Richard Nixon

XXXVII *President of the United States: 1969-1974*

135 - Statement About Plans and Pending Legislation To Revitalize the Housing Market

May 10, 1974

THE MAIN thrust of the economic policies of this Administration is the fight against inflation, but in carrying it forward, we are also seeking to minimize problems on other fronts.

One such problem which has arisen has been a weakening of the housing market. As a means of controlling inflation, the Federal Reserve Board is carefully--and appropriately--limiting the growth in the supply of money so that general demand will be dampened and inflation can be reduced. An inevitable consequence of limiting the supply of money is that interest rates have risen and the amount of money available for loans of all kinds has become harder to obtain.

The higher cost of money affects all sectors of the economy, but none more directly than the housing market. The Nation's housing industry, which had been producing homes at record high rates in 1971, 1972, and 1973, is now operating far below its potential. Savings institutions find they have less money available to lend, as depositors and potential depositors seek higher rates of interest on market instruments. With this shrinkage of available housing funds, home buyers are either unable to find mortgage money, or the mortgages that are available are offered on terms which fewer families can meet. The home builder finds it increasingly difficult to sell the homes he has already built, and with the uncertainties of the availability of such mortgage funds, he is understandably reluctant to produce more housing. As builders curtail operations, workers in the construction trades face the prospect of increased unemployment.

I pledged 2 weeks ago that the Federal Government would take action to alleviate these conditions, and today I am announcing a four-point plan to do just that. These actions will assure the availability of more than $10 billion of mortgage money for the housing market during 1974 beyond the funding already provided through prior actions.

I. IMMEDIATE ACTIONS

1. INCREASING AUTHORIZATION FOR TANDEM PLAN

The Tandem Plan is a very useful instrument for supporting the housing market in times of credit stringency. Under this plan, the Government National Mortgage Association (GNMA) commits mortgage money to lenders making FHA-insured or VA-guaranteed mortgage loans on new homes. When the home is completed and sold, GNMA purchases the mortgage from the lender. Mortgages purchased under the Tandem Plan are resold by GNMA at a price reflecting the prevailing market interest rate.

The advantage of the plan is that with the GNMA commitment, the home buyer, builder, and lender have an assured source of financing at a known, favorable interest rate. The cost to the Government is limited to the loss which GNMA realizes if its selling price for a mortgage is less than its original purchase price.

In January of this year, I approved authority for GNMA to make commitments to purchase up to $6.6 billion of FHA/VA mortgages covering new construction and bearing a 7 3/4 percent interest rate. This authority was enough to provide financing for at least 200,000 new housing units. As should be expected, today's higher market interest rates and the decreased availability of mortgage money have greatly accelerated general use of the plan by lenders in the last few months. It is clear that the original authority for $6.6 billion of commitments will be fully used long before the end of the year.

I am today authorizing GNMA to extend Tandem Plan up to $3.3 billion of mortgages, enough to finance at least 100,000 additional homes. The interest rate on these mortgages will be 8 percent which is even lower in relation to today's market rates than the 7 3/4 percent was in relation to the market in January.

2. INITIATING A NEW MORTGAGE COMMITMENT PROGRAM

At my request, the Federal Home Loan Bank System is initiating a new commitment program which will cover mortgages other than FHA or VA mortgages. This new conventional mortgage program will allow the Federal Home Loan Bank System to buy up to $3 billion worth of new conventional mortgages from savings institutions during the remainder of 1974. The program should finance more than 100,000 housing units. These commitments will be made on conventional mortgages of $35,000 or less, covering new construction. The interest rate will be 8 3/4 percent, which is substantially below the market rate prevailing in many parts of our country. In the event conditions in the money market do not permit the Federal Home Loan Bank System to obtain the necessary funds in the private market, the Treasury will provide financing under its statutory standby loan authority.

The conventional mortgage market normally does not require this type of Government support, but present circumstances warrant these unusual measures. It is my hope and expectation that future market conditions, together with the improvements in the flow of mortgage money that should result from legislation I have proposed, would obviate any need to use such Treasury authority again.

