Bennett

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BACKGROUND AND HISTORY 1975

FNMA

Federal National Mortgage Association

FOREWORD

This edition of the "Background and History" represents a revision and update of the 1973 issue. The "Background and History" was introduced in order to provide readers with an analysis of the considerations which led to the creation of the Federal National Mortgage Association and its subsequent development. It also discusses some of the economic and credit market conditions influencing the mortgage market and FNMA activity. The objective of this revision is an update of the history of the corporation, its programs, practices, and activity.

Government activities carried on by FNMA through September 30, 1968, are included in the appendices. Information on those programs since that date are available from the Government National Mortgage Association.

The current revision represents the work of our economics staff with assistance from several other departments.

Oakley Hunter
Chairman of the Board and President

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BACKGROUND AND HISTORY

The Federal Government has been interested in housing and housing problems for a little more than three quarters of a century,[1] but its active and continuing concern for the housing market covers a span of four decades. Incident to the development of housing policies during the period, it became increasingly evident that housing stability and growth are basically dependent upon mortgage credit and the degree to which it is available.

The Federal Government entered the mortgage field in the 1930's for essentially two major reasons. First, the disarray in the market was very great due to the illiquid position in which many of the financial institutions found themselves. Second, the fear that was evident in the market during this period indicated the need for some way of developing conditions that would lead to long term solvency.

During the pre-1938 period, immediate or short-term housing problems were met with a succession of Federal programs which ranged from emergency relief measures to more far-reaching steps to bring about fundamental improvements in the financing and the distribution of the national housing supply. Since then, and after several years of thorough study by the Congress, a basic coordination and a fundamental policy and objective of Federal housing operations have gradually been developed.

The initial endeavor of the Federal Government to create a Government-sponsored source of liquidity for residential mortgage financing was the establishment of the Federal Home Bank System. The system, which was created under the authority of the Federal Home Loan Bank Act,[2] was intended to operate largely for the accommodation of savings and loan associations and cooperative banks which specialize in home financing to a greater extent than other types of financial institutions. In addition to this, the 1932 Act authorized the Federal Home Loan Banks to make direct loans to home buyers who were otherwise unable to find private financing for the homes they wished to purchase or refinance.

The authority of the Federal Home Loan Banks to make direct loans to individuals was repealed with the enactment of the Home Owners' Loan Act in 1933. The Home Owner's Loan Corporation (HOLC), created by the act, was empowered for three years after its establishment to refinance existing indebtedness on 1-to-4 family dwellings of borrowers who were faced with the loss of their homes through foreclosure or tax sales. [3]

The HOLC operations marked the beginning of the utilization of large-scale Federal commitments and obligations to supplement existing supplies of private capital available for home construction and home financing.

The Federal Housing Administration (FHA) was another depression-born Federal Agency designed

[1] Examples of the Federal Government's direct participation in housing and home financing activities are listed on pages 19-20.

[2] P.L. 304, 72d Congress, approved July 22, 1932.

[3] P.L. 43, 73d Congress, approved June 13, 1933. During the three year period ended June 12, 1936, HOLC refinanced the home indebtedness on 1,017,821 individual homes in the aggregate amount of $3,093.4 million, principally through the issuance of tax-exempt HOLC bonds to the holders of the mortgages and by the payment in cash of delinquent taxes, assessments and other such items. As a result of its operations, and after paying all costs of its activities, HOLC returned net earnings of some $14 million to the United States Treasury as of December 31, 1951. The HOLC's corporate existence was terminated February 3, 1954.

to improve the home financing system. It was created by the National Housing Act, approved June 27, 1934.[4] This provided for low down payment loans with the FHA insuring the repayment of principal and interest. The fully amortized loan, which had been an innovation of the HOLC, was one of the FHA's outstanding features. It has subsequently become the staple of the modern day mortgage. In addition, the high loan-to-value ratio of the FHA mortgage significantly broadened the market for homes, making it possible, for the first time, for home ownership to be financially competitive with home rental.

To qualify under the FHA program the mortgage, the mortgagor and the home itself had to meet standardized criteria. This standardization was the key to the development of a nationwide market of government-underwritten loans. For the first time, for example, a lender in New York City could with some confidence purchase government-insured mortgages from an originator in Topeka without even seeing the property or interviewing the mortgagor.

An additional step taken by the Federal Government to promote the creation of some secondary facility for marketing residential housing mortgages was provided by Title III of the National Housing Act. This title provided for the establishment of national mortgage associations, which were to be private organizations chartered and supervised by the Federal Housing Administrator, and authorized them to borrow the funds needed for their operations through the sale to the public of notes, bonds, debentures, or other such obligations.

Although it was generally believed that no difficulty would be experienced in establishing the acceptability of mortgages which had been insured by the FHA under the provisions of the National Housing Act, in fact, some mortgage lenders would have little to do with these mortgages.

The home building industry needed a source of mortgage credit to be made available to home purchasers by direct borrowing from private financial institutions, or a means of enabling lending institutions to convert their already existing home mortgage investments into new credit. Many financial institutions, even those with liquidity, were reluctant to lend in the environment of the 1930's, especially on long terms and with moderate down payments. Because of the foregoing, a market in which originators of mortgages could sell their loans was needed, not only to provide liquidity for FHA-insured mortgages, but also to establish lender confidence in such mortgages.

The Act gave the Federal Housing Administrator the authority to charter national mortgage associations which were designed to assist indirectly in satisfying the need for home construction credit. The primary purpose of the associations was to purchase, hold, or sell FHA-insured mortgage loans which had been originated by private lenders.

The creation of this supplementary source of home mortgage credit was expected to generate a greater degree of lender confidence in FHA-insured loans, provide a means whereby an interchange of mortgage funds could be more effectively accomplished between capital surplus and capital shortage areas and establish more equitable national interest rates. As primary lenders obtained a more dependable market for FHA mortgages, it was expected that they would use the funds obtained from the sale of existing mortgages for investment in new mortgages.

Notwithstanding the inducements provided by Title III of the National Housing Act for private enterprise to organize national mortgage associations, no private mortgage associations were formed under authority of the legislation. The statutory authority of the Federal Housing Administrator to charter private national mortgage associations was repealed by the Housing Act of 1948.[5]

In March 1935, the RFC (Reconstruction Finance Corporation) created The RFC Mortgage Company under section 5(c) of the RFC Act[6] ". . . to assist in the re-establishment of a normal mortgage market." The new organization was intended to accomplish a variety of purposes, including the origination and financing of mortgages on apartment houses, hotels, and office buildings if financing was not obtainable at reasonable rates from private sources. Its activities were originally limited to loans for new construction or to the financing of income-producing real estate; however, in order to ease the construction industry's financing problems, which resulted from the lack of an adequate private secondary market, officials of the FHA

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[4] P.L. 479, 73d Congress, approved June 27, 1934.

[5] P.L. 864, 80th Congress, approved July 1, 1948.

[6] Section 5(c) was added to the RFC Act on January 1, 1935, by P.L. 1, 74th Congress. The Company was initially furnished with a $10 million revolving fund by the RFC which was later expanded to $25 million. Needed borrowings were effected from the RFC. This section also authorized the RFC to subscribe to the capital stock of national mortgage associations.

and the RFC made arrangements to have the RFC Mortgage Company assist in the development of the mortgage market by its purchases of certain FHA-insured mortgages covering residential housing.[7] Purchases of VA-guaranteed mortgages were begun by The RFC Mortgage Company in October 1946,[8] and purchases of both FHA and VA mortgages were thereafter continued through 1948 under contracts entered into on or before June 30, 1947, at which time The RFC Mortgage Company was ordered to be dissolved.[9]

EARLY HISTORY OF FNMA

It had become apparent by early 1938 that the volume of mortgage purchases by the RFC Mortgage Company might be insufficient to meet the mortgage demands of the housing industry. In recognition of this fact and also because no national mortgage association had been established under the existing legislation, the President of the United States requested on February 8, 1938, that the Chairman of the RFC organize a national mortgage association. The new organization was designed to provide assistance to the mortgage market by purchasing from lending institutions FHA-insured mortgages on homes on which construction had begun after December 31, 1936.

In compliance with the Presidential directive and pursuant to Title III of the National Housing Act, the organization known today as the Federal National Mortgage Association (FNMA) was chartered on February 10, 1938. The original charter, issued by the Federal Housing Administrator, was under the name "National Mortgage Association of Washton." On April 1, 1938, however, the name was changed to "Federal National Mortgage Association."[10] The Association began operations with initial capital of $10 million and paid-in surplus of $1 million provided by the RFC, which maintained supervisory control over the Association. FNMA remained a subsidiary of the RFC until September 7, 1950. The first purchase of mortgages was made by the Association on May 5, 1938.[11]

In 1944, the Serviceman's Readjustment Act of 1944, more commonly known as the GI Bill of Rights, was enacted. It provided for a mortgage guarantee program in many ways similar to the existing FHA program. The major difference, however, was that the VA loan provided a percentage guarantee of the amount of the loan up to a total dollar ceiling for each veteran. In 1948, FNMA was authorized to purchase these loans and its first purchase was made in 1949.

On September 7, 1950, the Association was transferred to the Housing and Home Finance Agency (later the Department of Housing and Urban Development).[12] The transfer was undertaken in order to better coordinate the secondary market functions of the Association with related housing matters under the direction of HHFA.

THE FEDERAL NATIONAL MORTGAGE ASSOCIATION CHARTER ACT – 1954

For several years various groups or organizations interested in housing and home financing had advocated the formation of a secondary market

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[7] During the period from September 1935 through 1948, purchases under contracts of The RFC Mortgage Company included 63,424 FHA-insured mortgages in the aggregate amount of $252.2 million covering residential housing on which construction had begun on or after April 1, 1935.

[8] Purchases of VA mortgages were authorized by P.L. 656, 79th Congress, approved August 7, 1946. Under this authority, The RFC Mortgage Company purchased 24,070 VA-guaranteed mortgages totaling $140.8 million during the period from October 1946 through 1948.

[9] P.L. 132, 80th Congress, approved June 30, 1947. Actual dissolution occurred April 8, 1948. The RFC Mortgage Company's portfolio of mortgages at the end of June 1947 was transferred to the RFC. Under Reorganization Plan No. 2 of 1954, dated April 19, 1954, and effective July 1, 1954, the remainder of the RFC Mortgage Company's portfolio consisting of 58 FHA-insured mortgages ($0.1 million), 14,965 VA-guaranteed mortgages ($61.9 million), and 12 direct loans ($2.2 million) – a total of 15,035 loans aggregating $64.2 million – was transferred to the Federal National Mortgage Association; the same Plan also assigned to the Association the task of liquidating for the Secretary of the Treasury four Defense Homes Corporation loans (then under the jurisdiction of the RFC) having unpaid principal balances of $41.5 million.

[10] The Board of Directors authorized the change in corporate name to the Federal National Mortgage Association on April 1, 1938, subject to approval by the Federal Housing Administration, which was given on April 11, 1938.

[11] After temporarily suspending the purchase of FHA-insured mortgages following the creation of the Association, The RFC Mortgage Company re-entered the residential housing field in July 1938 to lend further support to the FHA-insured mortgage market by purchasing residential housing mortgages which were ineligible for purchase by the Association.

[12] Reorganization Plan 22 of 1950 was transmitted to the Congress on May 9, 1950. Testimony and commentary regarding that proposal and other data relating to the Association are contained in the report of the Hearings before the Committee on Expenditures in the Executive Departments (United States Senate, 81st Congress) on Senate Res. 299 to disapprove Reorganization Plan No. 22, June 28-29, 1950.

facility which would have a limited amount of Government participation and supervision and ultimately become privately financed and operated.[13] The secondary market facility proposals advocated by these segments of the housing industry were among the programs that were considered by the President's Advisory Committee on Government Housing Policies and Programs [14] during the latter part of 1953. Title III of the National Housing Act, as amended by Title II of the Housing Act of 1954, (P.L. 560, 83rd Congress, approved August 2, 1954) represented a working composite of various plans and proposals providing for the establishment of a secondary market facility for home mortgages, which was intended to be financed by private capital to the maximum extent feasible, with progressively decreasing dependence on Federal Government financing and with the expectation that the secondary market operations would ultimately be transformed into an organization that would be wholly privately financed and operated.

The Charter Act as it existed from 1954, to September 1968, specifically authorized the Federal National Mortgage Association to conduct and to maintain separate accountability for the three following-described principal activities or operations:

1. Secondary Market Operations. These operations, to be privately financed, were designed to provide supplementary assistance to the private secondary market for residential mortgages by providing more liquidity for mortgage investments.
2. Special Assistance Function. These functions were to be operated exclusively for the account of the Government and almost entirely with funds borrowed from the United States Treasury. They were designed to provide special assistance for certain residential mortgages when either the President of the United States should deem it in the public interest or Congress should specifically designate special programs.
3. Management and Liquidating Functions. These functions, to be operated exclusively for the account of the Government, were designed for the management of mortgages acquired before 1954. [15]

The Charter Act charged FNMA with the responsibility under its secondary market operations, ". . . to provide supplementary assistance to the secondary market for home mortgages by providing a degree of liquidity for mortgage investments thereby improving the distribution of investment capital available for home mortgage financing . . ." [16]

In order to accomplish this supplementary function in the market, FNMA was directed that: "In the interest of sound operation, the prices to be paid by the corporation for mortgages purchased in its secondary market operations under this section should be established . . . within the range of market prices for the particular class of mortgages involved, as determined by the corporation." [17]

Further, since the function of the secondary market activity of FNMA was to provide supplementary assistance to the mortgage market, "the volume of the corporation's purchases and sales, and the establishment of the purchase prices, sales prices, and charges or fees, in its secondary market operations . . . should be effected only at such prices and on such terms as will reasonably prevent excessive use of the corporation's facilities . . ." [18]

Finally, FNMA was to accomplish this supplementary function and meet the requirements outlined below and yet be self-supporting. This self-supporting provision further evidenced the Congressional intent that the Secondary Market Operations were to be managed, to the maximum extent practicable, as the operations of a wholly private corporation would be managed. [19]

The Charter Act further provided that, as promptly as practicable after all of the preferred stock held by the Secretary of the Treasury had been retired, the Housing and Home Finance Administrator (later the Secretary of Housing and

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[13] Organizations such as the National Association of Home Builders, the Mortgage Bankers Association of America, the National Association of Real Estate Boards, and the United States Savings and Loan League were among those that prepared proposals relating to the formation of a new secondary market facility with the Association's portfolio as a nucleus.

