Nation, residential mortgage credit is or is likely soon to become prohibitively expensive or unavailable at any price; (2) the unavailability of mortgage credit severely restricts housing production, causes hardship for those who wish to purchase or sell new and existing housing, and delays the achievement of the national goal of a decent home for every American family; and (3) there is an urgent need to provide an alternate source of residential mortgage credit on an emergency basis."

## RELATIONSHIP BETWEEN HOUSING STARTS AND AVERAGE EFFECTIVE MORTGAGE RATES ON NEW HOMES SOLD, 1963-75

(STARTS IN MILLIONS OF UNITS AT SEASONALLY ADJUSTED ANNUAL RATES)




SOURCE: FEDERAL HOME LOAN BANK BOARD, U S DEPT OF COMMERCE; PREPARED BY NAHB ECONOMICS DEPT

Under the emergency legislation, the Government National Mortgage Association (GNMA), which was created by the Housing and Urban Development Act of 1968 (12 U.S.C. 1717) as a Government-owned corporation within the Department of Housing and Urban Development (HUD), was authorized to make commitments and purchase single-family conventional, Federal Housing Administration (FHA) insured, and Veterans Administration (VA) guaranteed mortgages up to a limit of $7.75 billion. Use of the authority was contingent upon the Secretary of HUD's finding that inflationary conditions were having a severely disproportionate effect on the housing industry and that a resulting reduction in the volume of home construction or acquisition threatened to affect the economy and delay the orderly achievement of national housing goals.

As with most GNMA activity, the purpose of the emergency housing program was to make mortgage money available to home purchasers at a lower interest rate than that in the private market. The maximum mortgage amount was limited to $42,000, except in Alaska, Hawaii, and Guam where it was limited to $55,000. The home purchase price or income of the purchaser had no limitations. The interest rate set in these commitments was to be determined by the Secretary of HUD and set at no more than 1/2 percent above the 6- to 12-year Treasury borrowing rate.

Subsequently, amendments to the 1974 act extended the program to October 1, 1978; imposed a home price limit of $48,000 ($52,000 in high-cost areas); broadened authority to multifamily conventional and single-family condominium mortgages; increased the emergency authority by $10 billion to $17.75 billion, but limited the $10 billion authorization to the amount approved in an appropriation act; imposed a mortgage interest ceiling of 7-1/2 percent; and provided that to the extent feasible the Secretary of HUD may direct the program toward moderate income families.

Total funds made available to GNMA for the program totaled $12.75 billion--GNMA allocated $7.75 billion for single-family houses and $5 billion for multifamily units. The following table summarizes the major provisions of and changes to the 1974 emergency housing program through October 1, 1978. These provisions are discussed more fully in subsequent sections of the report.

Our review focused on the impact of the single-family emergency program on stimulating the housing industry. Specifically, we assessed

--the degree to which the program influenced home purchases and prompted new housing starts and sales,

--the program's impact on the supply of mortgage credits, and

--who benefited from the program.

## MORTGAGE COMMITMENTS AND PURCHASES

Under the emergency program, GNMA enters into a commitment contract to purchase, at a preestablished price, mortgages that are made by a mortgage originator. The commitment stipulates the type of mortgage, dollar amount, mortgage interest rate, and date by which the commitment must be exercised. For instance, under the initial legislation GNMA could make a commitment with a mortgage originator to purchase $2 million worth of conventional single-family mortgages with interest rates of 8 percent within 1 year from the commitment date.

Commitments are directed at stimulating home buying and home construction by assuring originators that the mortgages they originate may be sold to GNMA if they do not want to hold them. This assurance is intended to (1) encourage originators to make commitments to builders and to make it easier for the builder to obtain construction financing and (2) sell homes because it assures the builder that potential home buyers will be able to obtain mortgage financing. Commitments are also intended to make home buyers' mortgage payments lower than they would be otherwise because they stipulate the interest rate that the mortgages must bear, which is a below-market interest rate.

Commitments to purchase single-family mortgages provide a 1-year period during which the mortgages must be made and delivered to GNMA for purchase. A single extension of 3 months can be granted. If and when an originator delivers mortgages for purchase to GNMA against an outstanding commitment, GNMA pays the originator the price agreed to in the commitment contract and becomes the holder of the mortgages.

By August 11, 1975, GNMA had released all the commitments it had been authorized for the purchase of single-family mortgages. About $8 billion 1/ had been released at interest rates ranging from 7-1/2 to 8-1/2 percent. Of the total amount released, $1 billion was for FHA and VA loans and $7 billion was for conventional loans. As shown in the following schedule, the nearly $8 billion in commitments resulted in $6.4 billion of GNMA assisted mortgages.

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1/Exceeds the $7.75 billion authorized because HUD reissued canceled and/or expired commitments.

| Legislation | Funding: Authorized (billions) | Funding: Appropriated (billions) | Major provisions |
|---|---|---|---|
| Emergency Home Purchase Assistance Act of 1974 (P.L. 93-449; Oct. 18, 1974) | $ 7.75 | b/ | Established emergency program. Authorized commitment and purchase of conventional single family mortgages as well as FHA and VA mortgages. Set $42,000 mortgage limit; $55,000 for properties in Alaska, Hawaii, and Guam. Set mortgage interest rate at no more than 1/2 percent above 6- to 12-year Treasury borrowing rate. Contained no home buyer eligibility criteria. |
| Emergency Housing Act of 1975 (P.L. 94-50; July 2, 1975) | 10.00 | - | Set the mortgage interest ceiling at 7-1/2 percent. Broadened authority to multifamily conventional and single-family condominium. Limited authorization to amount approved in an appropriation. Extended program life to July 1, 1976. |
| 1976 Appropriation Act (P.L. 94-116; Oct. 17, 1975) | - | $5.00 | Limited commitment authority provided by the Emergency Housing Act of 1975 to $5 billion. |
| Housing Authorization Act of 1976 (P.L. 94-375; Aug. 3, 1976) | - | - | Extended the Emergency program to Oct. 1, 1977. Imposed home price limit of $48,000; $52,000 in high-cost areas to be determined by the Secretary of HUD. |
| Housing and Community Development Act of 1977 (P.L. 95-128; Oct. 12, 1977) | a/7.50 | - | Directs that, to extent consistent with housing stimulation goal, moderate income persons should be helped under the single-family portion of the program. Extended the emergency program to Oct. 1, 1978. |

a/Does not constitute new authorization, but rather limits the amount of emergency authority that GNMA can re-use in fiscal year 1978 from authority previously provided and used and then subsequently recouped through mortgage sales.

b/The funds authorized by the 1974 Emergency Act were available for obligations immediately and not subject to release in an appropriation act.

## Commitment and Purchase Activity

| | Amount (in billions) | |
|---|---|---|
| Commitment releases: | | |
| Oct. 23, 1974 to Jan. 16, 1975 | $2.955 | |
| Jan. 22, 1975 to Mar. 20, 1975 | 2.978 | |
| Aug. 11, 1975 | 2.000 | |
| Total | | $7.933 |
| Less commitment cancellations and expirations | | 1.547 |
| Commitments that resulted in GNMA assisted mortgages | | $6.386 |

Although GNMA makes major decisions on policy matters, such as the timing, amount, and methods of mortgage purchases and sales, its day-to-day operations are carried out by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). FNMA and FHLMC have equal responsibility for administering the conventional loan segment of the emergency program. FNMA administered the FHA and VA segment of the program.

FNMA was created by the Housing and Urban Development Act of 1968 (12 U.S.C. 1717) as an entity separate from GNMA. FNMA's function is to carry out secondary mortgage market operations financed entirely by private sources. The primary sellers of mortgages to FNMA are mortgage banking organizations.

FHLMC was created under title III of the Emergency Home Finance Act of 1970 (12 U.S.C. 1452 _et seq._). FHLMC, which is wholly owned by the Federal Home Loan Bank System, was created to buy and sell conventional, FHA-insured, and VA-guaranteed mortgages. Savings and loan associations are the primary sellers of mortgages to FHLMC.

## MORTGAGE SALES

GNMA finances its purchases of mortgages under the emergency program through borrowings from the Treasury and revenues it receives primarily from proceeds from the sale of previously purchased mortgages. The amount of mortgages and securities which GNMA sells and the price received for them are influenced in part by the condition of the mortgage market at the time of sale.

The following table summarizes GNMA's single-family mortgage purchases and sales under the emergency program as of September 30, 1977. GNMA assisted a total of 190,086 single-family mortgages, amounting to about $6.4 billion, under the program.

Program Activity through September 30, 1977

| | Mortgages | |
| --- | --- | --- |
| | Number | Unpaid principal (in millions) |
| GNMA assisted mortgages | 190,086 | $6,376 |
| Less: Mortgages sold or repurchased by seller | 179,182 | 5,978 |
| Mortgages paid off or foreclosed | 4,966 | 202 |
| Portfolio balance | 5,938 | 196 |

The net cost to the Federal Government for the 184,148 mortgages disposed of (190,086 less the 5,938 mortgages in the portfolio) was about $412 million, or about $2,200 for each mortgage no longer owned by GNMA. The gross costs represent losses sustained when the program's below-market, interest-rate mortgages were sold by GNMA at the market rate and interest expenses on Treasury borrowings. These costs are partially offset by revenues received by GNMA for accrued interest on the program mortgages while held in its portfolio and commitment and other fees collected from mortgages.

## SCOPE OF REVIEW

We conducted our review at GNMA headquarters in Washington, D.C.; obtained pertinent mortgage loan data from FNMA and FHLMC offices in Washington, D.C.; interviewed GNMA, FNMA, and FHLMC officials; and examined pertinent legislation, agency regulations, and records of operation.

We sent questionnaires to home buyers, builders, and lending institutions that participated in the single-family emergency housing program to obtain their views on the program's impact. Our questionnaires particularly emphasized the impact of the program on low- and moderate-income home buyers. We also interviewed builders and lenders concerning the program's operations.

Further, we hired consultants to develop and perform various econometric simulation tests, using various assumptions to evaluate the impact of the program on generating new housing starts and sales.

We concentrated our work on the single-family housing program component administered by GNMA and did not evaluate the program's multifamily housing component.

# CHAPTER 2

## THE GNMA EMERGENCY PROGRAM'S INFLUENCE ON SINGLE-FAMILY HOUSING PRODUCTION

The $8 billion GNMA emergency program outlay for single-family homes influenced the demand for homes in that some persons were induced to buy homes who otherwise may not have purchased them or may have delayed their purchase. Moreover, the program increased the supply of mortgage funds during the housing slump. This was beneficial in that some additional housing starts, gross national product, and jobs were generated at a time when the housing industry was suffering from low production and high unemployment.

Major observations disclosed by our evaluation of the program's impact were:

--While most home buyers participating in the emergency program were influenced to enter the housing market at the time they did because of the existence of the program, when asked if they would have purchased a home without benefit of the subsidized mortgage loan, 6 out of 10 sampled said they would have.

--While participating home buyers could have purchased a home in the absence of the program, it would have depended, in part, on the availability of mortgage credit. Most mortgage lenders participating in the program said they made the same amount or more of their own funds available for mortgage loans as they would have without the program. However, mortgage lenders canceled or let expire about $1.6 billion, or 16 percent, of the funds provided under the program.

--We estimate that in the short-run (1) 18,000 to 35,000 additional housing starts and 33,000 to 65,000 additional jobs can be attributed to the single-family emergency program, (2) the cost for each housing start generated ranged from $12,000 to $23,000, and the cost for each job generated ranged from $6,000 to $12,000, and (3) about $1.1 billion was contributed to the gross national product by the program.

--Direct costs of the emergency program averaged about $2,200 per mortgage assisted under the program and totaled about $412 million.

--Under the program in the short-run (1) home buyers received about $714 million in subsidies, (2) the housing industry received additional income of about $848 million, and (3) lenders received additional income of about $23 million.

Although the emergency program produced additional housing starts and jobs and increased the gross national product during 1974 and 1975, most of these benefits were lost when the long-run impact of the program was assessed. Most of the housing starts generated during the slump were borrowed from future periods. Some authorities believe this shifting forward of housing starts dampens the housing cycle and improves the housing sector.

Whether the benefits represented by the additional housing sales, starts, and jobs generated by the program were sufficient to justify the costs incurred by the Federal government is difficult to assess. The information in this report on the program's costs and benefits, however, should help the Congress and executive branch decisionmakers in formulating the design and funding levels of future single-family emergency housing programs.

We assessed the influence of the GNMA emergency program for single-family units on housing production using questionnaires, econometric models, and consultants. We obtained views from home buyers, mortgage lenders, and builders. The assessment included an evaluation of the influence of the program on the demand for the purchase of new homes and supply of mortgage credit as well as the program's impact on housing starts, jobs, and gross national product.

## DID THE PROGRAM INFLUENCE THE DEMAND FOR THE PURCHASE OF NEW HOMES?

A question often asked concerning the effectiveness of the single-family emergency program is whether the program influenced the demand for the purchase of homes by people who might not have done so at that time or whether the participants in the program were merely shifting from the private market to the subsidized program. To the extent that participants would have purchased a home anyway and/or had not been influenced to move up their decision to purchase a home, the GNMA program would not be stimulating the housing industry--a stated goal of the program. As one method of assessing this question, we sent questionnaires to various program participants--home buyers, mortgage lenders, and builders.

## Impact of the program on home buyer decisions

We sampled home buyers that participated in GNMA's single-family emergency housing program during the period October 1974 to November 1976. The home buyers were randomly selected from listings furnished to us by FNMA and FHLMC. We used a questionnaire which was developed after carefully pretesting the responses of home buyers during interviews.

We sent the questionnaire to 548 home buyers who participated in the program. (See app. IV.) Responses were received from 423, or 77.2 percent, of the home buyers. Our projections are based on a universe of 176,326 home buyers. A total of 13,760 loans (190,086 less 176,326) were not included in our sample because information was not readily available for these loans which were sold by GNMA, paid-off, or foreclosed.

