EMBARGOED FOR RELEASE
UNTIL 10:30 AM, EDT

OCTOBER 18, 1974

Office of the White House Press Secretary

THE WHITE HOUSE

THE EMERGENCY HOME PURCHASE ASSISTANCE ACT OF 1974 (S. 3974)

FACT SHEET

President Ford today signed into law the Emergency Home Purchase Assistance Act of 1974. The President had urged enactment of similar legislation in his address to a Joint Session of Congress on October 8th.

The Act extends, on a temporary basis, the advantages offered by the Government National Mortgage Association (GNMA or Ginnie Mae) to mortgages which are not Federal Housing Administration (FHA) insured or Veterans Administration (VA) guaranteed -- so called "conventional" mortgages. Three billion dollars -- an amount sufficient to finance about 100,000 new homes -- would be available. The proposed program will be in addition to the $9.9 billion FHA/VA tandem programs announced in January and May and the $3 billion Federal Home Loan Mortgage Corporation (FHLMC) conventional mortgage purchase program announced in May.

GNMA has aided in creating a supply of credit for mortgages on new homes insured by FHA or guaranteed by VA by

-- assuring, through commitments in advance, purchase of mortgages at a pre-determined price.

-- having agreed to a lower-than-market interest rate on the mortgage at the time such commitment to purchase is made, subsidizing market interest rates in the event market interest rates do not fall by the time GNMA purchases the mortgage pursuant to its commitment.

-- guaranteeing, on a "full faith and credit basis," obligations secured by such mortgages.

BACKGROUND - HOUSING INDUSTRY SITUATION CRITICAL

Over the past 23 months

-- housing starts have dropped from 2.51 million units to 1.12 million units.

-- unemployment in the construction industry is 12.4 percent and climbing, with over a half million construction workers now unemployed.

-- many homebuilders are in severe financial difficulty.

FEATURES OF THE EMERGENCY HOME PURCHASE ASSISTANCE ACT OF 1974

By making conventional mortgages eligible for purchase by GNMA, builders and homebuyers will be assisted where home mortgage credit is scarce or non-existent.

MORE

1. Level of Commitments. Aggregate amount of commitments and mortgages which GNMA could hold at any time, i.e. have purchased and not resold, could not exceed $7.75 billion. Initial programs aggregating $3 billion of mortgage commitments, or enough to finance about 100,000 new homes, is contemplated. Any additional programs will be activated as circumstances require.

2. Mortgage Amounts, Interest Rates, Fees and Downpayment Requirements. The program would provide for a maximum mortgage amount of $42,000. Under the formula provided by the law, the mortgage interest rate will be determined on the basis of yields on six to twelve year Treasury issues for the month preceeding the month in which the GNMA commitments is made plus one-half of one percent (50 basis points). Under this formula, the mortgage rate for commitments made in October would be somewhat above, the rate offered on GNMA tandem programs for FHA/VA mortgages -- presently 8-3/4%. Twenty percent downpayments would be required with an exception for down to 5% downpayments if the additional mortgage amount is covered by a qualified private mortgage insurance contract so as to minimize cost of mortgagor defaults. There will also be a commitment fee and other fees to cover reserves for losses and certain financing costs.

3. GNMA Disposition of Conventional Mortgages. Following the precedent of existing law, GNMA could, depending upon market or other factors, sell mortgages to the Federal National Mortgage Association (FNMA) or FHLMC, sell mortgages with a provision for pooling by FNMA or FHLMC or other approved issuers and sale by such issuers of GNMA-guaranteed "pass through" securities or bond type securities on the market or to the Federal Financing Bank; or issue its own mortgage backed securities for sale to the Federal Financing Bank.

4. Cost and Budget Implications. Any resulting subsidy would be paid out of corporate funds and ultimately from Treasury borrowing. Dollar amount of mortgages purchased would not be excluded from budget outlays, but would appear as outlays in any fiscal year only to the extent they are not offset by sales that year. However, any losses on resale -- which can result if market yields at the time of resale are less than the yield at which GNMA bought the mortgage, will appear as outlays.

# # #