[14] The Committee met in Washington during the period of September to December 1953, and considered broad phases of the housing situation. The report of the Committee was transmitted to the President by the HHFA Administrator on December 14, 1953. The Association's portion of the report was prepared by the Subcommittee on Housing Credit Facilities.

[15] The Association was subsequently authorized by a series of legislative acts to acquire under its Management and Liquidating Functions any mortgage covering residential property offered to it by any Federal instrumentality or the head thereof. The various authorizations under the related legislation are described on page 38.

[16] Section 301(a), *Federal National Mortgage Association Charter Act* as amended.

[17] *FNMA Charter Act*, op. cit., Section 304(a) (1).

[18] Section 304(a) (1).

[19] Section 304(a) (1).

Urban Development) should transmit to the President of the United States, for submission to the Congress, recommendations for such legislation as would be necessary or desirable to make appropriate provisions to transfer to the holders of the outstanding FNMA common stock the assets and liabilities of the Corporation in connection with, and the control and management of, the Secondary Market Operations in order that its operations could thereafter be carried out by a privately owned and privately financed organization.

The goal to achieve a privately financed and operated organization was established in recognition of the fact that the Secondary Market Operations were activities that logically belonged in the private sector. The reformation of the Federal budget to a unified basis in 1968, which would have accounted for all of FNMA's mortgage purchases as Federal Expenditures, made the move to private status, as soon as possible, absolutely necessary.

THE FEDERAL NATIONAL MORTGAGE ASSOCIATION CHARTER ACT—1968

Under the Housing and Urban Development Act of 1968, FNMA as it existed on August 31, 1968, was partitioned into two separate corporations. One such corporation, to retain the name the Federal National Mortgage Association (FNMA), was to become entirely privately owned. It consists of the pre-September 1, 1968, privately financed FNMA Secondary Market Operations. The other, to be known as the Government National Mortgage Association (GNMA), was to remain in the Department of Housing and Urban Development and to consist of the Special Assistance Functions and Management and Liquidating Functions. This legislation also provided specifically that FNMA and GNMA could provide by contract for the operation by either of any of the functions of the other.[20] That Act also provided for a transitional period during which control of FNMA's board of directors would pass from the Government to the stockholders. This period was to end when at least one third of the Corporation's stock was held by persons or corporations within the housing, real estate and mortgage lending industries. This condition was met in May 1970.

The Federal government maintains regulatory power over the corporation through the Secretary of Housing and Urban Development. His duty, in a broad sense, is to insure that the purposes of the Corporation, as specified in its charter, are accomplished.

The Charter Act authorized the Board of Directors to determine the general policies which govern the operations of the Corporation, to adopt and amend the bylaws governing the performance of its powers, and to appoint persons to fill the offices of President and Vice-President, and such other officers as may be provided for in the bylaws.

There are 15 members of the Board, 10 of whom are elected annually by the stockholders and 5 of whom are appointed annually by the President of the United States. The board now elects its own Chairman, but during the period 1954 to 1968, however, the Administrator of HHFA (and subsequently the Secretary of HUD) was chairman.

The day-to-day business affairs of the Corporation are administered by its President as chief executive officer. In addition to the offices of President and several Vice-Presidents, the Corporation's bylaws provide for the appointment of a General Counsel, a Treasurer, a Secretary and a Controller.[21]

The Corporation is continually examined by its internal auditing staff. The Charter Act empowers the Secretary of Housing and Urban Development to ". . . examine and audit the books and financial transactions of the corporation . . . as he deems advisable." The corporation is also examined, as are other private corporations, by a public accounting firm. The fiscal year of the Corporation ends on December 31.[22]

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[20] With this background, the rest of the text of the pamphlet deals only with the Secondary Market Operation which is presently the only function of FNMA. For some detailed discussion of the Special Assistance and Management and Liquidating functions please see *Background and History*, the Federal National Mortgage Association, 1970 and the appendices to this volume.

[21] The Presidents of FNMA and their terms of office are listed below:

Sam Husbands	February 1938 to May 1946
George E. Allen	May 1946 to January 1947
John D. Goodloe	January 1947 to September 1948
James L. Dougherty	September 1948 to September 1950
J. Stanley Baughman	September 1950 to December 1966
Raymond H. Lapin	July 1967 to December 1969
Oakley Hunter	January 1970-

[22] Prior to the time that the Corporation became privately controlled, the General Accounting Office of the United States made an annual audit. A report of each audit was made annually to the Congress by the Comptroller General.

THE DILEMMA OF THE MORTGAGE MARKET

There is a basic dilemma in the mortgage market. It stems from the fact that deposits at thrift institutions as well as the availability of funds to other mortgage lenders tend to move in the same way over the credit cycle. That is, in periods of tight credit availability, funds available for mortgage lending tend to decline concurrently at all mortgage lenders, while in periods of easy credit availability, these funds tend to increase. In addition, those mortgage lenders which have the authority to lend or invest in other investment areas tend to shift to these other markets in periods of tight credit. Thus the need for secondary market facilities that do not depend on cyclical credit availability is important.

Home financing has many facets. On the one hand, there are institutions, such as banks and savings and loans, which obtain funds from depositors and invest these funds in mortgages as an earning asset for their portfolios. These institutions comprise the primary market where investors normally allot a portion of their available or anticipated funds for permanent investment in residential mortgages.

This type of home financing is provided principally by deposit institutions, such as savings and loan associations, mutual savings banks, and commercial banks. They have accounted for as much as 87 percent of total residential financing in years when deposit savings have been in large volume, and as little as 70 percent in a year, such as 1969, when new savings deposits fell to a very low level and credit availability generally was stringent. Life insurance companies also play a role in the residential mortgage market, but their participation has declined considerably since the 1950's. These institutions may be referred to collectively as primary lenders and investors. They originate or acquire mortgages largely for their own portfolios.

Although primary mortgage lenders and investors can have a network of correspondents, a somewhat independent group of mortgage lenders that originate mortgages primarily for sale to others has also developed. This reflects several facts. First, there are significant differences in the supply of mortgage money relative to demand in various parts of the country. Second, even within a major metropolitan area or a given state, the location of primary investors in relation to all areas of mortgage demand may be substantially less than a good match. Third, while primary investors can put their own offices where there is mortgage demand or develop agents or correspondents where the business may be, this is not always economical. As a consequence, independent lenders, some of which may formerly have been correspondents, have developed. These lenders, known as mortgage bankers, provide the service of bringing the borrower and primary investor together. The service of mortgage bankers is more than a brokerage or correspondent arrangement. The mortgage banker originates mortgages for his own account in anticipation of finding a ready market for such loans. Indeed, a mortgage banker may, and frequently does, obtain advance commitments to cover some part of his business. The mortgage banker is a primary lender, but he does not accept deposits and usually does not have enough capital to make permanent investments.

This is one of the elements giving rise to the secondary market. Mortgage bankers seek to sell mortgages which they have originated. In addition, a fair number of other primary lenders are also sellers of mortgages because they are located in mortgage markets which do not generate enough savings to satisfy local mortgage demand. Thus, the secondary market consists of purchase and sale transactions between organizations which originate mortgages for their own account, but expect to sell all or some part of their originations, and institutions which buy mortgages to supplement their own origination activities. The secondary market is a stream, spreading and weaving to interconnect various elements of the mortgage market throughout the country.

The secondary mortgage market is not a highly organized market in the sense that markets for stocks, bonds, and agricultural commodities are organized. It has no common gathering place where buyers and sellers may meet to complete their transactions. It is an ill-defined and poorly understood phase of the complex financial structure which comprises the market for residential housing mortgages. But while it does not have a formal structure, the secondary mortgage market is meaningful in a special sense to each of its participants.

As mentioned briefly above, the secondary market for residential housing mortgages may be defined as the aggregate of all purchase and sale transactions of residential mortgage instruments.

The need for supplementary assistance in this secondary market arises due to the cyclical nature of mortgage credit.

During periods of tight credit the availability of funds for mortgage investment has tended to decline dramatically as the flow of savings to thrift institutions diminishes, largely because individuals invest more in open market securities when interest rates are high. At the same time, institutions such as commercial or mutual savings banks which make residential mortgage loans or purchase mortgage loans in the secondary market, to the extent they have funds available, shift these funds to other forms of investment. Consequently, mortgage bankers who rely on the secondary market for the permanent placement of their mortgage loans find the traditional sources unavailable and turn to FNMA for financing.

On the other hand, during periods of ease in credit availability, the mortgage market in some cases has attracted an overabundance of funds. It is with the purpose of minimizing the extremes of the mortgage credit cycle that FNMA acts as a secondary investor. Its services are generally called upon most heavily during cyclical credit squeezes, as in 1966 and 1969-1970.

FNMA operates principally as a supplementary source of mortgage funds, to provide liquidity to mortgage originators during periods when mortgage credit from other sources falls short of the market needs.

How this is accomplished may be best illustrated by an example. When a mortgage banker originates a mortgage, he can finance it with a short-term bank loan (this is known as warehousing) but eventually he will have to sell that mortgage to an investor in order to raise funds with which to finance additional mortgage originations. He can sell the mortgage to a number of permanent investors, such as savings and loan associations, mutual savings banks, and insurance companies. He can also sell that mortgage to FNMA. However, this latter course may be somewhat less desirable. He must pay a fee in order to obtain a commitment from FNMA to purchase that mortgage. Hence, when other permanent investors are in a favorable liquidity position, the mortgage banker is more likely to sell mortgages to a primary investor. When interest rates start to rise, savings flows tend to taper off and other signs of credit stringency start to appear, more and more the seller of a mortgage must rely on FNMA for funding. He obtains this funding by selling his mortgages to FNMA, which in turn frees up his warehouse line of credit to make new loans. Hence, FNMA acts as a residual supplier of funds in the mortgage market. If the mortgage banker were unable to sell his mortgage to FNMA, he would be unable to make any further mortgage loans. Hence the mortgage market would be severely restricted.

The above is, of course, a simple example, but the generalization to the mortgage market as a whole is straightforward. The magnitude of FNMA's role in the mortgage market will be discussed in the next section. It is sufficient to note here by way of example, that during the 1969-1970 credit crunch FNMA took 50 percent of all FHA and VA mortgages originated in the fourth quarter of 1969 and the first quarter of 1970. By serving in its capacity as a residual purchaser of mortgages in the secondary market, FNMA aids in smoothing, although certainly not eliminating, the cycle in mortgage credit.

FNMA is able to do this by tapping large sources of funds on a national scale. While primary mortgage lending is generally local in nature, the size of FNMA and its preferred borrowing status in the credit markets, as a Federally-sponsored credit agency, allows it to gather funds from all over the country and transfer these funds to the mortgage market. In the process it also shifts funds from capital surplus to capital deficit areas.

The fact that FNMA has recently expanded its operations to include conventional mortgages adds to the role it has to play in the secondary market. FNMA will now be called upon to act as a backstop to the conventional sector during periods of cyclical decline in residential mortgage credit.

AN OVERVIEW OF FNMA ACTIVITY

FNMA started as a rather small factor in the mortgage market. By the end of 1954, after two months of operation under the new Charter Act, FNMA had a very small portfolio of mortgages acquired in its secondary market operations. By the end of 1974 the portfolio was almost $30 billion. How this growth occurred and the impact of this growth on the mortgage market is the subject of this section.

Purchases of mortgages increased substantially from 1954 to 1956 so that the mortgage portfolio had reached $648 million by the end of 1956. In 1957, with fairly tight credit conditions prevalent in the economy, the Corporation purchased $1 billion in mortgages. This purchase of $1 billion indicated that FNMA was becoming an important factor in the mortgage market. Referring to Table 1 it can be seen that net FNMA activity accounted for more than 11 percent of all 1-4 family residential mortgages made in 1957.

The relatively easy credit conditions that prevailed in 1958 marked the first year of significant FNMA sales. However, in 1960 as a result of the credit crunch which began in 1959, FNMA again was required to enter the market in a substantial way, increasing its portfolio by more than $850 million and accounting for almost 9 percent of single family mortgage money.

The period 1961-1963 marked a watershed in FNMA's growth. With the large availability of funds for mortgages, FNMA became a significant and consistent seller of mortgages during this period. The details of FNMA's role as a seller of mortgages will be discussed in a later section. It will suffice here to note that over the years 1961-1963 FNMA sold more than $1.5 billion in mortgages which combined with repayments resulted in a decrease in the FNMA portfolio, despite moderate purchases, from $2.9 billion at the end of 1960 to $2.0 billion at the end of 1963. This was the only period of sustained and significant sales of mortgages in the history of FNMA. In 1964 sales were still important, although not of the same order of magnitude as in the previous period, but in 1965 as the credit markets began to tighten somewhat FNMA purchased a relatively large amount of mortgages.