Many potential home buyers were influenced to at least consider the purchase of a home because GNMA low interest rate loans were available. The following table shows that nearly 6 out of 10 home buyers that participated in the emergency program stated that the program was substantially, or very, important in their decisions to look for a house at the time they did. Only 2 out of 10 home buyers stated that GNMA's program was of little or no importance to their decisions to look for a house.

| Degree of importance of availability of GNMA low interest rate loan to look for a home | Estimated number of home buyers | Percentage |
|---|---|---|
| Very important | 67,005 | 38 |
| Substantially important | 35,265 | 20 |
| Moderately important | 24,685 | 14 |
| Somewhat important | 10,579 | 6 |
| Of little or no importance | 38,792 | 22 |
| Total | 176,326 | 100 |

While most home buyers were influenced to enter the housing market at the time they did because of the existence of the emergency program, 6 out of 10 home buyers indicated that they would have purchased a home without the benefit of the subsidized loan. Four out of 10 home buyers stated that they would have delayed purchase of their house if GNMA's low interest rate loan had not been available.

| If GNMA's low interest rate loan had not been available at the time of purchase, would the purchase of a home been delayed? | Estimated number of home buyers | Percentage |
|---|---|---|
| No | 109,322 | 62 |
| Yes | 67,004 | 38 |
| Total | 176,326 | 100 |

For the approximate 109,000 home buyers that stated they would not have delayed their purchase if GNMA's low interest rate loan had not been available, we determined what impact the purchase of a home without the program might have had on the housing decisions made. Our analysis, as outlined below, showed that 6 out of 10 of these home buyers stated they would have purchased the same or a comparatively priced new home. Three of 10 home buyers stated they would have purchased a lower priced home.

| What people would have done, without the GNMA program | Estimated number of home buyers | Percentage |
|---|---|---|
| Purchased a lower priced new home | 19,678 | 18 |
| Purchased a lower priced existing home | 13,119 | 12 |
| Purchased the same house | 57,941 | 53 |
| Purchased a comparatively priced new house | 12,025 | 11 |
| Purchased a comparatively priced existing house | 2,186 | 2 |
| Other explanations | 4,373 | 4 |
| Total | 109,322 | 100 |

Most home buyers purchased new homes under the emergency program as shown below. Moreover, about two out of three purchases were for homes already built or under construction. The reduction of the new home inventory coupled with the availability of mortgage credit encourages builders to increase housing production.

| Kind of house | Estimated number of home buyers | Percentage |
|---|---|---|
| New house--already built | 65,241 | 37 |
| New house--under construction | 42,318 | 24 |
| New house--to be built | 61,714 | 35 |
| Existing house--previously occupied | 7,053 | 4 |
| Total | 176,326 | 100 |

## Mortgage lenders and builders views

We sent questionnaires to mortgage lenders and builders that participated in GNMA's emergency program for single-family units, as well as some of those that did not participate, to obtain their views on the impact of the program. The majority of the lenders felt that the GNMA emergency program had brought buyers into the market who would not have otherwise bought a house at the time they did. Most lenders also felt that the program did stimulate builders to start new houses that they would not have otherwise started.

For the most part, the builders that had participated in the emergency program told us that it (1) prompted them to start construction of new homes that they otherwise would not have started and (2) assisted them in selling a large number of houses in their inventory, as well as houses that were under construction. The builders indicated that they used about half of their commitments to dispose of houses which were in their inventories or under construction. These builders' volume of business ranged from $2 million to $41 million annually.

For those builders that did not participate in the emergency program, we found that they chose not to get involved in the program because (1) they had other ready sources of mortgage funds and (2) they did not want to get involved in Government "red tape."

## DID THE PROGRAM INFLUENCE THE SUPPLY OF MORTGAGE CREDIT?

Although many home buyers that participated in the emergency program indicated they would have purchased a home even if the low interest rate loan of the emergency program was not available, their ability to purchase a home in the absence of the program would depend on the availability of mortgage credit. To evaluate the emergency program's influence on the supply of mortgage credit, we

--obtained mortgage lenders' views on the extent to which they substituted program commitments for mortgage loans they would have made anyway,

--analyzed the extent to which program funds were not used to purchase mortgage loans,

--obtained information on how lenders allocated program funds to builders, and

--obtained information on lender awareness of the existence of the emergency program.

Mortgage lenders' views

Many opponents of the emergency single-family program argue that mortgage lenders merely substituted the GNMA commitments for loans they would have made anyway. If true, there would be no increase in the supply of mortgage credit as a result of the program.

Our random sample of 871 of 2,441 lenders that participated in one or more of the releases under the single-family emergency housing program were sent questionnaires to obtain their comments on the extent to which GNMA commitments augmented the supply of mortgage credit. Of these, 649 responded. (See app. III.)

Most lenders said they did not use the GNMA program to substitute for their own funds. As shown in the table below, a projected 2,075, or 85 percent, of the 2,441 lenders in our universe indicated that they made the same amount or more of their own funds available for mortgage loans as they would have without the emergency program.

| Assessment of funds made available by lenders for mortgages | Projected lender responses Number | Percentage |
|---|---|---|
| Made the same amount of our own funds available for mortgages as we would have without the GNMA program | 1,709 | 70 |
| Made more of our own funds available for mortgages than we would have without the GNMA program | 366 | 15 |
| Made less of our own funds available for mortgage loans than we would have and used GNMA commitments to make up the difference | 366 | 15 |
| Total | 2,441 | 100 |

Commitment authority not used

Mortgage lenders let expire or canceled nearly $1.6 billion, or 16 percent, of the $7.9 billion of GNMA's mortgage commitment authority. Of the $1.6 billion, mortgage lenders let commitments valued at about $1.2 billion expire. An expiration occurred when the lender did not use the commitments within the 12-month contract period or the 3-month extension period. In addition, mortgage lenders canceled $393 million of commitments shortly after GNMA announced its second release of commitment authority in January 1975.

We asked the lenders why they did not use their commitments. The major reason offered for letting commitments expire was that builders who had requested commitments later canceled them because they were unable to attract home buyers. The principal reason offered by lenders for canceling commitments was that the GNMA second release in January 1975 had a lower interest rate than the first release of October 1974. The lower interest rate ranged from a quarter to three-quarters of a percent, depending on the individual lender contract.

## Allocation of commitments

We designed questions to analyze how lenders allocated commitments among builders. The fairness of lender allocation of commitments among builders had been questioned.

The responses indicated that most mortgage lenders followed different techniques in allocating commitments among builders. The most frequently used method was to give a proportionate amount to each builder based on his request and available commitments. The next most frequently used method was simply to issue commitments on a first-come, first-serve basis. Few lenders indicated that they gave all their commitments to the larger builders.

## Program awareness

Because the primary goal of the emergency program for single-family homes was to act as a countercyclical tool in the declining housing sector, it is important that this program receive wide publicity among lenders and builders to obtain maximum participation in the program. Our analysis showed that most lenders--both participants and nonparticipants of one or more of the program's fund releases--were aware of the program.

Of the 649 lenders responding to the questionnaires, only 49 responded that they did not participate in GNMA's first release of commitment in October 1974 because they were not aware of the program. Moreover, only three of the lenders indicated that they were not aware of the third release of funds.

We also contacted 144 lenders--75 savings and loan associations and 69 mortgage bankers--who did not participate in the program. The savings and loan associations told us that their main reason for not participating was because they had sufficient funds of their own to lend. The mortgage bankers expressed various reasons for not participating, such as, (1) GNMA's program fees were too costly, (2) the mortgage limit of $42,000 was too low for the houses being sold in their areas, and (3) they had insufficient demand for single-family mortgages to get involved in the program.

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Regarding the matter of canceled GNMA commitments by builders, GNMA officials told us that, using the GNMA commitment, many times builders were influenced to start new construction but later canceled because they were able to obtain more favorable financing.

## ESTIMATED IMPACT OF THE EMERGENCY PROGRAM ON SINGLE-FAMILY HOUSING

The impact of the emergency housing program on single-family housing is difficult to measure in terms of costs and benefits. The program's costs are incurred in a variety of ways, from direct costs associated with losses sustained by GNMA from selling below market rate mortgages to foregone tax revenues resulting from home buyers deducting mortgage interest on their tax returns. While direct costs to the Federal government are more susceptible to measurement, indirect costs cannot be measured accurately. For example, some authorities believe that housing programs, such as the emergency housing program, which is financed by borrowings from the Treasury, will increase interest rates on all Treasury borrowings.

On the other hand, the lower interest rates provided to the participating home buyers might indirectly reduce the program's cost. The home purchasers probably had less deductions for income tax purposes than they would have otherwise due to the lower interest rates they obtained. This assumes that the individuals did not invest in other tax shelters which might change their tax status. Another indirect cost consideration would be increased Federal revenues resulting from the increase in the gross national product attributable to the additional housing starts.

Similarly, the ultimate benefits of the program, including long-run and indirect consequences, are difficult to evaluate. For example, the additional mortgage credit provided housing by the emergency program may have been provided at the expense of other industries.

Consequently, while this section does not consider all direct and indirect emergency program costs and benefits, it does assess the impact of certain aspects of the program and provides insight into complex factors and relationships which affect the program's results. It contains a short- and long-run assessment of the impact of the emergency program on housing starts using econometric models and expert opinion, jobs created by these housing starts, and the gross national product. It also contains information on the direct costs of these benefits and an analysis of the distribution of the program's subsidies and additional funds generated.

## Impact of the program on housing starts

An econometric model is a representation of the economy or a particular part of it. The model contains an equation or set of equations. Each equation describes the relationship between one economic factor and several other factors. These relationships are normally derived from economic theory and historical data. The models are simulated by computer.

Because the economy, or any important sector of it, is so complicated and not fully understood, the development of one true model is impossible. Models have limitations because the basic model structure itself and input data are often made up of simplified assumptions, estimates, and individual judgments which, when combined, affect the validity, reliability, and accuracy of the model's results. The model builder must use his best judgment and focus on key relationships to build a model that approximates the economy. The assumptions and theories used will affect the results.

The question of how many housing starts were generated by the single-family emergency housing program is an extremely complex problem of major importance faced by Federal decisionmakers. Despite imprecisions inherent in models, the use of models when exercised on computers to analyze complex areas can give decisionmakers useful and better information on the program's impact.

To develop a model of the housing mortgage market is complex and costly. Consequently, we used or adapted existing operational housing models and sought the advice of five independent consultants. A list of these consultants is included in appendix I.

We selected three different models--two of them evaluated housing starts, and one evaluated both housing starts and sales. Two were adaptations of existing models developed by our consultants--one model by Jaffee and Rosen and the other by Hendershott. The third was a model of the housing sector portion of a macroeconomic model of the Nation's economy developed by Data Resources, Inc. (DRI), a private economic research and forecasting firm.

## Description of models

All the models attempt to measure three fundamental relationships--the demand for and supply of mortgage funds and housing starts. Although we were interested primarily in housing starts, the models simultaneously measured the demand for and supply of mortgage funds also because these factors have an impact on housing starts and sales.

| Relationships | Some factors used to measure |
|---|---|
| Demand for mortgage funds | Home sales and/or starts and loan-to-value ratio |
| Supply of mortgage funds | Flow of funds to thrift institutions, mortgage interest rates compared to return on other investments, and amount of financing by GNMA and other Federal credit agencies |
| Housing starts or sales | Population, household income, and mortgage interest rates |

GNMA's activities were represented by

--supplying additional mortgage funds to the market,

--borrowing additional funds from the Treasury which in turn borrows from the capital market, and

--providing below market interest rate mortgages.

The table on page 21 shows the major variables used for the three models. There are both similarities and differences by variable among the models. They all use some of the same variables, and the equations are all based on deriving housing starts or sales and supply and demand for mortgage funds. For example, all three models use corporate bond and mortgage interest rates to measure mortgage supply. There are some differences also. For example, the Jaffee-Rosen model is the only one to use the flow of mortgage funds in the housing starts equation. All the models contribute to an understanding of the impact of the emergency program, but it is not possible to state which model best measures this impact.

One factor not directly included in the model was the impact of the $2,000 tax credit on the home purchasers decisions. However, the DRI staff advised us that their model gave indirect recognition to the impact of the tax credit. The Tax Reduction Act of 1975, P.L. 94-12, dated March 29, 1975, was designed, in part, to help reduce builders' inventory of newly constructed homes. Generally, the credit was not to exceed 5 percent of the purchase price of a principal residence up to a maximum of $2,000. The credit was available for homes where construction had begun before March 26, 1975. One of the consultants believed that the tax credit had little inpact on housing starts.

Major Variables Used in the Three Models Equations

| Equations | Variables | Jaffee-Rosen | Hendershott | DRI |
|---|---|---|---|---|
| Housing starts or sales | Mortgage interest rate | (a) | (b) | (a) |
| | Flow of mortgage funds | (a) | - | - |
| | Household population | (a) | (b) | (a) |
| | Loan-to-value ratio | (a) | (a) | - |
| | Price of housing | (a) | (b) | (a) |
| | Income | - | (b) | - |
| | Unsold inventory | - | (a) | (a) |
| | Stock of houses | - | - | (a) |
| | GNMA net purchases or commitments | - | (a) | (a) |
| Mortgage demand | Flow of deposits to savings and loan associations | (a) | - | (a) |
| | FNMA purchases and FHLBB advance | (a) | - | (a) |
| | Starts or sales | (a) | (a) | (a) |
| | Corporate bond rate | (a) | - | (a) |
| | GNMA net purchases or commitments | (a) | - | (a) |
| | Loan to value | - | (a) | - |
| Mortgage supply | Deposit flows to thrift institutions | (a) | (b) | (a) |
| | FNMA purchases and FHLBB advances | (a) | - | (a) |
| | Mortgage interest rate | (a) | (a) | (a) |
| | Corporate bond rate | (a) | (a) | (a) |
| | Household wealth | (a) | (a) | (a) |
| | GNMA net purchases or commitments | (a) | (a) | (a) |

Note: "Jaffee-Rosen", "Hendershott" and "DRI" are printed under the spanning heading "Models".

a/Appears directly in equation.

b/Does not appear directly in the equations, but the model developer indicated that the factor is incorporated together with others as a composite variable.