3. MAKING BELOW-MARKET ADVANCES TO THRIFT INSTITUTIONS

At my request the Federal Home Loan Bank System will make available up to $4 billion of advances to thrift institutions at a rate below the system's current borrowing costs. Those thrift institutions which are actively lending money for home financing will be favored in receiving advances. The system already has advances outstanding of over $16 billion, a record level of support to the thrift institutions.

4. ASSISTING THE MOBILE HOME MARKET

Under legislation effective earlier this year, I am authorizing a new FHA Mobile Home Loan Insurance Program which should make purchase of mobile homes easier than it has been in the past. The new rules will provide for FHA-insured loans for mobile homes on terms substantially better than those presently available in the market. The program will also make more funds available to mobile home purchasers through the use of GNMA's Mortgage-Backed Securities Program.

II. PENDING LEGISLATIVE PROPOSALS

None of the actions noted above requires Congressional approval. But if the Nation is to build the foundation for a more stable housing industry, less susceptible to the market fluctuations which now characterize the housing market, certain steps must be taken which require Congressional action.

On September 19, 1973, I proposed a number of measures to the Congress in a special housing message. None of these measures has been enacted. Together, they will go far toward establishing an orderly housing market. In particular, I want to call attention to five of them:

--Extension of the authority to issue FHA insurance and extension of the maximum size of mortgages which GNMA can purchase. Without these steps, FHA insurance and GNMA's activities would be stopped in October at a time when they are most needed.

--Increases in the size of mortgages eligible for FHA insurance and reduction of down payment requirements. Such changes would appropriately reflect the higher prices of houses today.

--Authority for the FHA and VA inter. est rates to adjust automatically to the market. Trying to fix an interest rate administratively results in market discrepancies that act to divert funds from FHA and VA mortgages and to increase discount "points" in the sale of houses. Neither is desirable. A free-floating FHA/ VA interest rate would eliminate both. For example, the FHA and the VA today are raising the maximum interest rate on their insured mortgage loans to 8 3/4 percent from the former rate of 8 1/2 percent. This rate more closely corresponds with the market interest rate and will reduce the number of "points" which are now being charged under VA and FHA loans. This will be the fifth time in the last 12 months that the FHA rate has been changed administratively in the effort to adjust to market rates. A floating system would allow these changes to be made automatically to adjust to the market.

--Authority for FHA mortgage insurance to be written on a coinsurance basis. This provision would streamline FHA processing, reduce the default rate, and permit a lower FHA insurance premium.

--Authority for more flexible repayment plans on FHA-insured mortgages. This experimental measure would allow, among other things, for somewhat lower payments in early years, which will be of particular benefit to young families whose earnings are likely to rise in future years. This procedure is already allowed by the Federal Home Loan Bank Board for conventional loans.

I urge swift enactment of all of these measures as well as the prompt enactment of the Financial Institutions Act now before the Congress. The coordinated and interrelated financial reforms incorporated in the latter act, such as the mortgage interest tax credit, will greatly strengthen our financial institutions, offer better financial services and greater rewards to savers, and assure a greater and more stable flow of funds into mortgage markets without the need for Government intervention. All of these measures are important and merit prompt action.

While the initiatives announced today are aimed at providing increased money in the mortgage market, I would point out that in addition to these proposals, I have already authorized or requested budget authority from the Congress for 418,000 units of subsidized housing for low-income families. Some 290,000 of these units are for new construction, and the remainder are for leasing of existing housing units.

These are positive steps, but the best long-range solution to the housing problem is to conquer the inflation problem. Inflation picks at the pocketbook for other items; it leaves less to save for a down payment on better housing or for higher monthly payments for better housing.

Inflation increases the cost of the housing itself, as higher prices for money, for land, for labor, for building materials, push up the cost of each housing unit.

That is why the most important steps which we can take to assure a healthy housing industry and more possibilities for home ownership are those which tend to lower the rate of inflation and raise real income.

Note: On May 10, 1974, Secretary of Housing and Urban Development James T. Lynn met with the President to discuss Administration actions to alleviate conditions in the housing market.

On the same day, the White House released a fact sheet and the transcript of a news briefing on the plans and pending legislation to deal with the housing market situation. Participants in the news briefing were Secretary Lynn and Assistant Secretary of Housing and Urban Development for Housing Production and Mortgage Credit Sheldon B. Lubar.

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