With the credit crunch of 1966, FNMA became of much greater importance in the market. That year marked the first time FNMA purchased over $2.0 billion worth of mortgages. As a result, FNMA's portfolio almost doubled to $4.4 billion in 1966 from $2.5 billion in 1965. Moreover, FNMA accounted for fully 18 percent of all home mortgages in 1966.

The years 1967 and 1968 saw purchases well over $1 billion each year and by the end of 1968 FNMA's portfolio stood at $7.2 billion. With the credit crunch of 1969-1970, FNMA, freed from Federal Government budget considerations, purchased over $4 billion of mortgages in each year, its portfolio increasing by $3.8 billion in 1969 and $4.5 billion in 1970. The impact on the mortgage market of FNMA activity is made clear by noting that in 1969 FNMA accounted for 24 percent of all home mortgage financing and in 1970 for 35 percent. By the end of 1970 FNMA's portfolio had grown to more than $15.5 billion. The 1969-1970 crunch was a clear indication of the importance of

TABLE 1

FNMA AND THE MORTGAGE MARKET

Years	*Total Home Mortgages (billions)*	*Change in FNMA Portfolio* (millions)*	*Change in FNMA portfolio as a % of total home mortgages*
1955	13	$ 86	.7
1956	11	563	5.1
1957	9	987	11.0
1958	10	255	2.6
1959	13	669	5.1
1960	10	853	8.5
1961	12	(31)	(.3)
1962	14	(25)	(.2)
1963	16	(785)	(4.9)
1964	15	(65)	(.4)
1965	15	523	3.5
1966	10	1,877	18.8
1967	13	1,126	8.7
1968	15	1,645	11.0
1969	16	3,778	23.6
1970	13	4,547	35.0
1971	37*	2,299	6.2*
1972	51*	2,000	3.9*
1973	50*	4,293	8.6*
1974	37*	5,395	14.6*

*Includes multifamily mortgages. These mortgages were of limited importance in FNMA's portfolio until 1971 and 1972.

FNMA's ability to help moderate the mortgage credit cycle. Despite FNMA's substantial assistance, the mortgage market had decreased from $15.4 billion in 1965 to $10.4 billion in 1966 or by one third. In 1969 the mortgage market actually increased by $.3 billion dollars before decreasing about $2 billion dollars in 1970. Clearly much of the moderation in that decrease, despite severe credit restriction, was due to FNMA.

With credit readily available in 1971 and 1972, FNMA, although still purchasing a substantial amount of mortgages, was well below the levels of 1969 and 1970. Further, FNMA sold more than $200 million in mortgages for the first time since 1963. As a result of these sales as well as repayments, the net change in FNMA's portfolio in 1971 and 1972 was only half that of the 1969-1970 period (see Table 1). This represented substantially less than 10 percent of the increased flow of funds to the mortgage market.[23]

[23] For a further discussion of the importance of FNMA to the mortgage market see Harry S. Schwartz, "The Role of Government-Sponsored Intermediaries" in The Federal Reserve Bank of Boston, Conference Series No. 4, *Housing and Monetary Policy*, October, 1970, pp. 77-78.

A record volume of mortgage purchases was made by FNMA in 1973 and again in 1974. Record high inflation rates and a restrictive monetary policy coupled with a high demand for credit combined to create conditions which resulted in a reduction in mortgage credit available from thrift institutions, which experienced a reduction in net savings inflows. Consequently, FNMA's commitment and purchase activity increased sharply. Exclusive of commitments assigned by GNMA, FNMA commitments totaled $4.2 billion and $5.4 billion in 1973 and 1974, respectively (or $8.9 billion and $10.8 billion in 1973 and 1974, respectively, if GNMA assigned commitments are included). FNMA mortgage purchases in 1973 were a record $6.1 billion and $7.0 billion in 1974, also a record.

Correspondingly, the proportion of total net new residential mortgage credit provided by FNMA increased in 1973 and 1974 from 1972. In 1972, FNMA's net new residential mortgage investment was $2.0 billion or 3.9 percent of total net new residential morgages investment. In 1973, FNMA's net new residential mortgage investment was $4.3 billion or 8.6 percent of a $50.2 billion total. In 1974, FNMA's net new residential mortgage investment of $5.4 billion provided 14.6 percent of a $37.0 billion total.

SALES OF MORTGAGES

FNMA is sometimes referred to as a secondary market for mortgages. This reflects the fact that some proponents of the 1954 Charter Act believed that the mortgage market would be assisted if it had available to it the type of secondary market which exists for securities. It is interesting to note, however, that the Charter Act itself states that "Congress declares that the purposes of the (Act) are to establish secondary market facilities . . ." rather than a secondary market.

A secondary market implies that there are buyers and sellers with quite different motives for holding securities or whatever commodity is being traded and therefore there are frequent or almost continuous purchases and sales of the security or commodity being discussed. As has been pointed out earlier, the basic dilemma of the mortgage market is that the permanent investors in mortgages are generally influenced by the same forces at about the same time. Consequently, mortgage money is plentiful or short at deposit institutions and insurance companies at about the same time. Therefore, those who have to rely on the secondary market must turn to a facility such as FNMA which supplies supplementary liquidity by purchasing mortgages during periods of credit stringency. Conversely, it sells mortgages during periods of credit ease.

To illustrate this further, we can look at particular time periods. By the end of 1961, FNMA had accumulated $2.8 billion in mortgages with purchases in excess of $1 billion in 1957 and almost $1 billion in 1960. During the period from 1954 forward, there were sales of mortgages in almost every year but these were sometimes in nominal amounts, with large sales approaching or slightly exceeding half a billion dollars in 1958 and 1961. It is well to note that 1958 was a year of very low purchases.

Even as early as 1961, it was evident that during any one period of time FNMA would either be primarily a purchaser or a seller of mortgages. This is even more pronounced if one examines monthly data.

Beginning in 1961, FNMA was a very substantial seller for a little over three years with an unusually large volume—almost $800 million was sold in 1963. In 1963 and again in 1964, FNMA purchased only a modest volume of mortgages. Since 1963 and particularly since 1965, FNMA has sold only nominal amounts of mortgages in almost every year with the exception of 1971 and 1972. The sales were confined to the first quarter in each of these years and reflected the fact that there were sudden surges in flows of savings to deposit institutions without a commensurate increase in the demand for mortgage money. In effect, sales of mortgages by FNMA indicate an excess availability of mortgage money at deposit institutions either on a very brief basis or for a somewhat longer period as was evidenced in the early 1960's. These periods of very heavy savings flows and excess mortgage money availability coincide, as a rule, with either periods of significant credit ease or a significant moderation in credit stringency. In those periods, the developments are just the reverse of those in which purchases by FNMA are the rule of the day.

During periods of tight credit, savings flows diminish and lenders shift away from the mortgage market, necessitating as has already been pointed out, substantial assistance to the mortgage market by FNMA. On the other hand, when credit is easy and there is a plentiful supply of funds at deposit institutions and at thrift institutions in particular, an excess demand for mortgages above mortgage needs tends to develop. In those circumstances, permanent investors will approach those mortgage originators that are not permanent investors, such as mortgage bankers, and confront them with a greater demand for mortgages than they can deliver. Given this kind of demand, mortgage bankers and indeed some deposit institutions will turn to FNMA in an attempt to satisfy the needs for mortgages.

FNMA, on the other hand, is very conscious of the fact that its principal role is to provide supplementary liquidity to the mortgage market. It therefore tends to maintain a position which will not damage the availability of mortgage funds. It follows a policy which releases mortgages to the market only under conditions which are characterized by an excess of mortgage money. It can do this through its pricing policy and, as a rule, as is the case with any secondary market facility, it requires a price for its sales above that for its current purchases. If buyers appear under such circumstances, then it is clearly evident that the secondary market is short of mortgages.

In summary, FNMA's sales activity has been a tool for assisting permanent investors to obtain access to a ready supply of mortgages in periods of great credit ease. From an economic and mortgage market point of view, FNMA therefore has been primarily a secondary market facility over time. That is, it has been primarily a purchaser in some periods and primarily a seller in others, rather than a continuous buyer and seller, or in effect, a dealer in mortgages.

THE COMMITMENT-PURCHASE PROCEDURE

This section is concerned with the programs by which FNMA attempts to cope with the mortgage market dilemma by providing supplementary assistance to the secondary market.

The Corporation purchases acceptable FHA, VA, and conventional mortgages from lenders, including banks, savings and loan associations, mortgage companies and other organizations that have qualified as eligible sellers and have executed an appropriate Selling Agreement with the Corporation. Also, the Corporation is authorized to purchase certain mortgage loans insured by the Farmers Home Administration of the Department of Agriculture. Usually the seller is also the servicer, although, FNMA does permit assignment of servicing with prior approval.

The basic committing and purchasing procedures follow. The specifics can be obtained from the FNMA Selling Agreement.

Free Market System—On May 6, 1968, the Corporation initiated this system of pricing and purchasing home mortgages. Initially the Free Market System (FMS) was solely for the purchase of FHA and VA insured mortgages. In February 1972, however, with the implementation of the authority to purchase conventional loans, the FMS was expanded to include conventionally financed mortgages.

This competitive auction procedure for home mortgages replaced an immediate or over-the-counter purchasing procedure. Under the prior system, purchasing was done at posted prices, established by the Corporation from time to time.

The FMS originated from the idea that the prices or yields for mortgages would be determined by a bidding and acceptance process. This, it was thought, and experience has proven, would make for a more flexible pricing of mortgages and more closely reflect market conditions than the previous practice of purchasing mortgages at posted prices. Originally FNMA specified a dollar limitation on available commitment funds on 3, 6, 12, 15, and 18 month commitment periods for FHA and VA insured mortgages. This specification of a maximum amount of available funds for each auction did not match market requirements, particularly in a rapidly changing environment.

FNMA ceased to specify a maximum amount of funds available following the February 8, 1971, auction and simply stated when the commitment auctions would be held. This method, it was felt, would prove less constraining on the Corporation, as the decision on maximum commitment volume could be determined based on the amount of bids received, the yields offered, and the projected capital and mortgage market conditions rather than on a pre-announced maximum of available funds. Thus, FNMA could better serve the residential lending sector.

In July 1971, FNMA ceased to make FMS commitments on the 6, 12, 15, and 18 month basis, for these commitments were not felt to be serving the intended purpose. In addition, the long-term commitments exposed FNMA to substantial risk. These longer, term commitments were replaced in October 1972 by Convertible Standby commitments for FHA/VA home mortgages, and in January 1973 by Convertible Standby Commitments for conventional home mortgages. These commitments, which will be discussed later, are for 12 months.

In October 1971, FNMA changed the 3 month commitment term to a 4-month term, to serve the sellers better as they experienced a slowdown in the processing of FHA mortgages. The most recent major change of the FMS procedure occurred in February 1972 when conventional mortgages became acceptable for FNMA commitments in the FMS auctions.

Conventional mortgages have traditionally comprised about 70 percent of all home mortgage originations. FNMA will purchase conventional mortgages with loan-to-value ratios up to 95% if the excess over 80 percent is insured by an acceptable insurer or, in some situations, if the seller agrees to repurchase the mortgage in the event of default.[24] FNMA exercises careful underwriting to assure that conventional mortgages meet such standards as to make them generally acceptable to institutional investors.

Because some lenders wish to be assured of a buyer for the permanent mortgage before they agree to originate the loan, FNMA is prepared to give prior approval of property and borrower. Prior approval of property alone, before the credit portion of the application is submitted, is available for both existing and proposed construction.

FNMA's activity in the conventional mortgage area has continued to expand since inception of the program in February 1972. During the 11 months the conventional program was in operation in 1972, FNMA purchased $55 million in conventional mortgages. Conventional mortgage purchases amounted to $938 million in 1973 and $1.13 billion in 1974. At the end of 1974, FNMA's conventional mortgage portfolio totaled $2.08 billion.

FNMA's FMS auctions for FHA, VA and conventional mortgages are generally held bi-weekly. A separate auction is held for the FHA and VA mortgages from that for conventional mortgages. A qualified seller wishing to make a bid to sell mortgages to the Corporation telephones FNMA on the day of the auction and specifies his bid amount and the yield he will accept on the package of loans he is offering.

FNMA determines what the lowest yield it will accept at the auction is and every seller that has tendered a bid to the Corporation above this yield is accepted. The selling organization then has a period of four months in which it may deliver all or part of the amount specified in its accepted bid. This is an optional delivery commitment, and delivery of the mortgages is at the discretion of the seller.

Sellers not willing to accept the possibility of their bid being rejected can make non-competitive bids which are automatically accepted at the average yield of all accepted offers. Noncompetitive bids are subject to a smaller dollar limit than competitive bids.

This auction of forward commitments assures the seller of a ready buyer for its mortgages at a specified yield, thus giving it flexibility in its mortgage operations.

Convertible Standby Commitments are issued for both FHA-VA and conventional mortgages. FNMA began issuing these commitments on October 24, 1972, for FHA-VA loans and on January 30, 1973, for conventional loans. These 12-month commitments are for FHA-VA mortgages on 1-4 family units and for conventional mortgages on single-family residences.

The yield required is determined periodically by the Corporation and is related to yields obtained in the FMS auctions, adjusted for future assumed interest rate risks.

The holder of a Convertible Standby Commitment, may, after four months, request the conversion of the commitment to a yield equal to the average yield accepted in the FMS-FHA/VA or conventional auction for 4-month commitments immediately preceding the date of conversion. Upon conversion the remaining commitment period is reduced to 4 months, but in no case can it exceed the expiration date of the original commitment.