Generally, the model builders all used the same basic source data which was published by the Federal Reserve Board, the Federal Home Loan Bank Board (FHLBB), the Bureau of the Census, and the Bureau of Labor Statistics.

Use of the models

In modeling GNMA activities, four major questions were raised by the consultants for which a number of assumptions were possible.

1. Was the mortgage market in equilibrium (did the supply of mortgage funds equal the demand for these funds at the going interest rate), or during at least part of the period was there excess demand?

2. Should GNMA commitments or mortgage purchases be used to represent GNMA's activities?

3. To what extent did the subsidized aspect (below market interest rate mortgages) of the program bring new households into the market who would not have otherwise purchased a home during this period?

4. To what extent did GNMA's borrowing have an impact on the private mortgage market? To finance its operations GNMA borrowed funds through the Treasury from the overall capital market. This demand on the capital market tends to raise overall interest rates. An increase in capital market interest rates might cause some private mortgage lenders to divert funds from the mortgage market, thus reducing housing starts and diminishing the impact of GNMA.

To accommodate the problems raised by these questions, the models were run using a variety of assumptions. For example, some model simulations used mortgage commitments while others, mortgage purchases. The table on page 24 shows the assumptions used in exercising the different models.

Two models simulated the housing sector starting with the fourth quarter of 1974 and running through 1976. The DRI model covered the period beginning with the first quarter of 1975 through 1980. GNMA was actively making commitments and purchases in an attempt to stimulate the housing market during the fourth quarter of 1974 and all of 1975. During 1976 GNMA primarily sold mortgages it had previously acquired.

## Simulation Results

The models were run both with and without GNMA's emergency housing program activities. The differences in housing starts or sales thus obtained represent those impacts attributed to the emergency program. On an average, the simulation results showed that GNMA's emergency program, for single-family units, generated increased housing starts of 26,700 during the last quarter of 1974 and all of 1975. This average is based on estimates ranging from 2,000 to 63,300 units. The table on page 24 shows that Rosen and Jaffee estimated that GNMA activity resulted in 11,100 to 63,300 additional starts, or an average of 38,960 units. Hendershott's four estimates show 2,000 to 25,000 additional units measured in starts. He also estimated that additional units, in terms of sales (7,000 to 15,000), were generated by the program. The Data Resources, Inc. simulation estimated 17,250 additional housing starts in 1975.

Some of the variations in simulation results can be explained by the set of assumptions used. For example, the impact was highest where the subsidized aspect of the program was considered. Also, when GNMA activity was measured by commitments, housing starts were greater than when measured by purchases. This is mainly because there were more commitments than purchases made.

While the emergency program increased housing starts during the housing slump of 1974 and 1975, the simulation results showed that the program reduced housing starts during calendar year 1976. All three models showed this reduction in 1976 which averaged about 6,900 units. However, the DRI model showed a continued reduction in starts through 1978. Consequently, the additional housing starts attributable to the emergency program were partially generated by shifting housing units from 1976. This shifting of housing starts helps dampen the extremes of the housing cycles.

One possible explanation of this longer-run impact is that while GNMA was pumping funds into the mortgage market during the last quarter of 1974 and 1975, it was selling these mortgages in 1976. Some economists believe this practice may have prevented mortgage rates falling in their normal pattern and thus reduced starts.

After reviewing the simulation results along with the questionnaire results, the five consultants provided us with their best estimates of the program's impact. The table on page 25 summarizes each of the consultants best estimate and

Estimated Additional Housing Starts By
Model Simulation and Assumption For
The Fourth Quarter Of 1974 And Calendar Year 1975

| Model and simulation | GNMA impacts measured by | | Market in equilibrium? | | Subsidy impact considered? | | GNMA's borrowing impact on bond rate | | Estimated additional housing starts attributed to GNMA |
|---|---|---|---|---|---|---|---|---|---|
| | Purchases | Commitments | Yes | No | Yes | No | High | Low | |
| Jaffee-Rosen: | | | | | | | | | |
| I | X | | X | | | X | | X | 11,100 |
| II | | X | X | | | X | | X | a/45,000 |
| III | | X | | X | | X | | X | a/28,700 |
| IV | | X | X | | X | | | X | a/63,300 |
| V | X | | X | | X | | | X | 46,700 |
| Hendershott: | | | | | | | | | |
| I | X | | X | | | X | | X | b/ 4,000 |
| II | X | X | X | | | X | | X | a/25,000 |
| III | X | | X | | | X | X | | 2,000 |
| IV | X | X | X | | | X | | X | a/24,000 |
| DRi: | | | | | | | | | |
| I | X | | X | | | X | | X | b/17,250 |

a/These simulation results show a negative impact on housing starts during the last quarter of 1975. While this negative impact was not deducted here, it was considered in evaluating the program's long run affect.

b/These simulations continue to show additional housing starts generated in the first two quarters of 1976.

their reason for it. The average of these estimates is 25,000 additional housing units; however, the estimates range from 18,000 to 35,000 units.

A direct comparison of the simulation and questionnaire results is difficult to make. As discussed on page 12, we estimated that about 67,000, or 38 percent, of the 176,326 home buyers would have delayed their purchase without the program's low interest rates. One possibility would be to multiply the 67,000 by 35 percent, the estimated number of home buyers indicating they bought a new-to-be-built home--or a new start. This calculates to about 23,400 starts which is very close to the average of our consultant's best estimates.

Consultant's Best Estimate of the Program's Impact

| Estimate by | Estimated units | Basis of estimate |
|---|---|---|
| Hendershott | 20,000 | Based upon consideration of all his simulations; but these did not account for the subsidy impact which he estimates was an additional 5,000 units. |
| Jaffee-Rosen | 35,000 | 28,000 units from their Simulation III plus about 1/3 of the additional units generated by the subsidy aspects of Simulation V. |
| Swan | 20,000 to 25,000 | General evaluation of all models. |
| von Furstenberg | 18,000 to 28,000 | Based on some of his previous work plus general assessment of all model results. |

The following describes the kind of adjustments the model builders made in their simulations. For example, Jaffee and Rosen originally assumed in two of their simulations that all individuals participating in the program did so because of the subsidized interest rates. Their other simulations assumed the subsidy did not influence anyone to participate. Since the questionnaire results indicate only about one-third of the buyers were influenced by the subsidy they adjusted one of the simulation results upwards by about one-third. Hendershott, on the other hand, had not modeled for any subsidized impact, so he also revised his estimate upward.

## Measurement of some short-run program costs and benefits

We compared some of the program's costs and benefits in the short-run (during the housing slump) using (1) additional housing starts generated by the emergency program, (2) jobs created by the additional housing starts, and (3) additional dollars contributed to the gross national product by the additional housing starts. The comparisons are based on a number of assumptions and do not consider indirect costs. For these reasons, the analysis is offered only as an approximation. We estimate that

- --18,000 to 35,000 additional housing starts can be attributed to the single-family emergency program,
- --33,000 to 65,000 additional jobs can be attributable to the program, and
- --$1.1 billion was contributed to the gross national product in 1972 dollars.

As discussed subsequently, most of the housing starts, jobs, and gross national product generated in the short-run were borrowed from future periods. The two tables which follow summarize the range of additional housing starts, jobs, and costs from minimum to maximum program impact.

| | Minimum | Average (note a) | Maximum |
|---|---|---|---|
| Additional housing starts | 18,000 | 25,000 | 35,000 |
| Additional jobs | 33,000 | 46,000 | 65,000 |

a/The average is calculated from the four best estimates of the consultants shown on page 25. For those calculations which had a range (for example, 20,000 to 25,000 units), we used the mid point; i.e., 22,500 units.

| | Worst impact | Average impact | Best impact |
|---|---|---|---|
| Direct cost for each housing start generated | $23,000 | $16,000 | $12,000 |
| Direct cost for each job generated | $12,000 | $9,000 | $6,000 |

Housing starts attributable to the emergency housing program are expressed in a range from the minimum, of 18,000 units, to the maximum of 35,000 units. The additional jobs attributed to the program were estimated by applying the National Association of Homebuilders' estimate of 1.85 jobs for each housing start generated.

A breakdown of the annual estimate of 1.85 jobs per housing start by activity shows (1) construction .714, (2) other industries .867, and (3) land development .272.

The DRI model indicated additional jobs were created from the third quarter of 1975 through the third quarter of 1977; it showed as high as 37,000 additional jobs generated by the emergency program during two quarters.

The DRI estimate of the gross national product generated by the program shows $1.125 billion in 1972 dollars of additional gross national product in 1975 and 1976. It also shows a $1 billion reduction from 1977 through the second quarter of 1979. It should be noted that DRI results tend to lag in time compared with the results of the other models discussed in this report.

The net direct cost to the Federal Government for the program was estimated at about $412 million. This cost was used to compute the costs of each housing start and job generated. Gross program costs represent losses sustained when the program's below market interest rate mortgages were sold by GNMA and interest expenses on Treasuy borrowings used to finance mortgage purchases. The gross cost is partially offset by revenues received by GNMA for accrued interest on program mortgages while held in its portfolio and commitment and other fees collected from mortgages. Indirect costs of the program were not considered.

The estimated cost of $412 million is primarily attributable to GNMA's trading losses resulting from buying below market interest rate mortgages and selling them in the private market at a discount. The subsidy to the home buyers obtained through the low interest rate mortgages would be somewhat comparable to the losses sustained by GNMA in selling the mortgages in the capital market, all factors being equal. However, the difference between GNMA's borrowing costs and the mortgage interest rate for those mortgages held by GNMA, along with the fees charged program participants ($176 million) produced income which partially offset the trading losses.

Distribution of subsidy and additional funds generated

Home buyers were the major recipients of the program's subsidy. The building industry and mortgage lending institutions benefited from the additional housing units generated by the emergency program.

We estimated that approximately 190,000 participating home buyers received a total of $714 million in subsidies because they acquired mortgages with interest rates which ranged from 1 to 2 percent below the prevailing market interest rate. The typical participating home buyer with an 8-percent interest rate mortgage pays about $40 less per month in principal and interest payments than a nonparticipating home buyer with a 9-1/2-percent interest rate mortgage.

In addition, participating home buyers build equity in the house faster than nonparticipating home buyers. For example, if the participating home buyer holds the mortgage for 12 years (average period for single-family home owners), he will accumulate about $1,114 more equity in the house than a home buyer with the higher interest rate mortgage. The present value of these subsidies; i.e., discounting them to their present worth; is about $3,756 for each home buyer. This figure times the 190,000 mortgages purchased under the emergency program amounts to about $714 million.

Various sectors of the building industry benefited from the additional housing units generated by the emergency program--about 25,000 units in the short-run. These additional units created income for the various building industry sectors in proportion to the sector's share of housing costs. By using the distribution of housing cost data reported by the Congressional Budget Office in a report entitled "Homeownership: The Changing Relationship of Costs and Incomes, and Possible Federal Roles" dated January 1977, we estimated that the various building industry sectors obtained the increased funds shown in the table below from the emergency program; the value of land has been excluded because residential construction in the gross national product comprises only the value of new structures.

## Estimated Increased Funds To The Building Industry

| Building industry sectors | Distribution of the housing dollar (percent) | Average income Per house | Income for 25,000 houses (millions) |
|---|---|---|---|
| Builders | 12 | $ 5,148 | $129 |
| Construction workers | 16 | 6,864 | 172 |
| Material suppliers | 33 | 14,157 | 354 |
| Land owners | 21 | -0- | -0- |
| Construction loan lenders | 10 | 4,290 | 107 |
| Real estate agents and others | 8 | 3,432 | 86 |
| Total | 100 | $33,891 | $848 |

We estimated that funds accruing to mortgage lenders that participated in the emergency program amounted to about $23 million based on the 25,000 mortgages generated by the program. This assumes that the number of extra mortgages issued is the same as the number of additional starts. For the most part, mortgage lenders benefit through a service contract where they are paid 3/8 of 1 percent of the unpaid mortgage balance to collect the monthly mortgage payments and provide other services. The present value of a typical service contract held for 12 years is $929, or $23 million, for 25,000 service contracts. This is a gross income figure and includes not only profit, but also wages to employees and various administrative services.

### Long-term program impact

In addition to short-run program costs and benefits, it is important to assess the long-term impact of a program so that its overall merits are considered. For instance, under the emergency program, generating additional housing starts during a housing slump means borrowing some of these units from future construction. As shown on page 23, although the emergency program increased housing starts during 1974 and 1975, most of the simulation results showed it reduced housing starts in 1976.

The net reduction in benefits in the long-run is also demonstrated by the DRI estimates of the gross national product generated by the program. While the model shows $1.125 billion in additional gross national product in 1975 and 1976, it shows a $1 billion reduction from 1977 through the second quarter of 1979. Also, most of the additional jobs generated by the program are lost when the model is run through 1979. The table on page 31 shows the distribution over time of these economic impacts as well as direct costs and subsidies to the home buyers.

Some experts believe that the real benefits of the program are not confined to additional housing starts, jobs, or gross national product; rather, it is in the overall stabilizing effect on the housing industry. These benefits, however, are difficult to measure.

For example, some proponents of countercyclical housing intervention believe that shifting some housing starts from future housing peaks to present housing slumps results in lowering the cost of all housing through increased efficiencies. For example, labor costs will be less because lower unemployment premiums will be required, and material costs will be less because more efficient production methods can be used in a more stable market.

If one assumes that this shifting of housing units lowered the cost of the 2.224 million single-family units built during the approximate 2-year period in which the emergency program operated, the program may be considered cost beneficial if it lowers the cost of each of these units by an amount equivalent to the direct and indirect costs of the program. For example, if the program lowered the cost of each of the 2.224 million units by $185, it may be considered to have covered its direct cost. Of course, the program's long-run impact would have to be studied before an overall conclusion could be made on the effectiveness of the program.

