

PROPOSED CHANGES IN HOME FINANCE

Gertrude S. Fish
University of Maryland

Housing measures currently proposed and debated in the House and Senate resemble those of the 1930's in that they deal mostly with housing credit and finance. Much space in the newspapers lately has been taken up with discussions of variable rate mortgages (VRMs). David T. Cook, financial correspondent for the *Christian Science Monitor*, writes that the Federal Home Loan Bank Board (FHLBB) proposes that federally chartered Savings and Loan Associations (S&Ls) be allowed to issue VRMs by September 1975, arguing that S&Ls would then be able to pay higher interest rates on savings accounts and thus attract more funds for mortgages. Some state-chartered S&Ls offer VRMs already with the result that no other mortgage option survives for their customers. While interest rates have been declining lately, many expect them to go back up by summer when the government will be financing the budget deficit.

Dr. Oliver Jones, a mortgage banker who writes a column for the *Washington Post*, praises the Canadian approach to VRMs. Canadian trust companies issue five year mortgages which amortize as if they were 25-to-30 year mortgages except that the outstanding balance must be refinanced at the prevailing interest rate every five years. Even if the interest rate goes up the monthly payment remains the same in the Canadian scheme, however, resulting in a longer term and (doubly) higher cost. The proposed FHLBB plan

would give the borrower the choice of raising his monthly payment.

Kenneth Harney, in an article in the *Washington Post* February 22nd, summarized three bills currently under consideration in the House. Henry S. Reuss of Wisconsin, the chairman of the Banking and Currency Committee (which is also the committee which initiates housing legislation in the House) is sponsoring a bill that would subsidize the interest rate on mortgages for middle income home buyers. HUD would pay the difference between a 6 per cent rate and the market rate for the first three years of a mortgage; the fourth year the subsidy would be cut in half; after that no subsidy. The limit on house price would be \$38,000, and 80 per cent of the mortgages in the program would be required to be for new construction. The limit on the program would be \$650 million in subsidies a year for the next two years. Reuss's bill also urges the Federal Reserve Board to expand the money supply at a rate of six per cent a year in order to keep interest rates down.

The second bill being considered in the House is sponsored by the housing subcommittee Democrat Thomas Ashley of Ohio. Under the provisions of his bill any homeowner who could demonstrate that his income had dropped by more than 20 per cent as a result of unemployment or "other adverse economic conditions" would be eligible for HUD loans to make up to \$375 per month on his mortgage payments for up to two

years. Harney points out that former HUD Secretary James Lynn would be eligible because his pay went from \$60,000 at HUD to \$42,000 in his new job at the Office of Management and Budget.

Michigan's Garry Brown, also on the housing subcommittee, is sponsoring a bill the purpose of which is to sell "the estimated 450,000 unsold new units builders are stuck with around the country" (Harney). His bill would authorize HUD to subsidize the interest rate enactment. If the market interest rate went above 8½ per cent his bill provides for payment of three points by the builder and one point by the buyer to make up the difference in yield to the lender. No income or house price limits are mentioned, so HUD could, if it chose, subsidize expensive homes for upper income buyers.

The membership of the housing subcommittees of the House and Senate are listed here for your information. These committees were formed the first part of February and are beginning their work, so your communications to them might be especially effective at this time.

U.S. House of Representatives

Subcommittee on Housing and Community Development of the

Committee on Banking, Currency and Housing

Ninety-Fourth Congress
Washington, D.C. 20515

William A. Barrett, PA, Chairman
Leonor D. Sullivan, Missouri
Thomas L. Ashley, Ohio
William S. Moorhead, Pennsylvania
Robert G. Stephens, Jr., Georgia
Fernand J. St. Germain, Rhode Island
Henry B. Gonzalex, Texas
Parren J. Mitchell, Missouri
James M. Hanley, New York
Walter E. Fauntroy, D.C.
Lindy Boggs, Louisiana
Jerry M. Patterson, California
Andrew Maguire, New Jersey
Harold E. Ford, Tennessee

10 *Housing Educators Journal*

John J. Lafalce, New York
Les AuCoin, Oregon
Thomas M. Rees, California
Garry Brown, Michigan
J. William Stanton, Ohio
John H. Rouselot, California
Chalmers P. Wylie, Ohio
Steward B. McKinney, Connecticut
John B. Conlan, Arizona
Richard Kelly, Florida
Charles E. Grassley, Iowa
Gerald R. McMurray, Staff Director

Committee on Banking, Housing and Urban Affairs

United States Senate
Room 5300, Dirksen Building

William Proxmire, Chairman, Wisconsin
Harrison A. Williams, New Jersey
Alan Cranston, California
Joseph R. Biden, Jr., Delaware
Robert Morgan, North Carolina
Edward W. Brooke, Massachusetts
Jesse Helms, North Carolina
John Sparkman, Alabama
Thomas J. McIntyre, New Hampshire
Adlai E. Stevenson, Illinois
Robert Morgan, North Carolina
John Tower, Texas
Bob Packwood, Oregon
Jake Garn, Utah

Subcommittees
Housing and Urban Affairs

Proxmire
Cranston
Tower
Sparkman, Chairman
Williams
Biden
Packwood
McIntyre
Brooke
Garn

*Report submitted by Trudy Fish,
University of Maryland*