At the end of 1973, a total of $1.3 billion in convertible standby commitments were outstanding. This volume dropped slightly to $1.1 billion on December 31, 1974.

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[24] Prior to November 6, 1972, the maximum loan-to-value ratio on conventional mortgages FNMA would purchase was 90 percent. This maximum ration was increased to 95 percent so as to bring the Corporation more in line with current lending practices in the residential housing field. In January, 1973, the Corporation also eliminated the yield differential of ¼ of 1 percent it required for mortgage loans it purchased where the loan to value ratio was in excess of 90 percent. The Housing and Urban Development Act of 1974 increased from 75 percent to 80 percent the maximum loan-to-value ratio loan FNMA could purchase without insurance by qualified insurers.

Thus, the convertible commitment gives the lender the security of a firm 1-year commitment at a specified yield, with the option of taking advantage of improvement in the market.

Standby Project Commitments—This type of FNMA Commitment is for FHA project mortgages, which encompasses, among others, multi-family structures. A Standby Commitment for a period of 24 months, at a specified yield, can be obtained from the Corporation by an approved seller. This commitment yield is determined periodically by the Corporation and it reflects current yields and the inherent risk involved in making a firm periodic commitment at a specified yield for a term of 2 years. The standby commitment is an optional delivery commitment, but upon delivery to FNMA the purchase price will be adjusted (but not to exceed par) to yield FNMA the lesser of, (1) the yield set forth in the commitment contract or, (2) the yield applicable to Immediate Purchase Contracts at the date of disbursement of the loan proceeds by FNMA.

Immediate Purchase Contracts are available to approved sellers only if the FHA final insurance endorsement has been received. Yields required on these mortgages are related to the FMS auction results.

FNMA also provides funds for loan advances for construction or rehabilitation of certain eligible FHA projects, on a participation basis with the mortgage seller, where the long-term permanent financing is to be provided by FNMA or GNMA. The Corporation's participation in this construction lending activity cannot exceed 94 percent of the amount of the advances insured by FHA. The interest rate charged by FNMA on each participation amount is set at the time the note is initially endorsed by the FHA for mortgage insurance. The seller provides the remaining percentage of financing and supervises the construction advance for a share in the total fee.

In 1974 FNMA initiated a program for purchase of mortgages on individual units in condominiums and planned unit developments (PUDs). The condominium and PUD program is part of FNMA's conventional mortgage program. FNMA's operations in the conventional condominium and PUD area will be restricted to the sale and purchase of mortgages of such quality as generally meet the purchase standards imposed by private institutional investors. To implement this program, FNMA developed a comprehensive set of standards and procedures to assure appropriate credit, construction, and market analysis before projects are approved.

From time to time FNMA has purchased insured loans from the Farmers Home Administration of the Department of Agriculture. The required return on such purchases has been determined by negotiations.

FNMA-GNMA Tandem Plans are special agreements between FNMA and GNMA under which GNMA issues commitment contracts for the purchase of mortgages, which are warehoused or assigned to FNMA and subsequently purchased by GNMA, FNMA, or other investors. In the case of warehousing or under any other circumstances in which GNMA may assign a commitment to FNMA, FNMA receives the full amount of the fee or a *pro rata* share of the fee depending upon the circumstances and the agreement which is applicable to the particular program.

The original purpose of the Tandem Plans was to maintain a special market for mortgages of selected classifications backed by the Federal Government in order to stimulate and support the construction or rehabilitation of housing for low and moderate income families. Tandem Plan Agreements for GNMA program numbers 16, 17, and 18 are of this type and are for government subsidized mortgages.

Program 16. This program involves mortgages insured by FHA under Section 235 (j) which is designed to enable lower-income families to buy homes or memberships in cooperative housing projects. Under this program, FNMA may accept commitments and make purchases at the same price as that applying to regular FHA commitments and purchases. If the Government National Mortgage Association has made its commitment at a higher price, it absorbs the difference.[25]

Program 17. This program involves project mortgages insured by FHA under Sections 221 (d) (3) (rent subsidy) or 236 (interest subsidy) and is designed to reduce costs on certain rental and cooperative housing projects designed for occupancy by low-income families.

Prices for the Program 17 project mortgages purchased by FNMA are determined by taking the greater of (a) prices for the project standby, or (b) the current over-the-counter price. However, in those cases in which the Government National Mortgage Association has made the commitment

[25] This Tandem Plan expired December 31, 1974.

and chooses to deliver to FNMA, a special price may apply. FNMA has granted a preferential price 2.75 percent above its regular price on the first $1 billion of such mortgages purchased in any year. Thus far, FNMA has provided commitments for about 90 percent of these project subsidized loans.

Program 18. This program covers single family homes purchased by families with low and moderate income under Section 235 of the National Housing Act. This program involves an interest subsidy, the results of which are similar to the interest subsidies under Section 236.[26]

Prices paid by FNMA for Program 18 mortgages are set to produce a yield to FNMA equivalent to the average yield obtained by FNMA at the current 4-month free market auction.

The Tandem Plan arrangements between GNMA and FNMA took on a broader scope with the institution of Programs number 19 and 20 for Operation Breakthrough Prototype Projects and Housing on Guam, respectively. However, these programs are relatively small in comparison to the other Tandem Plans.

Program 19. This program involves project mortgages insured by FHA but certified by HUD as part of an Operation Breakthrough Prototype project. These prototype mortgages represent the original long-term financing of an Operation Breakthrough Prototype project. Prices under this program are comparable to those applying in Programs 17 and 18.

Program 20. This program covers 1-4 family and project mortgages of properties located on Guam. The Government National Mortgage Association makes the original commitment and immediately assigns it to FNMA. FNMA accepts the assignment at prices which are the same as those applying for regular FHA commitments.

In 1974, the Tandem Plan Agreements were expanded to include programs 21 and 22. Under these programs certain FHA or VA mortgages are eligible. The eligibility is limited to proposed construction covered by project and existing construction on single family mortgages.

Programs 21 and 22. These programs came into being in July 1971 as a means of providing additional support to the overall FHA-VA housing market. Basically, these are price-support programs which support the market price of FHA-VA mortgages in periods of mortgage market instability. Program 21 covers unsubsidized multi-family housing while Program 22 covers unsubsidized 1-4 family housing.

Assistance to the market is provided through an above-market commitment price by GNMA. To encourage commitment holders to seek other buyers for these mortgages, GNMA agrees to sell these commitments to the commitment holder at a price usually below that which GNMA has agreed to pay. This price differential, payable by GNMA, is set at a predetermined level but is subject to change with changes in mortgage market conditions. FNMA's role in this program is that of administrator and warehousing source. The costs of the price subsidy are borne entirely by GNMA.[27]

Program 24: This program was created pursuant to the Emergency Home Purchase Assistance Act of 1974. It covered non-subsidized FHA-VA mortages at rates below market and 90 percent of the funds ($1 billion) was for new homes. The rate was 7¾ percent, effective January 22, 1975, and terminating February 28, 1975.

This describes in very general terms the manner in which the Tandem Plans operate. Currently, some of the special assistance programs are inoperative but may be reactivated by congressional or executive authorization.

The important point to remember with the Tandem plans is that, while FNMA may purchase mortgages through these programs, it is actually GNMA that is committing to purchase them. FNMA simply agrees to purchase the mortgages if and when the mortgages are delivered for purchase to GNMA and GNMA requests purchase by FNMA. Any net subsidy that results between the GNMA commitment and the price FNMA pays for mortgages under these programs is borne by GNMA.

The Emergency Home Purchase Act of 1974 authorized GNMA to begin purchasing conventionally-financed home mortgages. Previously, the law allowed GNMA to purchase only those mortgages insured by FHA or VA. The first phase of the program made available $1.5 billion through the facilities of FNMA in 1974. An additional $2.0 billion was made available under the 1974 Act through the facilities of FNMA in 1975. However,

[26] GNMA has exercised its options to make purchases under Program 18 since early 1973.

[27] Because of revisions in the FNMA-GNMA agreement, after November 10, 1974, GNMA warehouses its own commitments and makes purchases for its own account for Programs 21 and 22.

under this program FNMA acts purely as agent for GNMA since GNMA is the acquiring agency.

The legislation converting FNMA from an agency of the Department of Housing and Urban Development into a privately owned, privately managed corporation provided that the Secretary of HUD could (by regulation) require "that a reasonable portion of the corporation's mortgage purchases" be related to the housing needs of the low and moderate income families of the nation. This activity was not to be an act of charity on FNMA's part, but rather was to be done in such a manner as to provide "a reasonable economic return to the corporation."

Another method of committing and purchasing of mortgages by GNMA is through GNMA sales auctions. From time to time GNMA holds auctions of mortgages it has purchased and invites potential buyers to submit bids for the mortgage packages. FNMA participates on the same basis as any other buyer in these auctions.

Committing and purchasing procedures by the corporation through its various mortgage programs are in a continuous state of flux. In view of the rapidly changing character of the mortgage market, FNMA is continually reviewing, adjusting, and changing all phases of its current programs, as well as searching for new methods to improve its secondary market operations.

FINANCING FNMA

FNMA depends heavily on the money and capital markets to obtain the funds necessary to support its operations. Toward this end, FNMA has issued several types of corporate obligational securities. Obligations issued by FNMA as well as several other government sponsored corporations and agencies, are known as "Federal Agency Securities," despite the fact that FNMA is no longer owned by the federal government but is instead owned entirely by private stockholders. FNMA's securities possess the following characteristics in common with many other Federal Agencies' securities:

1. They are issued under the authority of an Act of Congress.
2. They are exempt from registration with the Securities and Exchange Commission.
3. They are legal investments for Federally supervised institutions.
4. They are issuable and payable through the facilities of the Federal Reserve Banks.
5. They are eligible collateral for Federal Reserve Bank advances and discounts.
6. They are "public securities" eligible to be purchased and held without limitation by National Banks.
7. They are supported or "backstopped" by an authority to borrow from the Federal Treasury.
8. Their issuance must be approved by the U. S. Treasury Department.

One type of security issued by FNMA, short-term discount notes, is comparable to commercial paper. These notes, which are marketed by FNMA through four distributors, are tailored to the individual needs of investors within a maturity range of 30 to 270 days. The rate of return is announced from time to time and remains in effect until changed. Many of these obligations are bought by private corporations and state and local governments which have temporarily idle funds to invest.

This form of financing serves as a supplement to the Corporation's principal method of borrowing through the issuance of debentures and provides it with a considerable degree of operational flexibility. Since short-term rates are typically lower than long-term rates, for example, issuance of discount notes as opposed to longer-term obligations reduces the overall costs of borrowing by FNMA. Issuance of discount notes also permits FNMA to hold off long-term financing when market conditions are clearly unfavorable and to wait for more favorable conditions. Should FNMA have excess funds, the discount notes offer a ready opportunity to retire debt.

Debentures, which are similar to the bonds issued by other private corporations, are currently issued for periods from about 3 to as long as 25 years. The funds obtained from these securities are usually used to redeem debentures sold earlier, and in some cases discount notes, and to buy more mortgages.

The notes and debentures are available only in relatively large dollar amounts—a minimum order of $50,000 for the notes and $10,000 for the debentures. The high denominations are in part an attempt to prevent a situation where individuals would take small amounts out of a deposit account at a thrift institution and buy FNMA debt instruments. If small denominations are available when rates are high and institutions suffer withdrawals as investors purchase securities directly (called "financial disintermediation"), the issuance of small denomination securities by

FNMA would make the disintermediation worse. Since financial intermediaries, especially savings and loan associations, are a major source of mortgage credit, disintermediation would reduce the amount of mortgage money generally available.

Subordinated capital debentures are general obligations of the Corporation, some of which contain stock conversion provisions. Principal and interest on the subordinated capital debentures are subordinated to any payments due on the regular debentures and short-term discount notes.

On September 30, 1971, FNMA issued $250 million of convertible subordinated capital debentures bearing an interest rate of 4.375 percent. These obligations have a maturity of 25 years but are redeemable and are convertible into common stock any time on or before maturity at a price of $19.63 per share. The subordinated feature makes them part of the capital base for senior securities. This convertible feature makes them potential equity since whatever amount of these obligations are converted will increase FNMA's equity and thus further increase its debt capacity.

The discount notes, regular debentures and subordinated capital debentures are general debts of the Corporation and are not identified with any particular collateral. However, classification of these obligations as Federal Agency securities, although they are not guaranteed by the U. S. Government, permits maintenance of an adequate borrowing capacity at favorable interest rates.

FNMA's total borrowing authority is fixed from time to time by the Secretary of Housing and Urban Development. The maximum borrowing authority is expressed as a multiple of the amount of its capital base which for debt purchase includes outstanding common stock, surplus and subordinated capital debentures. Subordinated capital debentures may be issued in ratio of $2 to each $1 of common stock plus surplus. The limitation on outstanding regular debentures and discount notes is established at $15 for each $1 of the capital base, or at such higher levels as may be set by the Secretary of HUD. At the end of 1972, the maximum borrowing authority in effect was $25 of debt for every $1 of the capital base.[25]

FNMA also has a borrowing authorization with the U. S. Treasury which permits the Secretary of the Treasury, at his option, to purchase up to $2.25 billion of FNMA obligations. While the Secretary currently does not hold any obligations issued by FNMA, this borrowing authorization is important since the Treasury can be regarded as a potential source of funds to meet maturing obligations or finance current operations if funds cannot otherwise be raised.