## Distribution Over Time of Some Costs and Economic Impacts

| Year | Direct cost (millions) | Subsidy to home buyers (millions) | Additional starts (thousands) | Additional jobs (thousands) | Gross national product (millions) |
|---|---|---|---|---|---|
| 1975 | $ (3.3) | $ 90.4 | 17.2 | 2.8 | $325 |
| 1976 | 310.6 | 90.4 | 2.7 | 30.5 | 800 |
| 1977 | 104.6 | 90.4 | -11.0 | 11.0 | -500 |
| 1978 | - | 90.4 | - 4.2 | -21.2 | -475 |
| 1979 | - | 90.4 | - | -11.2 | - 25 |
| 1980 | - | 90.4 | - | - | - |
| 1981 | - | 90.4 | - | - | - |
| 1982 | - | 90.4 | - | - | - |
| 1983 | - | 90.4 | - | - | - |
| 1984 | - | 90.4 | - | - | - |
| 1985 | - | 90.4 | - | - | - |
| 1986 | - | 302.1 | - | - | - |
| Totals | | | | | |
| Non-discounted | $412 | $1,296 | 4.7 | a/ | $125 |
| Dicounted (note b) | $349 | b/ 714 | - | - | b/,c/$252 |

a/Jobs are not totaled because the numbers represent the inventory of additional jobs generated on the average during the year.

b/Items discounted at a 9 1/2-percent rate.

c/Gross national product figures first converted from 1972 dollars as presented in the model to current dollar before discounting.

## OPTIONS ADVANCED TO IMPROVE FEDERAL INTERVENTION

A number of options have been advanced to improve the effectiveness of Federal intervention in housing during industry slumps. Some of the options advanced, concerning instability in the cost and supply of mortgage credit and improving the timing of Federal intervention, are discussed in the following sections.

### Options advanced to deal with credit problems

A variety of options have been discussed, other than emergency-type housing programs, to deal with instability in the cost and supply of mortgage credit. Many of the options are aimed at reducing cyclical variations in mortgage credit or improving the long-run supply of funds for housing. In a report entitled "Housing Finance--Federal Programs and Issues" dated September 23, 1976, the Congressional Budget Office identified some of the options and outlined their expected impacts. In many cases, the actual net effects of these options are poorly understood and difficult to evaluate. Some of the options identified by the Congressional Budget Office include

--expanding GNMA activities to focus on long-run credit assistance,

--expanding certain federally subsidized housing programs,

--providing Federal coinsurance of long-term loans for single- and multi-family housing,

--providing Federal insurance coverage for secondary market investors,

--ending regulation of maximum savings deposit interest rates paid by commercial banks and thrift institutions,

--allowing lenders to use housing finance lending instruments that differ substantially from the current standard mortgage,

--eliminating the interest rate ceiling on FHA-insured and VA-guaranteed loans along with the prohibition on the charging of points, and

--regulating the geographic distribution of mortgage lending by thrifts and commercial banks and stricter enforcement of antidiscrimination regulations.

With respect to coinsurance and alternative mortgage instruments, HUD has programs operating on a small scale in these areas. A coinsurance program is underway at HUD for single-family houses.

HUD also operates a Graduated Payment Mortgage program directed at lowering payments during the early years of the mortgage amortization period. The monthly mortgage payments under this program are lower in the earlier years than those made under a regular mortgage which is repaid utilizing a standard flat-rate amortization schedule. The Graduated Payment Mortgage program was shifted from an experimental basis to an ongoing permanent Federal program in 1977. Under the program, a home buyer will be able to select one of five possible plans which vary in the rate at which monthly payments increase (2 percent to 7-1/2 percent a year) and the number of years over which the payments increase (5 or 10 years).

The payments increase annually on the basis of the plan selected. Beginning in the 6th year for the 5-year plan and the 11th year for the 10-year plan, the payments level out for the remaining term of the mortgage.

The options under discussion to deal with instability in the cost and supply of mortgage credit assume Federal government intervention in housing is desirable. Arguments have been advanced, both pro and con, about Federal intervention. Proponents of intervention argue that it is justified because there are significant social and economic costs associated with instability in the housing industry. Arguments made in support of intervention are outlined below.

--Housing market cyclicality discourages entrepreneurs from entering the industry. Homebuilders typically are low capital firms and vulnerable to swings in interest rates and demand. Those firms forced out of the residential construction industry during periods of high interest rates and low housing demand are reluctant to return.

--Many housing construction materials are highly specific and have little alternative use. Consequently, fluctuations in housing construction generates recurring bottlenecks in the housing supply industries. Once these industries cancel their capacity expansion during severe housing downturns, it may take several years to return to previous production levels.

--Reduction in cyclicality of employment in the residential construction industry might lower labor costs by permitting development of a more stable and more highly skilled labor force and the avoidance of heavy unemployment premiums to compensate for the unsteady work.

--Federal countercyclical intervention also contributes to economic efficiency in the mortgage market. Federal intervention contributes to increased marketability of residential loans and interregional flow of funds is greatly improved.

Arguments advanced opposing federally sponsored countercyclical intervention in behalf of housing are outlined below.

--Federal support of housing during tight credit periods is likely to come at the expense of stability in other sectors of the economy; that is, securities issued by housing credit agencies or by the U.S. Treasury may crowd out borrowing by other sectors.

--Intervention with mortgage credit causes incomes to be redistributed from poor and rich households to middle-income households. This is because mortgagors benefit from the lower mortgage rates, and savings account depositors suffer a loss. Because both low-income and wealthy households have low mortgage debts relative to savings deposits, they tend to lose. The reverse is true for middle-income households. They tend to gain from government intervention.

--Because the housing cycle often runs counter to the general business cycle, it actually moderates inflationary pressures in periods of excess demand and supports economic activity during general recessions. Thus it helps to smooth out overall fluctuations in the total business cycle.

--Supporting the residential construction industry during housing downturns can in fact conceivably undermine monetary policy by giving rise to easier credit, more intense overall demand, and thus, an even greater inflation rate.

Automatic program activation

Another option advanced concerns whether the emergency housing program would be more effective if GNMA used an automatic trigger system. Economic indicators would turn the program on and off. Some housing authorities believe fiscal stabilizing programs, such as the emergency program, must be implemented automatically to be effective because discretionary systems are often too slow. In this regard, it took 172 days from the time emergency housing legislation was first introduced in the Congress in May 1974 until GNMA could make the first commitment announcement in October.

However, some housing authorities are opposed to establishing formalized program triggers. They believe triggers can create self fulfilling prophecies; industry will not act if the market is approaching the trigger threshold, rather it will wait for Federal intervention; and Federal intervention in the housing market would be institutionalized and therefore oppose this mechanism.

Currently, HUD uses a number of economic indicators to assess the condition of the housing market. They include the

--spread between 3-month Treasury bill interest rates and savings account interest rates.

--number of single-family, private housing starts,

--mortgage interest rates on new single-family homes,

--number of houses for sale and sold,

--unemployment rate in the construction industry,

--value of loans made for construction,

--value of mortgage loans made for home purchases, and

--flow of funds to savings and loan associations.

These economic indicators are not used to turn the emergency program on and off automatically. GNMA has not set formal threshold values--limits pointing to a problem--for most of these indicators.

The decision to make commitments to purchase and the total amount to be committed is determined by a combination of actions by the Congress, the President, the Office of Management and Budget, and the Secretary of HUD. GNMA's input in the decisionmaking process consists of suggestions to the Secretary concerning the status of the housing market and the need for governmental intervention, including the type and amount of mortgages to be purchased, on the basis of its interpretation of the meaning of the economic indicators.

Two important aspects of any automatic trigger mechanism are the selection of the proper economic indicators and associated threshold or triggering values. For example, title II of the Public Works Employment Act of 1976 uses national unemployment as the economic indicator and the 6-percent level as the threshold value for starting the program. The indicators used must in some way represent the market conditions one is trying to correct. The threshold values must be set at a proper level to prevent the program from starting or ending too early or too late.

Authorities often disagree on what economic indicators or threshold values should be used to turn the emergency housing program on and off. Some of the trigger mechanisms suggested to us by one of our consultants as well as others in the housing industry for starting emergency housing programs are

--when mortgage interest rates are above 9-1/2 or 10 percent,

--when the flow of funds to savings and loan associations is negative,

--when the inventory of unsold single-family homes exceed a 6-month's supply,

--when the Treasury bill interest rate rises to 6-1/2 to 6-3/4 percent and stays at that level for over 30 days,

--when monthly single-family housing starts, expressed as an annual rate, drop below 900,000 units, and

--a combination of 2 or more of the above.

We had difficulties in obtaining opinions on triggers for turning the emergency program off. Disagreement as to what should be used to turn efforts off is typical of many fiscal stabilizing programs. Some authorities believe such programs should be turned off only when full recovery is achieved, while others believe it should be done at the first sign of recovery. The few triggers suggested to us for turning the emergency program off include

--when monthly single-family housing starts, expressed as an annual rate, reach 1.6 million,

--when Treasury bill interest rates drop to 5 percent, and

--when the flow of funds to savings and loan associations increase at a 10-percent annual rate.

## CONCLUSIONS

GNMA's emergency housing program for single-family homes induced a number of persons to buy homes who otherwise may not have purchased them or delayed their purchase. This program outcome was beneficial in that additional housing starts and jobs were generated at a time when the housing industry was suffering from low production and high unemployment.

Whether the benefits represented by the additional housing sales, starts, and jobs generated by the program were sufficient to justify the costs incurred by the Federal government is difficult to assess. However, the information in this report on some of the program's costs and benefits should help the Congress and executive branch decisionmakers in formulating the design and funding levels of future emergency housing programs. The Nation will, from time to time, face slumps in the housing sector, and the Congress will be asked to intervene to help the ailing housing market.

Emergency-type housing programs are the Federal government's reaction to a problem--periodic scarcity in and high cost of mortgage credit. While such programs may help to alleviate this problem, they cannot prevent the problem from surfacing. A variety of alternative programs have been advanced to deal with periodic shortages and high costs of mortgage credit.

# CHAPTER 3

## TO WHAT EXTENT SHOULD THE PROGRAM BE DIRECTED TO MODERATE-INCOME FAMILIES?

Serious questions exist concerning the impact of recent legislative changes aimed at insuring that families who participate in future single-family emergency housing programs will have lower incomes and purchase lower-priced homes than those families that participated in the past program. There are also questions as to the level of moderate-income family participation desired in future emergency housing programs.

Briefly, we found in regards to the past emergency program that

--Approximately one-fourth to one-third of the GNMA-assisted home buyers could be considered to be of moderate income.

--Below-median income home buyers were not influenced to a greater degree than other home buyers to purchase a home by the program.

--If the home price ceiling set by current legislation had been effective for the past emergency housing program, we estimate that about 26,000, or 17 percent, of the homes purchased would not have been eligible for GNMA assistance.

--Mortgage lenders said the mortgage limitations were not effective in directing program funds to low- and moderate-income families.

We believe the Congress needs to reexamine and clarify the legislative changes made affecting moderate-income family participation in future emergency housing programs.

## RECENT LEGISLATIVE CHANGES

Recent legislative changes have been made to the emergency housing program aimed at promoting homeownership opportunities for moderate-income families in future emergency housing programs. The Housing Authorization Act of 1976, enacted August 3, 1976, amended the 1974 Emergency Act by imposing a home price ceiling for single-family homes of $48,000 for most areas and $52,000 for high-cost areas to be determined by the Secretary of HUD. This home price ceiling has had no effect on the emergency program to date because the last release of single-family emergency funds was in August 1975. The home purchase price had no limitations before August 3, 1976.

In addition, the emergency home purchase assistance authority was amended by section 407(a) of the Housing and Community Development Act of 1977, enacted October 12, 1977, giving the Secretary of HUD discretion to promote homeownership opportunities for moderate-income families to the extent consistent with the emergency program's primary objective of stabilizing housing production. Similarly, this provision has not yet had an impact on the single-family emergency program.

The emergency housing program did operate with a provision which could have an impact on the income of program participants. The Emergency Housing Act of 1974 provided for a maximum mortgage limit of $42,000. In Alaska, Hawaii, and Guam the mortgage limit was set at $55,000. On October 15, 1978, the House of Representatives approved the conference report on S.3084. This report contains a provision to increase the principal mortgage obligation able to be purchased by GNMA to $55,000 for a single-family home.

Before, as well as after, passage of the 1974 Emergency Act, much debate took place in the Congress as to whether or not the program would or was benefiting mainly high-income home buyers who were purchasing larger and more expensive homes under the program. During congressional debates on the 1974 Act, serious consideration was given to establishing requirements that the program be directed toward moderate-income home buyers. The act as passed contained a limitation of $42,000 on mortgage loans, but no provision was made to limit the program to moderate-income home buyers. Apparently, because of congressional concern over the income levels of home buyers participating in the program, GNMA, during the last release of funds in August 1975, required that 75 percent of the amount of mortgages written by each lender be limited to no more than $36,000. It was thought that the lower mortgage amount would aim the program to a greater number of moderate-income home buyers.

## MODERATE-INCOME FAMILIES DID PARTICIPATE IN THE PROGRAM

We estimate that approximately one-fourth to one-third of the GNMA-assisted home buyers could be considered to be of moderate income. This participation was achieved without benefit of the legislative provisions limiting home prices and providing authority to promote homeownership opportunties for moderate-income families. Participation by this income group is similar to that experienced by FNMA and FHLMC for mortgage loans they purchased for their own accounts.

For the purpose of our analyses, we defined moderate income as families earning 80.1 to 120 percent of the median income. We arrived at this definition on the basis of HUD's section 8 program, which legislatively defines low income generally as 80 percent or less of median income, and proposed legislation (S.741), which would have required the emergency program to be aimed at moderate-income families and defined moderate income as not to exceed 120 percent of the median income for the area in which property is located. S.741 was not passed by the Congress.

We made two analyses to determine the extent of moderate income participation in the emergency program--one using the national median income and the other using the county-of-residence median incomes.

Using the 1975 national median income of $13,719, we estimate that one-fourth of the GNMA-assisted home buyers could be considered to be of moderate income. This analysis was based on the incomes of 156,000 program home buyers who obtained conventional mortgages which make up about 85 percent of the program's assisted home buyers. The FNMA and FHLMC data was for unassisted conventional mortgages which they purchased during the same period as the GNMA-assisted mortgage purchases. The following chart shows the distribution of home buyers by income range.

Distribution of GNMA-Assisted and FNMA and FHLMC Market Home Buyers

| Annual income | Percent of GNMA-assisted home buyers | Percent of FNMA and FHLMC mortgages (note a) |
|---|---|---|
| Below moderate--<br>$9,599 and less | 0.3 | 0.7 |
| Moderate--<br>$9,600 to $16,799 | 25.0 | 24.9 |
| Above moderate--<br>$16,800 and over | 74.7 | 74.4 |

a/Private market mortgages for their own accounts.

Using the national median income of $13,719, a home buyer's income would have to be between $10,975 and $16,462 for the home buyer to be considered moderate income. Because our data was available only by income range rather than exact incomes for each home buyer, we arrived at a moderate income range ($9,600 to $16,799) by using the income ranges that contained the upper and lower actual moderate income figures.

As another indication of the extent that moderate-income home buyers participated in the recent program, we compared the incomes of GNMA-assisted home buyers in our statistical sample of homeowners to the moderate-income range (80.1 to 120 percent) for their county of residence. On this basis, we estimate that 35 percent, or 61,714, GNMA-assisted home buyers were in the moderate-income range. From these analyses, if the emergency housing program was limited exclusively to moderate-income families with the definition of moderate income contained in S.741, an estimated two-thirds to three-quarters of the home buyers participating in the past emergency housing program would have been ineligible.

We are only partially able to explain the difference in the number of home buyers in the moderate-income range--25 and 35 percent--for the above two analyses. In one case, we used national data in making our calculations to arrive at the 25 percent figure. In the other case, we used data on the county of residence for GNMA-assisted home buyers and derived a 35-percent figure. Moreover, the 25-percent figure is based on only GNMA-assisted conventional home buyers; whereas, the 35-percent figure is based on all GNMA-assisted home buyers, conventional as well as those under the FHA and VA programs.

## HOME PURCHASING DECISIONS NOT DIFFERENT BY INCOME GROUP

Below-median income home buyers' responses to our questionnaire indicated that their decisions to purchase homes were not influenced to a greater degree than other program home buyers.

As discussed earlier, the Congress has been increasingly concerned with the high income level of home buyers' participating in the emergency program. From a program that initially contained a limitation of $42,000 on the mortgage amount, limits on the home price and income eligibility requirements were added. An often stated concern by the Congress regarding the use of this program by more affluent home buyers was that the below-interest rate loans were being made to home buyers who would have bought anyway. The implication is that the less affluent home buyers are more likely to be influenced to purchase a home than the more affluent.

To assess the influence of the program on the less affluent, we identified participating home buyers with incomes below the median for their county of residence and sent questionnaires to 387 of them. We received responses from 302, or 78 percent, of the home buyers. (See app. VI.) Thirty-four percent, or an estimated 3,032 below-median income buyers, indicated they would have delayed their purchase if a low-interest rate GNMA loan had not been available. Our projection is based on a universe of 8,917 home buyers 1/. This response is comparable to the response made by all home buyers in our sample--those above and below median income--as shown below.

| Question | Responses (percentage) | | | |
|---|---|---|---|---|
| | Below median income sample | | Overall sample | |
| | Yes | No | Yes | No |
| If a low-interest rate (GNMA) loan had not been available at the time you bought your house, would you have delayed the purchase of a house? | 33.8 | 66.2 | 38 | 62 |

We also asked the below-median income home buyer sample how important the low interest rate loan was in their decision to enter the market and look for a home at the time they did. Sixty-three percent, or an estimated 5,618 out of a total of 8,917 below-median income home buyers, indicated that the availability of such loans was a very, or substantially important factor in their decision to enter the home market. This is comparable to the 58 percent of our overall sample of home buyers who responded to the question similarly.

## HOME PRICE CEILING WOULD LIMIT PROGRAM ELIGIBILITY

To assess the impact of the $48,000 legislative price ceiling ($52,000 in high cost areas) on future emergency housing programs, we applied this price ceiling to home purchase transactions made under the prior emergency program. Accordingly, we estimate that about 26,000, or 17 percent, of the homes assisted under the program would not have been eligible for GNMA assistance.

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1/This sample relates only to home buyers with conventional mortgages whose mortgages were administered by FNMA.

In making our estimate, we compared the price of the GNMA-assisted home buyers who obtained conventional mortgage (see p. 45) with a home price ceiling of $50,000 (an average of the $48,000- and $52,000-limits established under the emergency housing legislation).

## LENDERS' VIEWS ON MORTGAGE LIMITS

Most lenders who participated in the GNMA program agreed that the limitation on mortgage loans directed the use of GNMA funds to low- and moderate-income families to only a moderate or little extent. The following table shows a breakdown of lenders' responses on the impact of the $42,000-mortgage limit on low- and moderate-income families. About 78 percent of the lenders said this limitation had a moderate to little effect.

| Question | Possible response | Percentage of responses |
|---|---|---|
| Based on your experience, to what extent did the $42,000-mortgage ceiling direct the use of GNMA funds to low- and moderate-income families? | Little or no extent | 28.5 |
| | Some extent | 26.8 |
| | Moderate extent | 22.8 |
| | Substantial extent | 10.1 |
| | Large extent | 5.6 |
| | No opinion | 6.1 |
| Total | | 100.0 |

To ascertain if lenders thought the GNMA-imposed, $36,000-mortgage ceiling, which was imposed on the last release of GNMA commitments, directed the use of these funds to low- and moderate-income families, we asked the following question.

| Question | Possible response | Percentage of responses |
|---|---|---|
| Based on your experience in your area, to what extent did the $36,000-mortgage ceiling direct the use of GNMA funds to low- and moderate-income families? | Little or no extent | 21.2 |
| | Some extent | 25.7 |
| | Moderate extent | 25.6 |
| | Substantial extent | 15.5 |
| | Large extent | 7.8 |
| | No opinion | 4.2 |
| Total | | 100.0 |

About 73 percent of the lenders said this limitation had a moderate to little effect.

## CONCLUSIONS

The targeting of the emergency housing program toward a lower income group has advantages and disadvantages. On one hand, the program would be aimed at Americans who otherwise might not be able to afford a home. On the other hand, higher income families are being eliminated from participation in the program at a critical time when they may be needed to help achieve the emergency program's primary goal of stabilizing the slumping housing economy. Higher-income families who participated in the emergency program indicated that they were not any less likely to be influenced to purchase a home than other income groups. Thus, the contribution made by higher-income families toward stabilizing housing would have to be replaced by families from a more narrow income group.

The question which remains then is whether or not the approximately one-fourth to one-third moderate-income family participation achieved by the past emergency program, without benefit of legislative emphasis on moderate-income families, represents a sufficient or desirable level of participation by this group. We believe that a substantial argument can be made for (1) eliminating the recent legislation changes so as not to encumber the program's goal of stimulation of construction with a narrower eligibility group or (2) clarifying the legislation to prevent less participation by moderate-income families than existed under the past emergency housing program.

## MATTER FOR CONSIDERATION BY THE CONGRESS

The Congress should reexamine the emergency program's provisions concerning (1) the home price ceiling and (2) the discretionary authority given the Secretary of HUD to target the program to moderate-income home buyers. If the Congress determines that the past level of moderate-income family participation is sufficient, it should eliminate these legislative provisions so as not to encumber the program's goal of stimulating construction with a narrower eligibility group. If the Congress determines that moderate-income family participation should be increased beyond the level achieved by the past program, the discretionary authority given the Secretary of HUD to target the program to moderate-income families should be clarified to specify the level of participation desired so as to prevent less participation by this group than existed under the past emergency housing program.

## CHAPTER 4

## GNMA-ASSISTED BUYERS COMPARED TO

## OTHER BUYERS IN THE HOUSING MARKET

Home buyers that received a conventional mortgage loan under the GNMA emergency program were compared to home buyers whose mortgages were purchased by FNMA and FHLMC for their own accounts. Some of the important observations disclosed by our comparisons were that GNMA home buyers

--had slightly lower average annual incomes;

--purchased homes that were higher priced, newer, and larger; and

--received lower-interest rate loans and made larger down payments

The thrust of our work was aimed at the GNMA-assisted home buyers who obtained conventional mortgages. This group contains 156,000, or 85 percent, of all home buyers assisted under GNMA's emergency single-family program. The characteristics of this group of home buyers were compared to the characteristics of about 125,000 home buyers whose mortgages were acquired by FNMA and FHLMC for their own accounts. Data on the remaining 15 percent of the GNMA-assisted home buyers who obtained FHA and VA loans was not available in a format that would enable us to make similar comparisons.

Our analyses of the GNMA-assisted loans, purchased by FHLMC for GNMA's account and FHLMC's market loans, were based on all loans purchased during calendar years 1975 to 1976. The analyses of GNMA-assisted loans purchased by FNMA for GNMA's account and FNMA's market loans were based on statistical samples of loans purchased during the same period.

During our review, we frequently made use of the Congressional Research Service report entitled "The Effect of the Brooke-Cranston Program: A Comparison of Assisted and Unassisted Home Mortgages in 1975" dated September 14, 1976. Many of the observations made by this study were similar to ours even though the Congressional Research Service examined the program during its early implementation.

## COMPARISON OF GNMA HOME PURCHASE CHARACTERISTICS

The following table provides a comparison of key home purchase characteristics under the GNMA emergency program with FNMA and FHLMC home purchase transactions for their own accounts. Although we were able to partially explain some of the differences between GNMA home purchase characteristics and the FNMA and FHLMC characteristics, a full explanation of the differences would require substantial additional effort which was beyond the scope of this review.

| Home purchase characteristics (note a) | FNMA Mortgages purchased for GNMA | FNMA Private market mortgages | FHLMC Mortgages purchased for GNMA | FHLMC Private market mortgages |
|---|---|---|---|---|
| Home buyer income | $19,760 | $21,426 | $21,667 | $22,139 |
| Home price | $42,810 | $37,890 | $42,982 | $41,622 |
| Downpayment | $ 5,570 | $ 4,382 | $ 8,963 | $ 7,834 |
| Home size (square feet) | 1,514 | 1,431 | 1,597 | 1,527 |
| Mortgage amount | $34,920 | $31,810 | $33,637 | $33,453 |
| House age | N/A | N/A | 11 months | 3 years |
| Number of rooms (excluding baths) | 6.5 | 6.2 | 6.4 | 6.1 |
| Mortgage term (years) | 27 | 27.5 | 26.1 | 25.4 |

a/All characteristics are expressed in averages.

Each of the home purchase characteristics are disclosed in greater detail in the following paragraphs. We selected these characteristics for comparison because they were the only ones on which comparable data was available. For each characteristic we compared the average and the percentage distribution.

### Home buyer's income

As can be seen from the above table, the average income of home buyers whose mortgages were purchased by FNMA and FHLMC for GNMA were lower than the average income of home buyers whose mortgages were purchased for their own accounts.

For instance, the average income of home buyers whose mortgages were purchased by FNMA for GNMA was $1,666, or 7.7 percent, less than the average income of home buyers in FNMA's private account. In the case of FHLMC, the average income of home buyers whose mortgages were purchased for GNMA were $472, or 2.1 percent, less than the average income of home buyers in FHLMC's private account.

Only minor differences exist between the income distribution of GNMA home buyers and that of FNMA and FHLMC home buyers. This may be attributable, in part, to the fact that the GNMA emergency program did not have income limitations on the home buyers. As shown in the following schedule, there was a 4-percent higher concentration of GNMA-assisted home buyers in the $16,800- to $28,799-income range. The concentration of GNMA-assisted home buyers in the $28,800-and-over income range was 5.1- and 3.4-percent lower than FNMA and FHLMC home buyers, respectively.

## Schedule of Distribution of Home Buyers' Annual Income

| Income range (dollars) | FNMA: Mortgages purchased for GNMA | FNMA: Private market mortgages | FHLMC: Mortgages purchased for GNMA | FHLMC: Private market mortgages |
|---|---|---|---|---|
| | Percent | | | |
| Less than 4,800 | - | - | - | - |
| 4,800 to 7,199 | - | - | 0.1 | 0.1 |
| 7,200 to 9,599 | - | 0.6 | 0.4 | 0.7 |
| 9,600 to 11,999 | 3.2 | 3.4 | 2.4 | 3.1 |
| 12,000 to 14,399 | 6.0 | 6.6 | 8.1 | 8.7 |
| 14,400 to 16,799 | 17.2 | 15.0 | 14.0 | 12.9 |
| Total | 26.4 | 25.6 | 25.0 | 25.5 |
| 16,800 to 19,199 | 16.5 | 12.6 | 17.8 | 16.0 |
| 19,200 to 21,599 | 19.5 | 19.7 | 17.3 | 15.4 |
| 21,600 to 23,999 | 15.7 | 12.0 | 13.0 | 12.2 |
| 24,000 to 26,399 | 8.2 | 9.0 | 9.6 | 9.7 |
| 26,400 to 28,799 | 4.5 | 7.1 | 5.9 | 6.3 |
| Total | 64.4 | 60.4 | 63.6 | 59.6 |
| 28,800 to 31,199 | 4.2 | 4.7 | 3.8 | 4.4 |
| 31,200 to 33,599 | 0.7 | 3.4 | 2.3 | 2.9 |
| 33,600 to 36,000 | 0.7 | 1.7 | 1.5 | 1.9 |
| Over 36,000 | 3.2 | 4.1 | 4.0 | 5.8 |
| Total | 8.8 | 13.9 | 11.6 | 15.0 |
| Total (note a) | 100.0 | 100.0 | 100.0 | 100.0 |
| Average amount | $19,760 | $21,426 | $21,667 | $22,139 |

a/Totals may not add to 100 percent due to rounding.