In addition to the Treasury back-up, FNMA also maintains a sizable line of credit with a consortium of the nation's leading banks. Although the bank line of credit has rarely been used, it does provide additional flexibility should unusually adverse financial conditions develop.

Finally, FNMA has also obtained long-term funds from the issuance of mortgage-backed bonds. Since the timely payment of interest and principal on these bonds is guaranteed by GNMA, an instrumentality of the U. S. Government, such a guarantee invokes the full faith-and-credit of the United States.[29]

Like most other private corporations, FNMA also finances its operations through the sale of common stock. However, this source of financing plays a less important role in FNMA than in most other corporations.

From the inception of the secondary market function under the Charter Act, stock was issued by FNMA under a unique arrangement whereby seller of mortgages or borrowers from the corporation were required to buy FNMA stock. This legal requirement has changed in various ways since 1954. The Charter Act now permits the corporation to require a subscription not to exceed 2 percent of the unpaid principal amount of mortgages and loans purchased or to be purchased by the Corporation from such sellers. The Corporation determines this percentage from time to time with the approval of the Secretary of Housing and Urban Development, taking into consideration conditions in the mortgage market and the general economy. The current subscription requirement is .25 of 1 percent. No stock retention requirement is currently imposed on sellers of multi-family mortgages.

[28] The maximum permissible borrowing ratio under the Charter Act has been adjusted upward to its current level several times since 1954. The borrowing ratio was 10:1 from August 2, 1954 to September 9, 1966, 15:1 from September 10, 1966, until September 30, 1968, and 20:1 from October 1, 1968, to December 4, 1969.

[29] FNMA's authority to sell mortgage-backed bonds was authorized by P.L. 90-448 approved August 1, 1968. The first bonds on this type were issued by FNMA in the amount of $1 billion in 1970. No additional mortgage-backed bonds were issued until 1973 when $280 million of direct placements were negotiated with various state agencies.

Servicers of mortgages for the corporation, however, must at all times own a minimum amount of the common stock. This minimum amount may not exceed 2 percent as determined from time to time by the Corporation, with the approval of the Secretary of Housing and Urban Development, of the aggregate outstanding principal balances of all mortgages of the Corporation which have been purchased under contracts executed subsequent to September 1, 1968, and which are being serviced by such servicers for the Corporation. The retention requirement applicable to servicers with respect to mortgages currently being purchased by FNMA is .25 percent of the unpaid balance of the mortgages.

The Charter Act provides that the Corporation may issue additional shares to the investing public in return for appropriate payments into capital or capital and surplus. On November 12, 1970, Secretary of HUD approved the issue and sale of additional common stock through a rights offering which served to increase FNMA's capital base by approximately $50 million. Stockholders were offered the opportunity at that time to buy one share for every eight shares owned, at a price which was about 85 percent of the market price when the rights were distributed. Approximately 98 percent of all rights were exercised during the November 13, 1970, through December 1, 1970, subscription period. The strong market reception afforded the "rights offering," as well as the convertible subordinated capital debentures in 1971, is evidence of an enthusiastic acceptance of FNMA by the investing public.

In addition to borrowing and equity issues, other sources of funds utilized by FNMA in financing its operations are: (1) earnings, including fees for various services or facilities; (2) income from investments other than mortgages; and (3) portfolio liquidation, including sales.

APPENDIX A

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APPENDIX A

Participation of the Federal Government In Housing Activities

The Federal Government's interest and direct participation in housing and home financing problems, which cover a period of over three quarters of a century, were first evidenced in the form of legislation which was enacted before the turn of the century. This interest and participation became progressively more pronounced in connection with the conduct of World War I defense activities; in actions designed to counter the chaotic conditions confronting the housing market during the depression years of the 1930s; in activities related to post-World War II housing shortages; and, more recently, in a broad attack on special categories of housing problems.

The story of the evolution of Federal housing policies and practices can, for convenience, be divided into four general phases: (1) the period prior to the Great Depression; (2) the depression and recovery period of the 1930's; (3) the defense and war period; and (4) the period of post-war adjustment and conversion to long-range housing objectives. Each brought to light deficiencies in the economic and administrative aspects of the mechanism for the production and distribution of housing; and each led to revisions of policy and methods calculated to overcome the discovered defects and to form the basis for a higher standard of housing.

On July 20, 1892, by Pub. Res. 22, 52d Congress, $20,000 was provided for investigation by the Department of Labor of slums in cities of 200,000 or more population. P. L. 102, 65th Congress, approved March 1, 1918, authorized the U. S. Shipping Board, Emergency Fleet Corporation, to provide housing for shipyards' employees. Through loans to realty organizations incorporated by ship-building companies, projects in 24 localities were constructed, including 9,000 houses, 1,100 apartments, 19 dormitories, and 8 hotels. Under authority of P. L. 149 and P. L. 164, 65th Congress, approved May 16 and June 4, 1918, respectively, the Bureau of Industrial Housing and Transportation, Department of Labor, working through the U. S. Housing Corporation organized, built, and managed 25 completed community projects comprising more than 5,000 single-family dwellings, apartments, dormitories, and hotels, and also adjusted rent grievances. Funds were provided by P.L. 18, 67th Congress, approved June 16, 1921, for the creation of a Division of Building and Housing in the National Bureau of Standards.

The Emergency Relief and Construction Act of 1932, P. L. 302, 72nd Congress, approved July 21, 1932, authorized the RFC to make loans to corporations formed to provide housing for families of low income or for reconstruction of slum areas. P. L. 67 (National Industrial Recovery Act), 73d Congress, approved June 16, 1933, authorized the use of Federal funds to finance low cost and slum clearance housing and subsistence homesteads. Under this and subsequent appropriation acts, 50 low rent public housing projects containing 21,600 units were built in 37 cities and 15,000 units were provided in resettlement and Greenbelt towns. In addition, loans were made for 7 limited-dividend projects with 3,065 dwelling units. The Emergency Relief Appropriations Act of 1935 (Pub. Res. 11, 74th Congress, approved April 8, 1935) provided $450 million for housing. The Works Progress Administration (WPA) and the Bureau of Labor Statistics of the Department of Labor undertook a composite construction pattern survey to aid public works planning. The Bankhead-Jones Farm Tenant Act (P. L. 210, 75th Congress, approved July 22, 1937) authorized the Secretary of Agriculture to make 40 year, 3 percent loans to farm tenants, laborers and sharecroppers to finance the purchase of farms and repairs, including housing, and to finance existing indebtedness. The Bureau of the Census was authorized by P. L. 385, 76th Congress, on August 11, 1939, in connection with the 1940 census, to obtain data on the characteristics of the nation's home supply and occupancy. This was the first census on housing.

Other examples of Federal participation in housing and housing matters are:

1932—Federal Home Loan Bank System
1933—Home Owners' Loan Corporation
1934—Federal Housing Administration
—Federal Savings and Loan Insurance Corporation
1935—The RFC Mortgage Company
1937—U. S. Housing Authority (subsequently the Federal Public Housing Administration, later the Public Housing Administration, now the Housing Assistance Administration)
1938—Federal National Mortgage Association
1940—Lanham Act-financing of war housing
1941—War Emergency and Post-World War II Rental Housing (FHA title VI)
1942—National Housing Agency
1944—VA-guaranteed home loans (GI)
1946—Farmers Home Administration under the Department of Agriculture
1947—Housing and Home Finance Agency
—National Housing Council
1949—Military housing (FHA section 803) (Wherry Act) Present System of Public Housing
1950—Direct Loans to Veterans
—College Housing
—Cooperative Housing (FHA section 213)
—Community Facilities
—Housing for Low and Moderate Income Groups (FHA section 8)
1951—Defense Housing (FHA title IX)
1954—FNMA Special Assistance Functions, Secondary Market Operations and Management and Liquidating Functions under the FNMA Charter Act
—Urban Renewal Housing (FNMA sections 220, 221)
—Housing for Servicemen and their families (FHA section 222)
1955—Armed Services Housing (FHA section 803, Capehart)
1956—Civilian Employees Housing (NASA and AEC employees, 1963) (FHA section 809)
1958—Low and Moderate Priced Housing Mortgages (FNMA Special Assistance Program Number 10)
1959—Elderly Persons Housing (FHA section 231)
—Nursing Homes Housing (FHA section 232)

—Housing for Military and Civilian Personnel in Defense Impacted Areas (NASA and AEC employees, 1963) (FHA section 810)

1961—Home Improvement Loans (FHA sections 203(k), 203(j) and 220 (h))

—FNMA Short-term Loans on security of FHA-insured or VA-guaranteed Mortgages

—Experimental Housing (FHA section 233)

—Insurance of Mortgages on Individually owned units in Multi-family Structures—"Condominiums" (FHA section 234)

1965—Land development mortgages (FHA title X)

—Department of Housing and Urban Development

—Rent Supplement Program

1966—FHA insurance for land development for new Communities

—Demonstration cities and Metropolitan Development

1968—Partitioning of the 1954 chartered FNMA into (1) a Federally-financed corporation encompassing former FNMA Special Assistance and Management and Liquidation functions; and (2) a government-sponsored, privately financed and privately owned corporation encompassing FNMA's former Secondary Market Operations.

—Housing for Lower Income Families (FHA sections 235, 236 and 237)

—HUD guaranties of bonds of new towns

1970—Authorized FNMA to deal in Conventional Mortgages

—Federal Home Loan Mortgage Corporation

—Home Owners' Assistance Program

National Mortgage Associations—Statutory Provisions and Criteria

The establishment of national mortgage associations was authorized by the provisions of title III of the National Housing Act, approved on June 27, 1934. Such associations, which were to be chartered and supervised by the Federal Housing Administrator, were intended to provide home construction credits for the housing industry through the origination, purchase, and sale of conventional and FHA-insured first mortgages.

Under the 1934 Act, any five or more persons could apply to the Administrator for authority to establish a national mortgage association by transmitting to the Administrator articles of association, signed, sealed and acknowledged by each of the incorporators, containing (1) the name of the association, (2) the location of its principal office or place of doing business, and (3) such information with respect to its capital stock as the Administrator might require. The associations were authorized and empowered to (1) purchase and sell first mortgages, not to exceed 80 percent of the appraised value of the property, and (2) borrow money needed for the foregoing purposes through the issuance of notes, bonds, debentures, or other such obligations.

Initially, the law provided that an association must have capital stock of a par value of not less than $5 million fully subscribed and paid in before a charter could be issued. Borrowings by an association, with the approval of the Administrator, could not be greater than ten times the aggregate par value of the association's outstanding capital stock and in no event could borrowings exceed the sum total of (a) the face value of the mortgages held by the association and insured under title II of the National Act; (b) cash on hand and on deposit; and (c) investments in the form of United States Government-guaranteed obligations. Subsequent legislation in 1935 considerably liberalized these limitations by reducing the amount of required subscribed capital stock from $5 million to $2 million, of which only 25 percent had to be paid in as a prerequisite to obtaining a charter to commence business; the associations were also authorized in 1935 to increase their borrowing authority from 10 times the par value of their outstanding capital stock to 12 times the amount of their paid-up capital and surplus.

Amendments to the National Housing Act in 1938 increased the authorized borrowing ratio to 20 to 1 and broadened the authority of any national mortgage association established thereunder to permit it to (1) make real estate loans accepted for insurance under title II of the National Housing Act, except section 203; (2) purchase, service, or sell any mortgages, or partial interests therein, insured under title II of the Act; (3) purchase, service or sell conventional first mortgages. The amount of the principal obligation of any conventional mortgage purchase could not exceed 60 percent of the appraised value of the property as of the date the mortgage was purchased by an association and could not be included in the association's borrowing base.

Prior to 1938, national mortgage associations were subject to taxation to the same extent as State-chartered corporations, except that no State or political subdivision thereof could impose any tax on an association or its franchise, capital, reserves, surplus, loans, income, stock or its securities or income therefrom at a greater rate than was imposed by such taxing authority on corporations engaged in similar business within the State. Real property of the associations was subject to State or local taxation to the same extent, according to its value, as other real property was taxed. Under the 1938 amendments, the associations and their obligations were exempted from Federal, State, and local taxation, except for real property taxes.

The only national mortgage association ever established under this authority was the National Mortgage Association of Washington, chartered on February 10, 1938. On April 11, 1938, its name was changed to Federal National Mortgage Association. The authority of the Federal Housing Administrator to establish national mortgage associations was repealed by P.L. 864, 80th Congress, approved July 1, 1948.

Capitalization of FNMA

1. *Pre-1954 Capitalization*

At the time of its establishment in 1938, FNMA was provided with capital of $10 million and paid-in surplus of $1 million through the purchase by the Reconstruction Finance Corporation of 100,000 shares of the Association's $100 par value stock at a price of $110 per share. Pursuant to the Housing Act of 1948 (P.L. 864, 80th Congress, approved July 1, 1948), additional capital of $10 million was provided by the RFC.

2. *1954-1968 Capitalization*

The FNMA Charter Act (P.L. 560, 83d Congress, approved August 2, 1954) authorized FNMA to issue nonvoting, $100 par value preferred stock to the Secretary of the Treasury and nonvoting, $100 par value common stock to those organizations that sold or contracted to sell mortgages to the Corporation.

3. *Post 1968 Capitalization*

The 1968 changes in the law required the retirement of the preferred stock, changed the common stock to no par and vested all voting power in it, and authorized unlimited issuances of common stock with permission of the Secretary of HUD.

Preferred Stock

The conditions under which the Corporation's preferred stock was issued to, and was purchased by, the Secretary of the Treasury were prescribed by the Charter Act.