### Home price

The prices of GNMA-assisted homes were higher on the average as compared with the home prices of either FNMA or FHLMC market homes. For mortgages purchased by FNMA for GNMA, the average home purchase price of $42,819 was 13-percent higher than the average FNMA market home purchase price. In the case of FHLMC, the average home purchase price of $42,982 for GNMA mortgages was only 3.3-percent higher than the average FHLMC market home purchase price.

As shown in the schedule on page 50, the heavy concentration of GNMA-assisted homes were in the $35,000-to $54,999-price range. This price range contained about 75 percent of the mortgages purchased by FNMA for GNMA as compared with only about 47 percent of the FNMA market homes, and about 68 percent of the mortgages purchased by FHLMC for GNMA as compared with about 53 percent of the FHLMC market homes.

A likely explanation for the heavy concentration of GNMA-assisted home buyers in this price range stems from the fact that many home buyers that participated in the program indicated that they would have purchased a lower-priced home without the benefit of the below-market rate loan. To illustrate, 30 percent of the home buyers responding to our questionnaire 1/ indicated that they would have purchased a lower-price home if low interest rate GNMA loans were not available.

In addition, the schedule indicates that there is a lower percentage of GNMA-assisted homes at the $55,000-and-over price range. The explanation for this is the statutory $42,000 mortgage limit on GNMA loans which would require a larger down payment to remain within the $42,000 limit.

Two other possible explanations for the higher price of the GNMA-assisted homes relate to the age and size of homes purchased.

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1/This is the questionnaire that we sent to the 423 homeowners selected from the universe of all GNMA-assisted home buyers (see app. IV).

## Distribution of Home Purchase Prices

| Price range (dollars) | FNMA Mortgages Purchased for GNMA | FNMA Private market mortgages | FHLMC Mortgages Purchased for GNMA | FHLMC Private market mortgages |
|---|---|---|---|---|
| | ----------Percent---------- | | | |
| Under 15,000 | - | - | - | 0.2 |
| 15,000 to 19,999 | - | 2.1 | - | 1.3 |
| 20,000 to 24,999 | 1.2 | 6.0 | 1.2 | 4.5 |
| 25,000 to 29,999 | 4.7 | 16.9 | 5.7 | 10.5 |
| 30,000 to 34,999 | 13.0 | 15.6 | 14.3 | 15.7 |
| Total | 18.9 | 40.6 | 21.2 | 42.2 |
| 35,000 to 39,999 | 26.0 | 16.1 | 22.3 | 19.2 |
| 40,000 to 44,999 | 26.2 | 14.6 | 20.6 | 15.2 |
| 45,000 to 49,999 | 15.2 | 8.6 | 16.0 | 11.4 |
| 50,000 to 54,999 | 7.0 | 7.3 | 8.7 | 7.4 |
| Total | 74.4 | 46.6 | 67.6 | 53.2 |
| Over 55,000 | 6.7 | 12.8 | 11.2 | 14.6 |
| Total | 6.7 | 12.8 | 11.2 | 14.6 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| Average | $42,819 | $37,890 | $42,982 | $41,622 |

### Home age

Our data indicates that 76,969, or 91.9 percent, of the 83,844 home mortgages purchased by FHLMC for GNMA were new homes (never occupied) compared to 63,930, or 56.8 percent, of the 112,752 mortgages purchased by FHLMC for its own account. One possible explanation for this difference may be attributable to the GNMA-imposed restriction of 10 percent on the number of existing homes that could be assisted under the emergency program by each lender.

Another possible explanation for the higher price of GNMA-assisted homes involves the difference in cost for new and existing homes. Recently, the average price of new homes purchased nationwide has exceeded the average price of existing homes by about $4,000, according to statistics published by the Department of Commerce. Because of the limited data available, we were not able to determine how much of the difference between the GNMA's assisted average home price and the FNMA and FHLMC market home prices is attributable to GNMA's homes being newer. The table below shows the distribution of homes by age for FHLMC. Similar data was not available from FNMA for comparison purposes.

Schedule of Distribution of Homes by Age for Mortgages Purchased by FHLMC

| Range (years) | FHLMC Mortgages purchased for GNMA | FHLMC Private market mortgages |
|---|---|---|
| | -------(Percent)------ | |
| Never occupied | 91.9 | 56.8 |
| 1 to 5 | 6.0 | 13.0 |
| 6 to 10 | 0.8 | 7.1 |
| 11 to 20 | 0.9 | 11.3 |
| 21 to 30 | 0.2 | 6.1 |
| Over 30 | 0.2 | 5.7 |
| Total | 100 | 100 |

## Home size

GNMA-assisted homes had more rooms and were larger in terms of square feet of living space as compared to FNMA or FHLMC market homes. The tables on pages 52 and 53 show the distribution of homes by square feet and number of rooms. While the larger size of GNMA-assisted homes may account, in part, for the higher average price, we did not attempt to determine the extent that the larger size impacted on price because of the work effort that would be required to resolve these differences.

## Distribution of Homes by Square Feet

| Range (square feet) | FNMA: Mortgages purchased for GNMA | FNMA: Private market mortgages | FHLMC: Mortgages purchased for GNMA | FHLMC: Private market mortgages |
|---|---|---|---|---|
| | (percent) | | | |
| Less than 700 | - | 0.4 | 0.1 | 0.6 |
| 700 to 799 | 0.3 | 1.5 | 0.2 | 1.0 |
| 800 to 899 | 1.0 | 3.9 | 1.0 | 2.4 |
| 900 to 999 | 2.5 | 7.9 | 3.0 | 5.0 |
| 1,000 to 1,099 | 7.0 | 9.0 | 7.2 | 8.2 |
| 1,100 to 1,199 | 8.5 | 12.8 | 7.8 | 8.8 |
| 1,200 to 1,299 | 8.8 | 10.7 | 8.6 | 9.6 |
| 1,300 to 1,399 | 10.1 | 10.1 | 8.5 | 9.1 |
| 1,400 to 1,499 | 7.8 | 7.9 | 9.4 | 8.9 |
| 1,500 to 1,599 | 11.0 | 7.3 | 8.9 | 8.1 |
| 1,600 to 1,699 | 8.8 | 5.6 | 8.8 | 7.2 |
| 1,700 to 1,799 | 7.8 | 4.7 | 7.5 | 6.0 |
| 1,800 to 1,899 | 8.5 | 2.6 | 6.5 | 5.4 |
| 1,900 to 1,999 | 3.3 | 3.4 | 5.2 | 4.4 |
| 2,000 to 2,099 | 3.8 | 3.4 | 4.4 | 3.6 |
| 2,100 to 2,200 | 3.0 | 3.0 | 3.4 | 3.0 |
| Over 2,200 | 7.8 | 5.8 | 9.5 | 8.7 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| Average | 1,514 | 1,431 | 1,597 | 1,527 |

## Distribution of Homes by Number of Rooms

| Range (rooms) (note a) | FNMA Mortgages purchased for GNMA | FNMA Private market mortgages | FHLMC Mortgages purchased for GNMA | FHLMC Private market mortgages |
|---|---|---|---|---|
| | ---------- | ---------- | Percent | ---------- |
| Under 5 | 1.3 | 5.8 | 2.3 | 5.9 |
| 5 | 15.0 | 22.5 | 13.4 | 18.1 |
| 6 | 32.3 | 34.0 | 31.5 | 31.1 |
| 7 | 32.6 | 22.9 | 26.8 | 23.2 |
| 8 | 12.5 | 10.5 | 17.7 | 14.5 |
| 9 | 4.5 | 2.8 | 6.0 | 4.9 |
| Over 9 | 1.8 | 1.5 | 2.3 | 2.3 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| Average number of rooms | 6.5 | 6.2 | 6.4 | 6.1 |

a/Does not include bathrooms.

## OTHER MORTGAGE CHARACTERISTICS

Other factors that can be used to analyze mortgage purchase activities include mortgage interest rates, mortgage amounts, loan-to-value ratios, downpayments, and mortgage terms. Major differences between GNMA-assisted mortgages and mortgages purchased by FNMA and FHLMC for their own accounts were noted in interest rates and downpayments. The interest rate difference is not surprising because one of the features of the emergency program is to provide below-market interest rate mortgage loans. GNMA's assisted loans averaged 1.5 percent below FNMA and FHLMC market loans.

### Interest rates

For the GNMA-assisted home buyer, the below-market interest rate was the most important feature of the Emergency Housing Program. As discussed on page 54, interest rates on GNMA-assisted loans varied from 8.5 percent when the program started to 7.5 percent for the final release of funds in August 1975. Moreover, the interest rates on GNMA-supported loans varied from 1 to 1.75 percent below the interest rate on loans in the private mortgage market. (See app. II.)

The following table shows the various interest rates and the percentage of mortgages purchased at such rates for GNMA-assisted mortgage and FNMA and FHLMC mortgages purchased for their own account.

Distribution of Mortgages by Interest Rates

| Interest (note a) | FNMA Mortgages purchased for GNMA | FNMA Private market mortgages | FHLMC Mortgages purchased for GNMA | FHLMC Private market mortgages |
|---|---|---|---|---|
| | (Percent) | | | |
| 7.26 to 7.50 | 31.5 | - | 31.7 | 0.7 |
| 7.51 to 7.75 | 34.6 | 1.3 | 31.0 | 10.5 |
| 7.76 to 8.00 | 10.2 | 0.9 | 11.9 | 5.1 |
| 8.01 to 8.25 | 13.0 | 0.4 | 20.8 | 8.0 |
| 8.26 to 8.50 | 10.7 | 1.3 | 4.6 | 4.1 |
| 8.51 to 8.75 | - | b/96.1 | - | 29.8 |
| 8.76 to 9.00 | - | - | - | 10.8 |
| 9.01 to 9.25 | - | - | - | 15.3 |
| 9.26 to 9.50 | - | - | - | 9.1 |
| Over 9.50 | - | - | - | 6.6 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

a/Interest rates under the emergency program were set at no more than 8.5, 8.25, 8.0, 7.75, and 7.50 for various funds released during the period October 1974 through August 1975.

b/8.51 percent and over.

## Downpayment

GNMA-assisted home buyers made higher downpayments on their homes than did FNMA and FHLMC market home buyers. The downpayment on homes for which FNMA purchased the mortgage for GNMA averaged $5,570, or 27.1 percent, more than average downpayments of $4,382 for FNMA market transactions.

The GNMA-assisted home buyers in the FHLMC program had an average downpayment of $8,963, or 14.4 percent, more than FHLMC's average downpayment of $7,834 under mortgages purchased for its own account. Details on the cash downpayment are presented in the table below.

Two possible explanations for higher downpayments by GNMA homeowners are (1) the home buyers made larger downpayments in order to obtain a lower interest rate and bring the mortgage amount within the $42,000 statutory mortgage limit and (2) lender may have required a larger downpayment for higher-priced, GNMA-assisted homes.

Distribution of Cash Downpayment

| Range (dollars) | FNMA: Mortgages purchased for GNMA | FNMA: Private market mortgages | FHLMC: Mortgages purchased for GNMA | FHLMC: Private market mortgages |
|---|---|---|---|---|
| | (percent) | | | |
| Under 999 | - | 0.6 | 1.2 | 0.9 |
| 1,000 to 1,999 | 17.3 | 21.0 | 15.8 | 17.0 |
| 2,000 to 2,999 | 13.1 | 18.8 | 9.9 | 9.8 |
| 3,000 to 3,999 | 10.5 | 13.9 | 8.4 | 10.2 |
| 4,000 to 4,999 | 11.2 | 9.4 | 8.6 | 9.4 |
| 5,000 to 5,999 | 7.0 | 10.1 | 4.2 | 6.8 |
| 6,000 to 6,999 | 2.7 | 4.3 | 3.9 | 4.9 |
| 7,000 to 7,999 | 4.0 | 2.4 | 4.5 | 4.9 |
| 8,000 to 9,999 | 10.2 | 3.9 | 10.3 | 8.9 |
| 10,000 to 11,999 | 6.7 | 6.4 | 8.6 | 8.0 |
| 12,000 to 14,000 | 3.2 | 1.5 | 5.1 | 5.3 |
| Over 14,000 | 14.1 | 7.7 | 19.5 | 13.9 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| Average | $5,570 | $4,382 | $8,963 | $7,834 |

Mortgage amount

GNMA-assisted home buyers obtained larger mortgage loans than FNMA and FHLMC market home buyers. As shown in the table below, FNMA loans purchased for GNMA averaged $34,920. This was 9.7 percent higher than FNMA market loans which averaged $31,810. FHLMC loans purchased for GNMA averaged $33,637. This was only 0.5 percent higher than FHLMC's market loans which averaged $33,453.

## Distribution of Mortgage Amounts

| Amount (dollars) | FNMA: Mortgages purchased for GNMA | FNMA: Private market mortgages | FHLMC: Mortgages purchased for GNMA | FHLMC: Private market mortgages |
|---|---|---|---|---|
| | (percent) | | | |
| Under 17,001 | 1.0 | 1.1 | 1.3 | 2.9 |
| 17,001 to 24,000 | 4.7 | 14.6 | 6.5 | 11.5 |
| 24,001 to 30,000 | 19.9 | 21.6 | 20.8 | 22.8 |
| 30,001 to 35,000 | 25.2 | 18.2 | 26.3 | 26.1 |
| 35,001 to 42,000 | 49.2 | 26.7 | 45.1 | a/36.7 |
| Over 42,000 | - | 17.8 | - | - |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| Average | $34,920 | $31,810 | $33,637 | $33,453 |

a/Represents the percentage of mortgages in the ranges $35,000 and over. A breakdown of the percentage of mortgages in the $35,000 to $42,000- and the over -$42,000 ranges was not available.