1. *Issuance of Preferred Stock*

During the period between November 1, 1954, and September 1, 1968, the preferred stock of the Corporation was issued to, and (except for that portion that from time to time was held by it as corporate treasury stock), was held solely by the Secretary of the Treasury. As of November 1, 1954 (the day following the cut-off date administratively determined by the Association under section 303(d) of the

Charter Act (P. L. 560, 83d Congress)), the Corporation issued preferred stock to the Secretary in the amount of $92,820,304.97 to obtain funds and capital with which to begin its activities under the Secondary Market Operations. This issue was equivalent to the Association's original pre-1954 capitalization of $20 million and paid-in surplus of $1 million plus its $71,820,304.97 of reserves for losses and contingencies and undistributed earned surplus at October 31, 1954. The amount of the preferred stock issued to the Secretary of the Treasury was increased by $50 million on March 27, 1957, to $142,820,304.97 (P. L. 85-10); the preferred stock authorized to be issued was increased by $65 million to $207,820,304.92 by P. L. 85-104, approved July 12, 1957; and by $110 million to a total of $317,820,304.97 by P. L. 89-566, approved September 10, 1966. Of the total authorized stock, $163,820,304.97 had been issued at August 31, 1968, the last day on which such stock could by action of law be issued to the Secretary of the Treasury. Public Law 90-448, approved August 1, 1968, prescribed that Corporation preferred stock could not be issued on or after an effective date which the Secretary of Housing and Urban Development established as September 1, 1968 (published in the Federal Register August 2, 1968).

2. *Dividends on Preferred Stock*

During the time in which preferred stock was outstanding, the Secretary of the Treasury was entitled to cumulative dividends on such stock for each fiscal year or portion thereof, from the date or dates the capital represented by such stock was initially utilized. The law required such dividends in an amount not less than the greater of (1) the rate concurrently being paid on the common stock, or (2) a rate established by the Secretary of the Treasury at the beginning of each fiscal year, taking into consideration the current average interest rate on outstanding marketable obligations of the United States as of the last day of the preceding fiscal year.

Under the described arrangement, dividends on the preferred stock were established on a fiscal year basis at the following rates:

Fiscal year	Minimum rate established by Secretary of the Treasury	Rate established by Board of Directors
1955	2%	2%
1956	2.125%	2.125%
1957	2.375%	2.375%
1958	2.75%	2.75%
1959	2.5%	2.5%
1960	2.875%	2.875%
1961	3.5%	3.5%
1962	3.125%	3.21%
1963	3.25%	3.36% (7–62)
		3.6% (11–62)
1961	3.375%	3.6%
1965	3.625%	3.72%
1966	3.75%	3.81%
1967	1.125%	1.125%
1968	1.125%	1.125%
1969	1.75%	1.75%

3. *Retirement of Preferred Stock*

At the Corporation's option, the preferred stock could be retired at par value at any time and as rapidly as the Corporation deemed feasible, out of funds of its capital and general surplus accounts. Concurrently with the retirement of the last of the preferred stock, that portion of the general surplus and reserves of the Corporation (except reserves for depreciation of assets, including mortgages) deemed to have been earned by the capital represented by the preferred stock was required to be paid over to the Secretary of the Treasury for covering into miscellaneous receipts. The amount of the payment was determined by applying to the surplus and reserves that percentage which was equivalent to the proportion borne by the employed capital represented by the preferred stock to the total employed capital of the Corporation, computed monthly for the period between November 1, 1954, to the date on which the last of the outstanding shares of preferred stock were retired.

On September 30, 1968, the outstanding preferred stock held by the Secretary of the Treasury, amounting to $163,820,304.97, was retired from the proceeds of a $250 million issue of subordinated capital debentures. Also from the proceeds of the issue, the Corporation paid $52,190,693 to extinguish the Treasury's equity in the Corporation's earned surplus.

Transfer of the Secondary Market Operations to Private Ownership

The Charter Act in effect prior to September 1, 1968, required the Secretary of Housing and Urban Development, as promptly as practicable after all of the preferred stock had been retired, to transmit to the President of the United States for submission to the Congress, recommendations for such legislation as might be necessary or desirable to make appropriate provision to transfer to the holders of outstanding common stock the assets and liabilities of the Corporation in connection with, and the control and management of, its Secondary Market Operations in order that such operations could thereafter be carried out by a privately owned and privately financed corporation.

The preferred stock, as noted above, was retired on September 30, 1968, and as a consequence, the holders of the common stock became the sole owners of the Corporation.

Under the provisions of P. L. 90-448, approved August 1, 1968, transfer of majority control of management to the holders of the common stock could occur at any time between May 1, 1970, and May 1, 1973, if the Board of Directors of the Corporation, with the approval of the Secretary of Housing and Urban Development, determined that not less than one-third of the then outstanding common stock was held by persons or institutions in the mortgage lending, homebuilding, real etsate or related business. This determination was made on May 21, 1970. During the transitional period, i.e., September 1, 1968, to May 21, 1970, the Board of Directors consisted of nine members; all of the members were initially appointed by the Secretary of Housing and Urban Development to serve until the first annual meeting of the shareholders, held in May 1969; during the second year, seven members were appointed by the Secretary and two members were selected by the shareholders; beginning with the third year and for the remainder of the transitional period, five members were to be appointed by the Secretary and four members selected annually by the shareholders. During the transitional period, the President of the Corporation was appointed a member of the Board of Directors. Also, during that period, the President of the Corporation was appointed by the President of the United States, by whom he could be removed only for good cause. At meetings of the shareholders, each share of stock is entitled to one vote, with rights of cumulative voting in the election of directors.

The transitional period ended on May 21, 1970. Beginning with that date the Board consisted of fifteen members, one-third of whom were appointed by the President of the United States with the remainder elected by the shareholders. Such appointments and elections of board members are required annually by the statute. Any member may be removed by the President of the United States for good cause. Of the members appointed by the President, at least one member must be from each of the home building, mortgage lending, and real estate industries. The Board selects and appoints the President, Vice-President, and such other officers of the Corporation as may be provided in the by-laws.

Within the limitations of law and regulation, the Board has authority to determine the general policies which govern the operations of the Corporation, to adopt, amend, or repeal by-laws governing the performance of the powers and duties granted or imposed upon it by law, and to select and compensate its officers and employees.

The Secretary of Housing and Urban Development has regulatory authority over the Corporation *in a number of specific instances, and, generally*, can make such rules and regulations as shall be necessary and proper to insure that the purposes of the Charter Act are accomplished. *Most important of his regulatory powers are:* (1) No stock, obligation, security, or other instrument may be issued by the Corporation without the prior approval of the Secretary; and (2) He may require that a reasonable portion of the Corporation's mortgage purchases be related to the national goal of providing adequate housing for low and moderate-income families, but with reasonable economic return to the Corporation. Also, the Secretary may examine and audit the books and financial transactions of the Corporation and require the Corporation to make such reports on its activities as he deems advisable.

Common Stock

The conditions under which the Corporation issues common stock to subscribers are prescribed by the Charter Act.

1. *Common Stock Subscription Requirements (Contributions to Capital)*

a. *With Respect to Purchases of Mortgages or Loans*

Sellers of mortgages to the Corporation were, from 1954 through 1970, required by law to make nonrefundable payments into FNMA's capital in an amount equal to a prescribed percentage of the unpaid principal amount of the mortgages and loans they sold or contracted to sell to the Corporation. Since the end of 1970, the law authorized FNMA to make such a requirement subject to approval of the Secretary of HUD.

Between August 2, 1954, and August 7, 1956, the amount of the capital contribution requirement was established by P. L. 560, 83d Congress, at not less than 3 percent. Public Law 1020, 84th Congress, approved August 7, 1956, provided for a rate of 2 percent or such greater or lesser percentage than 2 percent, but not less than 1 percent, determined from time to time by the Corporation, taking into consideration conditions in the mortgage market and the general economy. On August 9, 1956, the Corporation administratively established the stock subscription at 2 percent of the unpaid principal amount of the mortgages involved and on September 21, 1956, reduced the rate to the legal minimum of 1 percent. The latter action was one of a series of measures that were taken by the home financing agencies of the Federal Government to help relieve the extraordinary demand for credit which, accompanying the then current peak levels of business activity, limited the supply of funds that was available to home builders and home buyers. The 2 percent rate was reestablished on January 5, 1957. Public Law 85-104, approved July 12, 1957, as amended by P. L. 89-117, approved August 10, 1965, changed the requirement to not more than 2 percent nor less than 1 percent. On February 3, 1961, the subscription rate was administratively established at 1 percent on a temporary basis as a part of an overall program conducted by the Government housing agencies to stimulate home construction and to reduce housing costs; the rate was increased to 2 percent on December 20, 1961, but was subsequently reduced to its current rate of 1 percent on November 28, 1962.

Public Law 91-609, approved December 31, 1970, removed the legal minimum of 1 percent, and, effective with contracts executed on and after January 27, 1971, the Corporation administratively reduced the subscription rate to .5 percent. The rate was further reduced to .25 percent, effective with contracts executed on and after January 26, 1972. On March 28, 1973, FNMA announced that it would no longer require sellers of project mortgages to subscribe to stock in the corporation.

b. *With Respect to Loans on Mortgages*

Each borrower that obtains from the Corporation a short-term loan secured by FHA-insured or VA-guaranteed mortgages or FHDA-insured loans is required by P. L. 87-70, approved June 30, 1961, as amended by P. L. 89-117, approved August 10, 1965, to make a nonrefundable payment into capital of an amount equal to not more than 1/2 of 1 percent of the amount loaned to such borrower. Effective May 16, 1969, this requirement was waived until further notice.

c. *With Respect to Resale of Stock by Mortgage Seller*

Prior to January 17, 1971, the Corporation required the Seller to agree that, within a period of thirty-six months after the issuance of any share of stock pursuant to a commitment and purchase transaction resulting from:

1. a multifamily housing mortgage offer after July 31, 1969, or
2. a Free Market System offer on or after the offer period ending August 11, 1969,

it will not sell such share unless it has first offered such share to FNMA at its issue price and FNMA has refused to accept the offer.

This agreement does not apply to the shares issued pursuant to the subscription equal to the proportion of mortgage deliveries under a Free Market System contract.

The requirement was discontinued with respect to commitments issued on and after January 17, 1971.

d. *With Respect to Servicing of Mortgages*

In addition to the capital contributions described above, the Charter Act requires (P.L. 90-448, approved August 1, 1968) that the Corporation must at all times require each servicer of its mortgages to own a minimum amount of its common stock. Such minimum ownership may not exceed 2 percent, as determined from time to time by the Corporation with the approval of the Secretary of Housing and Urban Development, of the aggregate principal balances of all mortgages purchased by the Corporation pursuant to commitments issued subsequent to September 1, 1968, and serviced by such servicers for the Corporation.

The stock ownership requirement is met if the servicer is the registered owner. Since the Corporation relies solely upon its own records of shareholders, registered owners are guided by the advice of their own counsel when they desire to deal with elements of beneficial ownership of stock.

To implement the ownership requirement, the Corporation initially determined that a servicer must own one share of stock for each $8,000 of the aggregate of principal balances of mortgages it serviced and which were purchased pursuant to commitments entered into after September 1, 1968. At the then issue price of $130 per share, the value of the required stock, measured by its issue price, amounted to 1.625 percent of the aggregate of the principal balances of the mortgages covered. Since that time issue prices and stock retention ratios have been changed from time to time as conditions warranted.

Effective with contracts issued on and after August 10, 1970, the retention requirement was reduced from 1 percent to 7/10th of 1 percent of the amount of serviced mortgages by continuing the 1 percent requirement but permitting sellers to offer 30 percent of the stock for repurchase by FNMA at the issue price. The retention requirement was again reduced, effective with contracts issued on and after January 27, 1971, to ½ of 1 percent of the principal amount serviced, based on the issue price. The rate was further reduced to its present ¼ of 1 percent of the principal amount serviced on contracts executed on or after January 26, 1972.

Effective at the close of business July 1, 1970, the Corporation split each share of its outstanding common stock into four shares, and again, as of the close of business January 17, 1972, split each share into four shares.

Stock ownership requirements and their effective dates are detailed below:

Effective date	Issue price of stock (actual)	Issue price of stock (adjusted for stock splits)	Serviced mortgage principal for which ownership of one share is required, as adjusted for stock splits	Stock issue price as a percentage of serviced principal
September 1, 1968	$130	$ 8.125	$ 500	1.625
April 23, 1969	140	8.750	500	1.75
July 16, 1969	145	9.0625	900	1.00
July 2, 1970*	36	9.00	900	1.00
August 10, 1970	36	9.00	1,285	.70
January 27, 1971	53	13.25	2,650	.50
April 28, 1971	59	14.75	2,950	.50
October 27, 1971	65	16.25	3,250	.50
January 28, 1972*	22	22.00	4,400	.50
Jaunary 26, 1972	22	22.00	8,800	.25
June 28, 1972	20	20.00	8,000	.25
April 13, 1973	16	16.00	6,400	.25
October 4, 1973	18	18.00	7,200	.25
July 30, 1973	16	16.00	6,400	.25
June 4, 1975	17	17.00	6,800	.25

* Effective dates of stock splits.

Servicers can purchase from the Corporation all of the stock necessary to meet the above requirements.

e. *With Respect to Other Issuances*

The Housing and Urban Development Act of 1968 authorized the Corporation, upon approval of the Secretary of Housing and Urban Development, to issue additional shares of its common stock for appropriate payments into capital or capital and surplus for purposes of obtaining additional working capital.