In comparing the relationship of the loan amount to the home price (loan-to-value ratio), we noted that the ratio was similar in most cases for each of the four categories of loans included in our review. The following table shows the loan to value ratio range for the four categories.

## Distribution of Loan to Value Ratio

| Range (percent) | FNMA: Mortgages purchased for GNMA | FNMA: Private market mortgages | FHLMC: Mortgages purchased for GNMA | FHLMC: Private market mortgages |
|---|---|---|---|---|
| | (percent) | | | |
| Under 76 | 19.5 | 9.6 | 29.2 | 22.0 |
| 76 to 80 | 16.0 | 13.5 | 21.0 | 24.9 |
| 81 to 85 | 5.5 | 1.9 | 3.3 | 2.6 |
| 86 to 90 | 24.2 | 42.2 | 19.3 | 26.2 |
| 91 to 95 | 34.6 | 32.8 | 27.2 | 24.3 |
| Over 95 | 0.2 | - | - | - |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

## Mortgage term

The length of GNMA-assisted home buyer mortgages were very similar to FNMA and FHLMC market mortgages as shown in the table below. About 93 percent or more of the loans ranged from 25.1 to 30 years.

### Term of Mortgage (Years)

| Range (years) | FNMA: Mortgages purchased for GNMA | FNMA: Private market mortgages | FHLMC: Mortgages purchased for GNMA | FHLMC: Private market mortgages |
|---|---|---|---|---|
| 20 or less | - | 1.9 | - | 2.5 |
| 20.1 to 25 | 2.7 | 5.4 | 6.4 | [illegible] |
| 25.1 to 30 | 97.3 | 92.7 | 93.6 | 89.5 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

## GAO CONSULTANTS

Dwight M. Jaffee Professor of Economics, Princeton University; Ph.D, 1968 from Massachusetts Institute of Technology; author of numerous publications on the mortgage market.

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George M. von Furstenberg Professor of Economics, Indiana University; Ph.D, 1966 from Princeton University; experience in mortgage financing, and housing and urban economics, and was a senior staff economist, Council of Economic Advisers.

Craig E. Swan Associate Professor of Economics, University of Minnesota; Ph.D, 1970 from Yale University; worked in econometric analysis of the mortgage market and residential construction.

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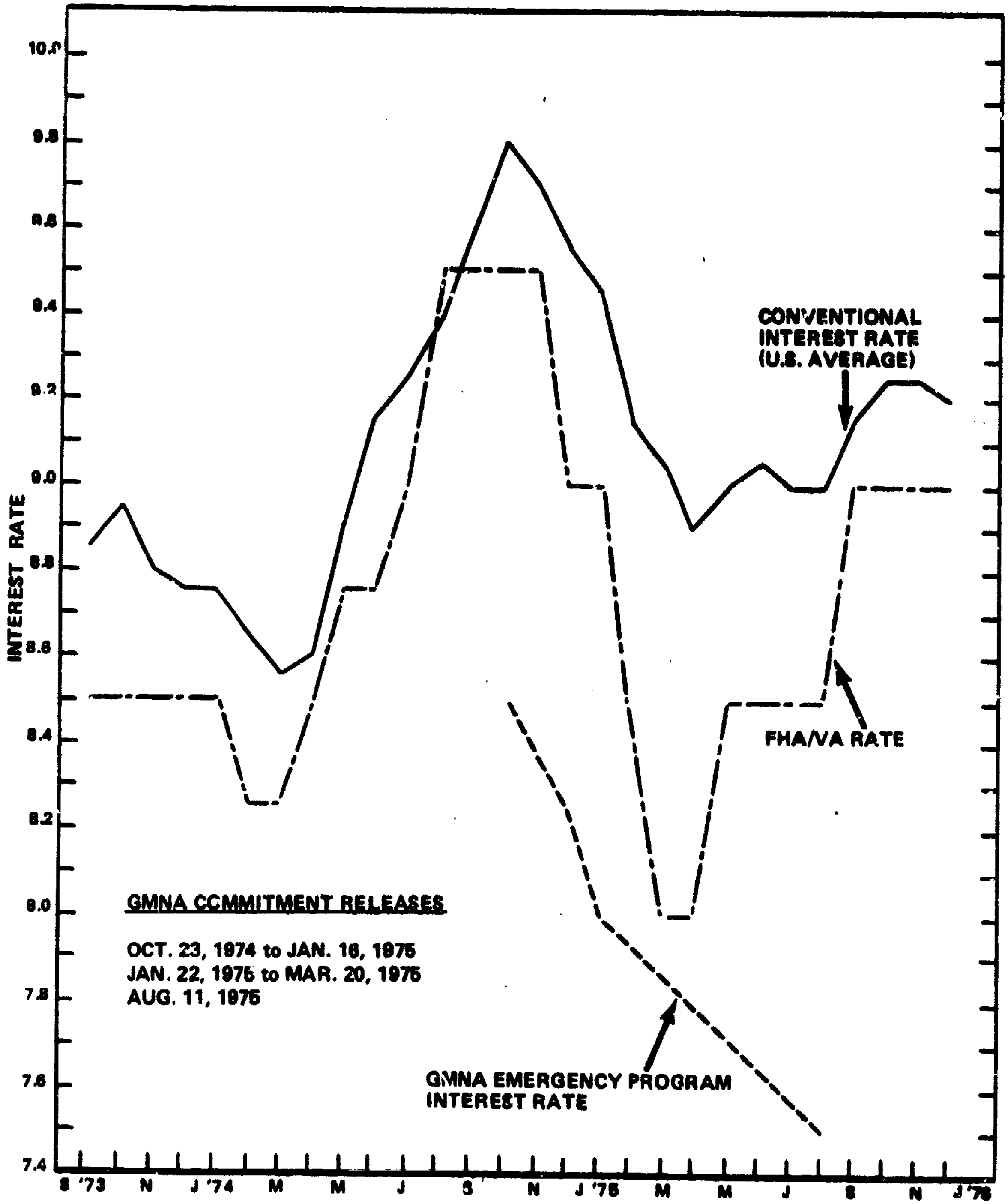
COMPARISON OF GMNA INTEREST RATES WITH CONVENTIONAL AND FHA/VA RATES FOR SINGLE FAMILY HOUSES SEPTEMBER 1973 TO JANUARY 1976



U. S. GENERAL ACCOUNTING OFFICE
SURVEY OF LENDERS PARTICIPATING
IN THE GNMA SINGLE FAMILY EMERGENCY
HOUSING PROGRAM

(Responses of 649 lenders)

I. GENERAL INFORMATION

1. Please record the name and address of your institution.

______________________________
(Name of Institution)

______________________________
(Address)

______________________________

______________________________
(City) (State) (Zip Code)

2. Please provide the name, title, and phone number of the individual who can be contacted if further information is required.

______________________________
(Name)

______________________________
(Title)

______________________________
(Area Code) (Telephone Number)

3. What is your financial institution's classification? (Check one.)

| | | | |
|---|---|---|---|
| 1 - | 350 | Savings and loan | 54.4% |
| 2. - | 160 | Mortgage bank | 24.9% |
| 3 - | 12 | Mutual savings bank | 1.9% |
| 4 - | 111 | Commercial bank | 17.3% |
| 5 - | 10 | Other (Please specify) | 1.6% |

4. Please estimate the dollar volume of your single family mortgage activity for calendar years 1975 and 1976? (Fill in dollar amount.)

(Average range)

1975 $ 5.0 - $24.0 million

1976 $ 5.0 - $24.0 million

II. PROGRAM INFORMATION

The remaining questions deal with various aspects of the GNMA Single Family Emergency Housing Program and focus on three commitment periods as listed below:

(1) October 22, 1974 - January 21, 1975, during which the interest rates were 8¾ percent, 8½ percent, and 8 percent.

(2) January 22-24, 1975, during which the interest rate was 7-3/4 percent.

(3) July 21 - August 1, 1975, during which the interest rate was 7½ percent.

Note: All nonresponses were deleted before presenting responses and calculating percentages. Also, percentages may not total 100 percent due to rounding.

**For each of the commitment periods listed below:**

(a) indicate in Question 5 whether or not you obtained a commitment,
(b) if you did not obtain a commitment for the period check one or more of lines (1) - (7) in Question 6 to indicate why and,
(c) if you did obtain a commitment for the period check one or more of lines (1) - (7) in Question 7 to indicate how you allocated the commitment among builders.

| | Period (1) | | Period (2) | | Period (3) | |
|---|---|---|---|---|---|---|
| Dates: | October 22, 1974 to January 21, 1975 | | January 22-24, 1975 | | July 22, 1975 to August 1, 1975 | |
| Interest rates: | 8½%, 8¼%, 8% | | 7-3/4% | | 7½% | |
| 5. Did you obtain a commitment? | 1- 332 Yes | 2-281 No | 1-290 Yes | 2- 319 No | 1-551 Yes | 2- 71 No |
| 6. For each period in which a commitment was not obtained, check one or more of lines (1) - (7) to indicate why a commitment was not obtained. | | Check one or more ↓ | | Check one or more ↓ | | Check one or more ↓ |
| (1) Not aware of program | | 49 | | 25 | | 3 |
| (2) First come, first served telephone subscription prevented us from participating | | 42 | | 101 | | 11 |
| (3) Needed funds but decided not to get involved with Government paperwork | | 31 | | 35 | | 9 |
| (4) No builders desiring commitments | | 58 | | 58 | | 19 |
| (5) Had sufficient funds to meet mortgage demand | | 84 | | 97 | | 36 |
| (6) Interest rates too high relative to benefits received | | 37 | | 11 | | 0 |
| (7) Other (Please specify)________ | | 42 | | 30 | | 4 |
| 7. For each period in which a commitment was obtained, check one or more of lines (1)-(7) to indicate how you allocated the commitment among builders | ↓ | | ↓ | | ↓ | |
| (1) Divided the commitment received equally among all the builders who requested commitments | 48 | | 47 | | 110 | |
| (2) Divided the commitment received among builders based on a proportion of the amount each requested | 109 | | 108 | | 185 | |
| (3) Gave total commitment to the larger builders | 5 | | 6 | | 14 | |
| (4) Gave total commitment to our regular clients | 64 | | 53 | | 102 | |
| (5) Used a first-come, first-served basis | 114 | | 80 | | 163 | |
| (6) No set procedure for allocation was used | 20 | | 17 | | 37 | |
| (7) Other (Please specify)________ | 35 | | 36 | | 56 | |

BE SURE TO COMPLETE QUESTIONS 5, 6 AND 7 FOR EACH PERIOD.

8. Have you ever (in any of the three periods) canceled or allowed any commitments you received to expire? (Check one.)

1 - 253 Yes (GO TO QUESTION 9) 41.3%

2 - 360 No (GO TO QUESTION 10) 58.7%

9. Below is a list of reasons why you might have canceled or allowed commitments to expire. Considering your total experience under the program, indicate to what extent each reason was responsible for the cancellation(s) or expiration(s). (Check one box for each reason.)

| | Large extent (1) | Substantial extent (2) | Moderate extent (3) | Some extent (4) | Little or no extent (5) |
|---|---|---|---|---|---|
| (1) Builder(s) requested commitments and later backed out | 18 (10) | 13 (8) | 17 (10) | 53 (31) | 70 (41) |
| (2) Builder(s) never completed homes | 18 (11) | 11 (7) | 7 (5) | 35 (22) | 86 (55) |
| (3) Inability to find home buyers | 19 (13) | 11 (7) | 16 (11) | 32 (21) | 73 (48) |
| (4) Inability to find builder(s) desiring commitments | 9 (6) | 1 (1) | 7 (5) | 12 (9) | 109 (79) |
| (5) Lower GNMA rate became available | 47 (29) | 11 (7) | 16 (10) | 23 (14) | 65 (40) |
| (6) Remaining commitment balance was insufficient to underwrite a mortgage | 25 (15) | 7 (4) | 14 (8) | 43 (25) | 82 (48) |
| (7) Other (Please specify)______ | 15 (48) | 3 (10) | 4 (13) | 6 (19) | 3 (10) |

10. Based on your personal experience, please indicate the extent to which you agree or disagree with each of the following statements pertaining to the GNMA Single Family Emergency Housing Program. (Check one box for each statement.)

| | Agree strongly (1) | Agree moderately (2) | Neither agree nor disagree (3) | Disagree moderately (4) | Disagree strongly (5) | No opinion (6) |
|---|---|---|---|---|---|---|
| (1) The GNMA Single Family Emergency Housing Program brought buyers into the market who would not have bought a house at that time without the GNMA below market interest rate. | 171 (29) | 244 (42) | 41 (7) | 67 (12) | 52 (9) | 9 (2) |
| (2) The GNMA Single Family Emergency Housing Program stimulated builders to start new houses they otherwise would not have started without the program. | 167 (28) | 204 (35) | 58 (10) | 93 (16) | 55 (9) | 13 (2) |
| (3) The below market interest rate GNMA Single Family Emergency Housing Program was more effective as a stimulant to new house buying than the up to $2,000 tax credit given in 1975 | 206 (35) | 186 (32) | 81 (14) | 48 (8) | 41 (7) | 27 (5) |

11. Under the GNMA Emergency Housing Program, the commitment period could not exceed 12 months (with a 3-month extension upon approval from GNMA). To what extent do you agree or disagree with each of the following statements. (Check one box for each statement.)

| | 1 Agree strongly | 2 Agree moderately | 3 Neither agree nor disagree | 4 Disagree moderately | 5 Disagree strongly | 6 No opinion |
|---|---|---|---|---|---|---|
| (1) New homes can be planned, built, and sold within 15 months in our area | 306*50 | 196*32 | 24*4 | 44*7 | 42*7 | 5*1 |
| (2) The 15-month period directed the use of commitments to inventory homes (not previously occupied) in our area | 90*16 | 158*28 | 115*20 | 101*18 | 71*12 | 40* 7 |

12. The GNMA Single Family Emergency Housing Program imposed a mortgage limit of $42,000 ($55,000 in selected high cost areas) for mortgages entered into under the October 1974 (Period 1) and the January 1975 (Period 2) commitment periods. Based on your experience, to what extent did the $42,000 mortgage ceiling direct the use of GNMA funds to low- and moderate-income families? (Check one.)

| | | | |
|---|---|---|---|
| 1 - | 172 | Little or no extent | 28.5% |
| 2 - | 162 | Some extent | 26.8% |
| 3 - | 138 | Moderate extent | 22.8% |
| 4 - | 61 | Substantial extent | 10.1% |
| 5 - | 34 | Large extent | 5.6% |
| 6 - | 37 | No opinion | 6.1% |

13. For the July 1975 commitment period (Period 3) 75% of the mortgages could not exceed a mortgage ceiling of $36,000. Based on your experience in your area, to what extent did the $36,000 mortgage ceiling direct the use of GNMA funds to low- and moderate-income families? (Check one.)

| | | | |
|---|---|---|---|
| 1 - | 130 | Little or no extent | 21.2% |
| 2 - | 158 | Some extent | 25.7% |
| 3 - | 157 | Moderate extent | 25.6% |
| 4 - | 95 | Substantial extent | 15.5% |
| 5 - | 48 | Large extent | 7.8% |
| 6 - | 26 | No opinion | 4.2% |

14. Estimate the percentage of buyers, given your underwriting standards, who could not have qualified for the home they purchased without the GNMA below market interest rate? (Fill in percentage.)

(Most frequent range) 10-19 %

15. Please estimate what percentage of new home sales in your area are contingent on the sale of an existing unit. (Fill in percentage.)

(Most frequent range) 70-79 %

16. Which of the following statements best describes the impact of GNMA commitments on your institution's lending activity? (Check one.)

15.4% 1 - 90 We made less of our own funds available for mortgage loans than we would have and used GNMA commitments to make up the difference (i.e., planned to loan $3 million of your own funds for mortgages but instead loaned $2 million of your own funds and utilized GNMA commitments of $1 million so your total mortgage loans equaled $3 million).

70.0% 2 - 410 Made the same amount of our own funds available for mortgages as we would have without the GNMA program.

14.7% 3 - 86 Made more of our own funds available for mortgages than we would have without the GNAM program.

17. Considering only the GNMA Single Family Emergency Housing Program, how did your institution handle the applications of marginal homebuyers who just met the FNMA or FHLMC lending criteria? (Check one.)

1 - 106 36.3% Our institution submitted all marginal homebuyer applications to FNMA or FHLMC for purchase. (GO TO QUESTION 19)

2 - 186 63.7% Our institution did not submit all marginal homebuyer applications to FNMA or FHLMC. (GO TO QUESTION 18)

18. To what extent did you not submit all marginal homebuyer applications to FNMA or FHLMC because of the inability to obtain FNMA or FHLMC approval of mortgages prior to settlement (where an eventual disapproval would have forced your institution to finance the loan). (Check one.)

| | | |
|---|---|---|
| 1 - 69 | Little or no extent | 38.1% |
| 2 - 31 | Some extent | 17.1% |
| 3 - 23 | Moderate extent | 12.7% |
| 4 - 23 | Substantial extent | 12.7% |
| 5 - 35 | Large extent | 19.3% |

19. If you have any additional comments you would like to make on the GNMA Single Family Emergency Housing Program, please do so in the remaining space.

Lender Type--FHLMC 335 or 51.8%
FNMA 312 or 48.2%

U.S. GENERAL ACCOUNTING OFFICE
SURVEY OF HOMEBUYERS RECEIVING LOANS
UNDER THE EMERGENCY HOUSING ACT OF 1974
(Responses of 423 home buyers)

1. Next to the address in the cover letter there is an estimated settlement date for your purchase of the house at that address. Please check the date. Is the date within one month of your actual settlement date? (Check one.)

1 - ☐ Yes

2 - ☐ No

If not, insert the actual date

Month Day Year

2. Are you still living at the address listed in the cover letter? (Check one.)

| | Actual | Percentage |
|---|---|---|
| 1 - ☐ Yes | 409 | 97 |
| 2 - ☐ No | 14 | 3 |

Regardless of your response to Question 2, please complete the questionnaire as it applies to the house addressed in the cover letter.

3. In what county (parish, if applicable) is the house located?

4. Please indicate your housing status prior to the purchase of the house listed in the cover letter. (Check one.)

49% 1 - 207 Owned previous place of residence

12% 2 - 49 Did not own last place of residence, but have owned a residence before.

39% 3 - 167 Had never owned a residence before.

5. At the time you purchased the house, how many people were dependent upon the income(s) of the individual(s) buying the house (include the buyers)?

Average 3.1 people

6. Before you purchased the house at the address listed in the cover letter, a number of factors may have caused you to be in the market for a house. Please indicate the degree of importance the availability of GNMA low interest rate loans had on your decision to look for a house at that time. (Check one.)

1 - 37% Very important

2 - 20% Substantially important

3 - 14% Moderately important

4 - 6% Somewhat important

5 - 22% Of little or no importance

7. What kind of a house did you purchase under the GNMA program? (Check one.)

1 - 37% New house - already built

2 - 24% New house - under construction

3 - 35% New house - to be built

4 - 4% Existing house (previously occupied)

8. Did you make a downpayment on the house? (Check one.)

1 - 402 Yes (GO TO QUESTION 9) 95%

2 - 20 No (GO TO QUESTION 10) 5%

9. Of the total downpayment made on your house please indicate the percentage obtain from each of the following sources.

| | |
|---|---|
| (1) Savings | 38.7 % |
| (2) Sale of previously owned residence | 21.3 % |
| (3) All other sources | 4.0 % |
| TOTAL | 100% |

Note: All nonresponses were deleted before presenting responses and calculating percentages.

10. Indicate the degree of importance that each of the following factors had on your decision to purchase the HOUSE YOU DID purchase. (Check one box for each factor.)

| a/ | VERY IMPORTANT (1) | SUBSTANTIALLY IMPORTANT (2) | MODERATELY IMPORTANT (3) | SOMEWHAT IMPORTANT (4) | OF LITTLE OR NO IMPORTANCE (5) |
|---|---|---|---|---|---|
| (1) House location (i.e. near schools, parks, etc.) | 51 | 24 | 13 | 9 | 3 |
| (2) Size of house | 39 | 41 | 16 | 3 | 1 |
| (3) Style of house | 29 | 32 | 27 | 10 | 2 |
| (4) Price of house | 70 | 22 | 6 | 2 | 0 |
| (5) Availability of below market (GNMA) interest rate loan | 53 | 21 | 14 | 6 | 6 |
| (6) Size of downpayment | 44 | 28 | 15 | 6 | 7 |
| (7) Size of monthly payments | 57 | 26 | 10 | 4 | 2 |
| (8) Increased income | 16 | 17 | 19 | 16 | 33 |
| (9) Tax benefit (interest deduction) | 31 | 25 | 21 | 13 | 10 |
| (10) Potential for appreciation thru increased prices. | 28 | 34 | 21 | 8 | 10 |
| (11) Availability of up to $2,000 tax credit (If not available at time of purchase place "NA" in column 5.) | 52 | ·17 | 14 | 4 | 14 |
| (12) Other (please specify) ____ | | | | | |

11. If a low interest rate (GNMA) loan had not been available at the time you bought your house would you have delayed the purchase of a house?

1 - 159 Yes (GO TO QUESTION 13) 38%

2 - 260 No (GO TO QUESTION 12) 62%

12. If you would not have delayed your purchase of a house, what would you have done? (Check the most appropriate box.)

18% 1 - 47 Purchased a lower priced new house.

12% 2 - 30 Purchased a lower priced existing (previously occupied) house.

53% 3 - 135 Purchased the same house.

11% 4 - 28 Purchased a comparably priced new house.

2% 5 - 6 Purchased a comparably priced existing (previously occupied) house.

4% 6 - 9 Other (please specify) ____

13. If a low interest rate (GNMA) loan had not been available at the time you bought your house; please indicate the increase in monthly payments you would have been willing and able to pay at that time?

1 - 35% No more per month

2 - 6% $1 - $6 more per month

3 - 10% $7 - $12 more per month

4 - 7% $13 - $18 more per month

5 - 20% $19 - $25 more per month

6 - 6% $26 - $31 more per month

7 - 3% $32 - $38 more per month

8 - 4% $39 - $45 more per month

9 - 3% $46 - $51 more per month

10 - 6% $52 or more per month

14. If you have any additional comments regarding the GNMA program, please attach a sheet with your comments. Thank you.

a/Rows may not add to 100 percent due to rounding.

SURVEY OF BFLOW MEDIAN INCOME HOME BUYERS RECEIVING LOANS
UNDER THE EMERGENCY HOUSING ACT OF 1974
(Below median income home buyers--302 responses)

1. Next to the address in the cover letter there is an estimated settlement date for your purchase of the house at that address. Please check the date. Is the date within one month of your actual settlement date? (Check one.)

1 - ☐ Yes

2 - ☐ No

If not, insert the actual date

Month Day Year

2. Are you still living at the address listed in the cover letter? (Check one.)

1 - ☐ Yes 298 99.0%

2 - ☐ No 3 1.0%

Regardless of your response to Question 2, please complete the questionnaire as it applies to the house addressed in the cover letter.

3. In what county (parish, if applicable) is the house located?

______________________

4. Please indicate your housing status prior to the purchase of the house listed in the cover letter. (Check one.)

138 46% 1 - ☐ Owned previous place of residence

27 9% 2 - ☐ Did not own last place of residence, but have owned a residence before.

135 45% 3 - ☐ Had never owned a residence before.

5. At the time you purchased the house, how many people were dependent upon the income(s) of the individual(s) buying the house (include the buyers)?

Average 3 people

6. Before you purchased the house at the address listed in the cover letter, a number of factors may have caused you to be in the market for a house. Please indicate the degree of importance the availability of GNMA low interest rate loans had on your decision to look for a house at that time. (Check one.)

1 - 115 Very important 38.5%

2 - 73 Substantially important 24.4%

3 - 41 Moderately important 13.7%

4 - 14 Somewhat important 4.7%

5 - 56 Of little or no importance 18.7%

7. What kind of a house did you purchase under the GNMA program? (Check one.)

1 - 103 New house - already built 34.3%

2 - 68 New house - under construction 22.

3 - 115 New house - to be built 38.

4 - 14 Existing house (previously occupied) 4.

8. Did you make a downpayment on the house? (Check one.)

1 - 295 Yes (GO TO QUESTION 9) 99%

2 - 3 No (GO TO QUESTION 10) 1%

9. Of the total downpayment made on your house please indicate the percentage obtain from each of the following sources.

| | |
|---|---|
| (1) Savings | 63.8 % |
| (2) Sale of previously owned residence | 46.3 % |
| (3) All other sources | 21.8 % |
| TOTAL | 100% |

Note: All nonresponses were deleted before presenting responses and calculating percentages.

10. Indicate the degree of importance that each of the following factors had on your decision to purchase the HOUSE YOU DID purchase. (Check one box for each factor.)

| | VERY IMPORTANT (1) | SUBSTANTIALLY IMPORTANT (2) | MODERATELY IMPORTANT (3) | SOMEWHAT IMPORTANT (4) | OF LITTLE OR NO IMPORTANCE (5) |
|---|---|---|---|---|---|
| (1) House location (i.e. near schools, parks, etc.) | 44 | 25 | 17 | 9 | 5 |
| (2) Size of house | 39 | 37 | 18 | 5 | 1 |
| (3) Style of house | 19 | 35 | 32 | 11 | 3 |
| (4) Price of house | 75 | 18 | 4 | 1 | 2 |
| (5) Availability of below market (GNMA) interest rate loan | 53 | 25 | 13 | 4 | 5 |
| (6) Size of downpayment | 45 | 26 | 16 | 7 | 6 |
| (7) Size of monthly payments | 62 | 24 | 10 | 3 | 1 |
| (8) Increased income | 18 | 13 | 26 | 13 | 30 |
| (9) Tax benefit (interest deduction) | 28 | 23 | 20 | 10 | 19 |
| (10) Potential for appreciation thru increased prices. | 31 | 29 | 17 | 10 | 13 |
| (11) Availability of up to $2,000 tax credit (If not available at time of purchase place "NA" in column 5.) | 45 | 26 | 8 | 8 | 13 |
| (12) Other (please specify) ______ | | | | | |

11. If a low interest rate (GNMA) loan had not been available at the time you bought your house would you have delayed the purchase of a house?

1 - 99 Yes (GO TO QUESTION 13) 33.8%

2 - 194 No (GO TO QUESTION 12) 66.2%

12. If you would not have delayed your purchase of a house, what would you have done? (Check the most appropriate box.)

21.9% 1 - 43 Purchased a lower priced new house.

13.8% 2 - 27 Purchased a lower priced existing (previously occupied) house.

46.4% 3 - 91 Purchased the same house.

8.7% 4 - 17 Purchased a comparably priced new house.

5.1% 5 - 10 Purchased a comparably priced existing (previously occupied) house.

4.1% 6 - 8 Other (please specify) ______

13. If a low interest rate (GNMA) loan had not been available at the time you bought your house; please indicate the increase in monthly payments you would have been willing and able to pay at that time?

1 - 106 No more per month 41.2%

2 - 17 $1 - $6 more per month 6.6%

3 - 26 $7 - $12 more per month 10.1%

4 - 28 $13 - $18 more per month 10.9%

5 - 40 $19 - $25 more per month 15.6%

6 - 15 $26 - $31 more per month 5.8%

7 - 7 $32 - $38 more per month 2.7%

8 - 0 $39 - $45 more per month 0

9 - 10 $46 - $51 more per month 3.9%

10 - 8 $52 or more per month 3.1%

14. If you have any additional comments regarding the GNMA program, please attach a sheet with your comments. Thank you.