On December 1, 1970, the Corporation completed a rights offering, selling 1,130,598 shares of its common stock. On October 1, 1971, it sold an issue of $250 million of convertible debentures, ultimately to be converted into common stock.

2. *Issuance of Common Stock*

Prior to September 1, 1968, shares of common stock were issued only to sellers or borrowers in denominations of $100 or multiples thereof evidencing subscriptions therefor, but under the provisions of P. L. 87-70, approved June 30, 1961, the subscription price could be adjusted by reason of any payments into surplus required by the Corporation. The stock was transformed into no par, voting stock by P. L. 90-448, approved August 1, 1968. However, the issue price procedure remained unchanged except that the excess of the issue price over the stated value of the stock is allocated to paid-in capital surplus. Prior to the quarter beginning July 1, 1970, the stock certificates were issued by the Corporation as of the first day of the calendar month next succeeding the month of sellers' or borrowers' payments therefor. Subsequent to that date, the certificates are issued as of the first business day of the first month of each calendar quarter based on the balance of the subscriber's account on that date. The amount of any subscription that cannot be evidenced by one or more whole shares may not be withdrawn but may be transferred by the seller or borrower, and the owner thereof is permitted to supplement any such amount by payment of an additional sum sufficient to pay for one full share of common stock.

Stock issue prices and their effective dates are detailed below:

	Issue Price (adjusted for all stock splits)	Par or stated value
November 1, 1954	6.25	$100.00
November 28, 1962	6.875	100.00
July 17, 1964	7.50	100.00
January 18, 1966	8.125	100.00
April 23, 1969	8.75	100.00
July 16, 1969	9.0625	100.00
July 2, 1970 (1st 4 for 1 stock split)	9.00	25.00
January 27, 1971	13.25	25.00
April 28, 1971	14.75	25.00
October 27, 1971	16.25	25.00
January 18, 1972 (2nd 4 for 1 stock split)	22.00	6.25
June 28, 1972	20.00	6.25
April 13, 1973	16.00	6.25
October 4, 1974	18.00	6.25
July 30, 1974	16.00	6.25
June 4, 1975	17.00	6.25

3. *Dividends on Common Stock*

Prior to September 1, 1968, dividends were payable on the common stock as declared by the Board of Directors at its discretion but not in excess of 5 percent of par value per annum. Also, until all of the preferred stock was retired, the rate of dividends that could be paid on the common stock in any one fiscal year could not exceed the rate paid to the Secretary of the Treasury on the preferred stock during that year.

Under the amendments made by P. L. 90-448, such dividends as may be declared by the Board of Directors at its discretion are paid to the holders of the common stock, but in any one fiscal year the aggregate amount of cash dividends paid on account of any share of such stock may not exceed any rate which may be determined from time-to-time by the Secretary of Housing and Urban Development to be a fair rate of return after consideration of the current earnings and capital condition of the Corporation.

From January 1956 through June 1970 dividends were declared and paid monthly by the Corporation on each share of common stock outstanding as of the beginning of the dividend month. Concurrently with the four-for-one stock split effective after July 1, 1970, the Corporation changed the declaration of its dividends from a monthly to a quarterly basis.

Dividend declarations shown below are an annual rate adjusted for all stock splits:

	Annual rate
January 1956-December 1958	$0.1275
January 1959-July 1959	0.1500
August 1959-August 1960	0.1725
September 1960-June 1962	0.2025
July 1962-October 1962	0.2100
November 1962-June 1964	0.2250
July 1964-June 1965	0.2325
July 1965-September 1971	0.2400
September 1971-July 1972	0.3000
July 1972-December 1972	.3600
January 1973-January 1974	.5000
February 1974-April 1975	.6800
May 1975	.8000

4. *Federally Related Financial Institutions as Eligible Common Stock Subscribers and Holders*

Any institution, including a national bank or state member bank of the Federal Reserve System, or any member of the FDIC, trust company, or other banking organization, organized under any law of the United States, including the laws relating to the District of Columbia, is authorized to make capital contributions and to receive common stock of the Corporation evidencing such contributions, to purchase additional shares of such stock, and to hold or dispose of such stock.

5. *Treatment of Common Stock for Federal Income Tax Purposes*

Sections 162(d) and 1054 of the Internal Revenue Code of 1954 provide that with respect to taxable years beginning after December 31, 1959, whenever the market value of the Corporation's common stock as of the date of its issuance is less than its issue price, the difference shall, for Federal income tax purposes, be treated by the initial holder of the stock as an ordinary and necessary expense incurred during the taxable year in carrying on a trade or business, and its basis in the hands of such holder is reduced by such difference.

Financing

1. *Pre-1954 FNMA Financing*

Prior to the enactment of the Charter Act on August 2, 1954, the Association's activities were financed, for the most part, with funds furnished directly or indirectly by the United States Treasury. During the period between February 10, 1938, (when FNMA was established) and September 7, 1950, (when it was transferred from the RFC to the HHFA), the Association issued two series of its obligations to the public through the facilities of the RFC to raise funds. Other funds required during that period were borrowed from the United States Treasury. Between September 7, 1950, and November 1, 1954, (the effective date of the Charter Act), funds required by the Association were borrowed in its behalf from the United States Treasury by the Administrator, HHFA (who was also Chairman of FNMA's Board of Directors).

The two series of obligations that were issued by the Association during the pre-1954 period were:

(1) Series A 2% five-year notes aggregating $29,748,000, due May 16, 1943, issued at par and accrued interest on May 16, 1938. These notes were redeemable after May 15, 1939, on 30 days' notice at a premium of 1% during the first year, which premium decreased at the rate of 1/4% for each year thereafter to the date of maturity;

(2) Series B 1⅝% five-year notes aggregating $55,492,000, due January 3, 1944, issued at par and accrued interest on January 3, 1939. These notes were redeemable at 102 at the end of the first year, which premium decreased at the rate of 1/2% for each succeeding year to the date of maturity. The notes were called for payment July 3, 1943, at 100.5, the Association thereby incurring a premium loss of $277,460.

The decision to redeem the outstanding notes prior to maturity was prompted by the desire of the United States Treasury to concentrate the Government's financing in the Treasury so as to remove all interference by Federal agencies with the Government's efforts to conduct its war financing. As partial security for these notes, and also to provide a source of interest income, the Association acquired from The RFC Mortgage Company 10,592 FHA-insured mortgages covering residential housing and aggregating $40,509,731. The pre-1954 financing is summarized on page 56.

2. *Post-1954 Financing—Management and Liquidating Functions*

Sources of Funds

Funds required to finance the Association's Management and Liquidating Functions were obtained from (a) borrowings from the Secretary of the Treasury; (b) sales of obligations to private investors; (c) earnings from operations; (d) income from investments other than mortgages, loans, or obligations; (e) portfolio liquidation; and (f) sales of beneficial interests, or participations, in mortgages, loans or obligations owned by the Association under its Management and Liquidating Functions, as described under the section titled "Sales of Participations under Fiduciary Powers of the Association" on pages 26-27.

a. *Treasury Borrowing Arrangements*

Interest on funds borrowed from the United States Treasury and dividends on utilized capital stock prior to September 7, 1950, were paid to the United States Treasury through the RFC; between September 7, 1950, and November 1, 1954, interest and dividends were paid through the Housing and Home Finance Administrator.

Under the Management and Liquidating Functions, the Association was authorized to deal directly with the Secretary of the Treasury in financial matters. The Act provided that obligations which were issued to the Secretary of the Treasury under the Management and Liquidating Functions must mature in not more than five years from their respective dates of issue, could be redeemed at the option of the Association before maturity in such manner as may be therein stipulated, and bear interest at rates determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the issuance of such notes or obligations. Prior to September 1, 1968, the Association's indebtedness to the Secretary of the Treasury under these functions was evidenced by notes executed by the President of the Association and held by the Secretary.

b. *Private Borrowing Authority*

For the purpose of assuring that, to the maximum extent and as rapidly as possible, private financing would be substituted for Treasury borrowings in connection with the portfolio of the Management and Liquidating Functions, the Association was authorized by the Charter Act to issue, upon the approval of the Secretary of the Treasury, and have outstanding at any one time obligations having such maturities and bearing such rate or rates of interest as determined by the Association with the approval of the Secretary of the Treasury, redeemable at the option of the Association before maturity in the manner stipulated in such obligations.

c. *Private Borrowing Arrangements*

The Association was prevented by law from issuing obligations of its Management and Liquidating Functions to private investors if, at the time of such proposed issuance and as a consequence thereof, the resulting aggregate amount of its outstanding obligations would exceed the amount of the Association's ownership under these functions, free from any liens or encumbrances, of cash, mortgages, and obligations of the United States or guaranteed thereby, or obligations, participations or other instruments which are lawful investments for fiduciary, trust, or public funds. However, in connection with its issuances of ML notes, the Association warranted that it would not issue such notes if, at the time of such proposed issuance and as a consequence thereof, the resulting aggregate amount of the outstanding notes would exceed 80 percent of its ownership under these functions of assets described in the preceding sentence.

Although the ML notes expressly stated that they were not guaranteed by the United States, under an arrangement entered into between the Association and the Secretary of the Treasury, the Association was to be permitted, under section 306(d) of the Charter Act, to borrow from the United States Treasury such funds as may be necessary to make timely payments of principal and interest on the outstanding notes should the need therefor arise. ML notes sold to private investors were generally not included in the public debt of the Federal Government. Participation Certificates sold during fiscal year 1968, however, were specifically included in the public debt by P.L. 90-39, approved June 30, 1967.

The Association was authorized by the Charter Act to purchase in the open market any of the outstanding obligations issued by it to private investors under the Management and Liquidating Functions at any time and at any price. ML notes that had been issued to private investors prior to September 1, 1968, are described on page 56.

d. *Investment of Surplus ML Funds*

Moneys of the Association under its Management and Liquidating Functions which were not invested in mortgages or other security holdings or in operating facilities were required to be held in cash or on deposit or invested in obligations of the United States or guaranteed thereby, or in obligations, participations, or other instruments constituting lawful investments for fiduciary, trust, or public funds (P. L. 86-372, approved September 23, 1959). Prior to enactment of P. L. 86-372, such investments were limited to bonds or other obligations of, or to bonds or other obligations guaranteed as to principal and interest by, the United States.

e. *Eligibility of ML Obligations as Legal Investments ments*

Obligations, participations, or other instruments that were issued by the Association under its Management and Liquidating Functions are lawful investments, and acceptable as security for all fiduciary, trust, and public funds, the investment or deposit of which are under the authority and control of the United States or any officer or officers thereof.

3. *Post-1954 Financing—Special Assistance Functions*

a. *Sources of Funds*

Funds required to finance the Special Assistance Functions were obtained through (a) borrowings from the Secretary of the Treasury; (b) fees charged for services or facilities; (c) earnings from operations; (d) portfolio liquidation; (e) income from investments other than mortgages; and (f) sales of beneficial interests, or participations, in mortgages owned by the Association under its Special Assistance Functions, as described under the section titled "Sales of Participations under Fiduciary Powers of the Association on page 26. The Association was required to impose fees or charges for its services under the Special Assistance Functions with the general objective that the functions would be fully self-supporting; these functions were not required, however, to be self-supporting in respect to transactions involving FHA section 221(d)(3) below-market interest rate mortgages or with respect to transactions involving the issuance of beneficial interests, or participations, in mortgages or obligations where the income from the mortgages or obligations was insufficient to cover the cost of such securities.

The Association's borrowings from the United States Treasury under the Special Assistance Functions were evidenced by notes executed by the President of the Association.

b. *Investment of Surplus SAF Funds*

Moneys of the Association under its Special Assistance Functions not invested in mortgages or other security holdings or in operating facilities could be invested in the manner described above in respect to the Management and Liquidating Functions.

4. *Post-1954 Financing—Secondary Market Operations*

a. *Sources of Funds*

The Corporation obtains most of the funds needed to finance its Secondary Market Operations through the sale of its obligations (debentures and short-term discount notes) to private investors. Upon approval of the Secretary of the Treasury and the Secretary of Housing and Urban Development, the Corporation may issue and have outstanding at any time general (non-subordinated) obligations which in their aggregate do not exceed 25 times the sum of the Corporation's capital and surplus and its outstanding subordinated obligations. The borrowing leverage was increased to that amount on December 5, 1969, from the 20 to 1 ratio established on October 1, 1968. The 15 to 1 ratio in effect up to October 1, 1968, had been established by P.L. 89-566, approved September 10, 1966. The rate that had been in effect between August 2, 1954 and September 10, 1966, was 10 to 1. Other sources of funds required by the Corporation are (a) non-refundable contributions made to capital (common stock) by organizations that sell mortgages or loans to, or borrow funds from, the Corporation; (b) sales of common shares in return for appropriate payments into capital and surplus; (c) earnings from operations; (d) fees for numerous Corporation services or facilities; (e) income from investments other than mortgages or loans; (f) mortgage portfolio liquidation; (g) interim borrowings from commercial banks under special arrangements; and (h) sales of debt obligations or trust certificates of beneficial interest, or both, in mortgages held by the Corporation and set aside for such purposes. These operations are required by the Charter Act to be fully self-supporting.

Obligations of the Corporation are not obligations of the United States or of any agency or instrumentality thereof other than the Corporation nor do they constitute public debt transactions of the Federal Government unless they involve redemptions, purchases or sales of such obligations by the Secretary of the Treasury. The Corporation is authorized to purchase in the open market any of the outstanding obligations issued by it to private investors at any time and at any price. Private borrowings via sales of corporate debentures are effected by the Corporation through its Fiscal Agent, assisted by a recognized group of security dealers and dealer banks.

Debenture obligations that have been issued by the Corporation to private investors as of December 31, 1972, are described on pages 52-54.

b. *Short-Term Discount Notes*

On April 18, 1960, the Corporation inaugurated a method of meeting a portion of its financing needs by sales to private investors of short-term discount notes similar to commercial paper. These notes, which are marketed and distributed by the Corporation through its contract distributors, are tailored to the individual needs of corporate, institutional, or other investors at published rates within a maturity range of 30 to 270 days. This form of financing serves as a supplement to the Corporation's debenture-borrowing program and provides it with a greater degree of operational flexibility by (1) reducing the cost of borrowings; (2) enabling it to pay off maturing notes from the proceeds of sales or other liquidation instead of being required to hold, or to invest, them temporarily awaiting the due dates of future debenture maturities; and (3) permitting it to go into the intermediate and long-term market when rates are favorable and holding off when conditions are unfavorable for such financing. Between April 18, 1960, and January 2, 1969, short-term discount notes were issued through a single distributor; on the latter date the dealership was expanded to a group of four nationally recognized dealers in this type of financing medium. A summary of short-term discount notes that had been issued as of December 31, ~~1972~~, 1974, is shown on page ~~54~~ 60.

c. *United States Treasury Borrowing Arrangements—Interim Borrowings*

Prior to June 30, 1969, the Corporation borrowed interim funds from the United States Treasury as needed to finance its operations. When these borrowings aggregated a sufficient size to justify offerings in the public market, debentures were offered to the investing public and the proceeds used to repay the borrowings, to finance additional purchases of mortgages or for other corporate purposes. Interim Treasury borrowings were also repaid from the proceeds of short-term discount notes that were sold to private investors, from income, stock issues, and from the proceeds of portfolio liquidation. Interim borrowings from the Secretary of the Treasury were evidenced by notes executed by the President of the Corporation and held by the Secretary.

The limitation on the Corporation's borrowings outstanding at any one time from the Secretary of the Treasury was established by P. L. 560, 83rd Congress, approved August 2, 1954, at $500 million plus any net reduction in the Management and Liquidating Functions portfolio after October 31, 1954. Public Law 85-10, approved March 27, 1957, increased the limitation to $1,350 million. Public Law 85-104, approved July 12, 1957, further increased the limitation to the present $2,250 million. The authorization was originally scheduled to expire upon retirement of the preferred stock, but that provision was repealed by P. L. 90-448, approved August 1, 1968.

The rates of return on any notes given to, and held by, the Secretary of the Treasury evidencing the Corporation's interim Treasury borrowings were determined by the Secretary, taking into consideration the current average yield on outstanding marketable obligations of the United States as of the last day of the month preceding the issuance of such notes.

The above-described interim borrowing arrangements with the United States Treasury were effected under the discretionary authority of the Secretary of the Treasury to purchase the Corporation's obligations. On June 30, 1969, the Corporation's Treasury borrowing arrangements were phased out and are intended to be used on an emergency basis only; commercial lines of credit have been established to permit substitution of private borrowings for short-term funds formerly borrowed from the United States Treasury.

d. *Sales of Debt Obligations or Trust Certificates Against Pools of Mortgages*

To provide a greater degree of liquidity to the mortgage investment market and an additional means of financing its operations, the Corporation is authorized by P. L. 90-448, approved August 1, 1968, to set aside any mortgages held by it, and, upon approval of the Secretary of the Treasury, to issue and sell securities based upon the mortgages so set aside. Securities issued thereby may be in the form of debt obligations or trust certificates of beneficial interest, or both. These securities may have such maturities and bear such rates of interest as may be determined by the Corporation with approval of the Secretary of the Treasury, and shall be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission. Mortgages set aside for these purposes must at all times be adequate to enable the Corporation to make timely payments of interest and principal on the securities issued and sold. The Government National Mortgage Association is authorized to guarantee any of such obligations. The FNMA guaranty is backed by the full faith and credit of the United States. Mortgage-backed bonds that have been issued by the Corporation are described on page 54.

e. *Sales of Subordinated Obligations (Capital Debentures)*

The Corporation is authorized by P. L. 90-448, approved August 1, 1968, to issue, upon approval of the Secretary of the Treasury, obligations which are subordinated to any or all other obligations of the Corporation, including subsequent obligations. Rates and maturities are determined by the Corporation with approval of the Secretary of the Treasury and may be redeemed at the option of the Corporation before maturity in such manner as may be determined in the obligations. Any of such obligations may be convertible into shares of common stock in such manner, at such price or prices, and at such time as may be stipulated therein. The total principal amount of such subordinated obligations which may be outstanding at any one time may not exceed two times the sum of the (1) capital of the Corporation represented by its outstanding common stock and (2) its surplus and undistributed earnings at such time. The outstanding total obligations issued or to be issued under conditions above described are deemed to be capital of the Corporation for the purpose of determining the aggregate amount of its general obligations that may be outstanding at any one time. Such subordinated securities are exempt from laws administered by the Securities and Exchange Commission. These obligations are not guaranteed by the United States or by any Federal agency or Department. The Corporation is authorized to purchase in the open market any of these obligations outstanding at any time and at any price.

f. *Tax Status of the Corporation and its Obligations*

Obligations issued by the Corporation to private investors are generally subject to taxation.

g. *Eligibility of Obligations as Legal Investments*

All obligations, securities, participations, or other instruments issued by the Corporation are lawful investments, and may be accepted as security for investments of the types prescribed for the Management and Liquidating Functions (page 25).

5. *Sale of Participations Under Fiduciary Powers of the Association—Management and Liquidating Functions*

Public Law 88-560, approved September 2, 1964, vested fiduciary powers in the Association to provide a means of substituting the funds of private investors for the United States Treasury's investment in Association-owned first mortgages and in first mortgages in which the United States or any agency or instrumentality thereof had a financial interest, through the sale to private investors of beneficial interests, or participations, in such mortgages. The fiduciary powers of the Association were administered under its Management and Liquidity Functions.

The Association's fiduciary authority was expanded by P. L. 89-117, approved August 10, 1965, to include obligations that were owned by it; that Act, as amended by P. L. 89-174, approved September 9, 1965, authorized the Association to enter into commitments to purchase, and purchase, service, or sell any obligations (not necessarily mortgages) offered to it by the Secretary of Housing and Urban Development as more fully described on page 39.

The Association's fiduciary powers were modified by P. L. 89-429, approved May 24, 1966 (the Participation Sales Act of 1966), to authorize it, as Trustee, to issue beneficial interests, or participations, in any mortgages or other types of obligations in which (a) the Farmers Home Administration of the Department of Agriculture, (b) the Department of Health, Education and Welfare, (c) the Department of Housing and Urban Development, other than the Secondary Market Operations of FNMA, (d) the Veterans Administration, (e) the Export-Import Bank of the United States, or (f) the Small Business Administration, had a financial interest, provided the participations which were issued for the account of any such Trustor Agency or Department did not exceed any amount which was authorized by an appropriation act. The principal amount of any participations sold was treated as a sale or repayment of the mortgages or obligations represented thereby.

Public Law 89-117 provided that if one or more trusts that may be created pursuant to the Association's fiduciary powers included any mortgages bearing a below-market interest rate and insured by FHA under section 221(d)(3) of the National Housing Act after August 10, 1965, the Congress was authorized to appropriate from time to time such amounts as would be necessary to reimburse the Association for the difference (including interest, other costs, and a fair amount of administration expenses) between the total outlay with respect to outstanding participations which, at the time of issuance, were predicated upon or otherwise related to such below-market interest rate mortgages, and the total receipts from such mortgages. This provision was repealed by P. L. 89-429, approved May 24, 1966, which authorized the Congress to appropriate without fiscal year limitation such sums as would be necessary to enable any Trustor, including the Association, to pay the Trustee any insufficiencies as the Trustee may require on account of outstanding beneficial interests, or participations, authorized to be issued pursuant to the provisions of the Charter Act. After the initial authorization to issue participation certificates in the Independent Offices Appropriations Act, 1967 (P. L. 89-555), the Congress departed from the practice of providing indefinite appropriations for insufficiencies and reverted to definite annual appropriations. Consequently, issues of participation certificates other than those authorized by P. L. 89-555, approved September 6, 1966, require annual appropriations for insufficiencies.

Pursuant to the foregoing, the Association's participation program provided, under one or more trust indentures, for the pooling of stated amounts of mortgages or other types of obligations in which the departments or agencies above specified had a financial interest. The Association, as Trustee, with fiduciary powers, sold to private investors through its established facilities and contacts in the private money market participations in the pooled mortgages or obligations. Four separate trusts have been created pursuant to trust indentures entered into between the Association as Trustee, and various departments and agencies as Trustors. See pages 57-58 for summary of issues.

As of August 31, 1968, fourteen issues of participation certificates aggregating $9,620 million had been issued by the Association, as Trustee, of which on that date $9,195 million were outstanding. Participation activities under the four trusts as of August 31, are described below:

a. *Government Mortgage Liquidation Trust*

As of October 1, 1964, the Government Mortgage Liquidation Trust (GMLT) was created pursuant to a trust indenture entered into between the Association and the Administrator of Veterans Affairs. Five issues of participation certificates aggregating $1,790 million were sold to private investors, as follows:

(1) On October 19, 1964, the Association, as Trustee, sold at an average price of 99.7539 for delivery on November 2, $300,000,000 of series 1965-74 A serial participation certificates to a nationwide group of underwriters. The certificates, which were issued in registered form only, bear interest ranging between 4.125% and 4.375%, mature over a term of 10 years in equal annual installments of $30,000,000 beginning on November 1, 1965, and represent future payments of principal and interest from first mortgages placed in the pool for that purpose, as follows:

Agency	Amount of issue (in millions)	Pool
FNMA (SAF)	$200	$428,115,729
VA	100	204,646,818
	300	632,762,547

(2) On June 15, 1965, the Association, as Trustee, sold at an average price of 99.7002, for delivery on July 1, $525,000,000 of series 1966-80 B serial participation certificates to a national group of underwriters. The certificates, which were issued in registered form only, bear rates ranging between 4.375% and 4.50%, mature over a period of 15 years in equal annual installments of $35,000,000 beginning on July 1, 1966, and represent future payments of principal and interest from first mortgages placed in the pool for that purpose, as follows:

Agency	Amount of issue (in millions)	Additions to pool	Cumulative GMLT issues (in millions)	Total pool
FNMA ($130 ML; $120 SAF)	$250	$331,866,774	$450	$ 759,982,503
VA	275	345,464,675	375	650,111,493
	525	677,331,449	825	1,410,093,996

(3) On November 16, 1965, the Association, as Trustee, sold at an average price of 99.622, for delivery on December 1, $375,000,000 of series 1966-80 C serial participation certificates to a national group of underwriters. The certificates, which were issued in registered form only, bear rates ranging between 4.625% and 4.70%, mature over a term of 15 years in equal annual installments of $25,000,000 beginning on December 1, 1966, and represent future payments of interest and principal from first mortgages placed in the pool for such purposes as follows:

Agency	Amount of issue (in millions)	Additions to pool	Cumulative GMLT issues (in millions)	Total pool
FNMA (SAF)	$ 75	$ 95,366,578	$ 525	$ 855,349,081
VA	300	384,013,136	675	1,034,124,629
	375	479,379,714	1,200	1,889,473,710

(4) On March 16, 1966, the Association, as Trustee, sold at 100, for delivery on April 4, $410,000,000 of series 1967-81 D serial participation certificates to a nationwide group of underwriters. The certificates, which were issued in registered form only, bear rates ranging between 5.25% and 5.50%, mature over a term of 15 years in equal annual installments of $20,000,000 each on April 1, 1967-1976 and in equal installments of $42,000,000 each on April 1, 1977-1981, and represent payments of interest and principal from first mortgages placed in the pool for such purposes, as follows:

Agency	Amount of issue (in millions)	Additions to pool	Cumulative GMLT issues (in millions)	Total pool
FNMA (SAF)	$160	$220,696,087	$ 685	$1,076,045,168
VA	250	315,649,926	925	1,349,774,555
	410	536,346,013	1,610	2,425,819,723

(5) On June 9, 1966, the Association, as Trustee, sold at 100, for delivery on June 23, $180,000,000 of series 1979-81 E serial participation certificates to a nationwide group of underwriters. The certificates, which were issued in registered form only, bear interest rates ranging between 5.40% and 5.375%, mature over a term of 3 years in equal annual installments of $60,000,000 beginning on June 23, 1979, and represent future payments of interest and principal from first mortgages placed in the pool for such purposes, as follows:

Agency	Amount of issue (in millions)	Additions to pool	Cumulative GMLT issues (in millions)	Total pool
FNMA (SAF)	$ 60	—	$ 745	$1,076,045,168
VA	120	—	1,045	1,349,774,555
	180	—	1,790	2,425,819,723

b. *Small Business Obligations Trust*

As of June 1, 1966, the Small Business Obligations Trust (SBOT) was created pursuant to a trust indenture entered into between the Association and the Administration of the Small Business Administration. Pursuant to the provisions of the trust indenture, the Association, as Trustee, sold on June 9, 1966, to a nationwide group of underwriters at 100, for delivery on June 23, $350,000,000 of series 1967-71 A serial participation certificates. The certificates, which were issued in registered form only, bear rates ranging between 5.70% and 5.75%, mature over a term of 5 years in equal annual installments of $70,000,000 beginning June 23, 1967, and represent future payments of principal and interest from $531,656,148 of loans owned by the Small Business Administration and specifically set aside for that purpose.

c. *Federal Assets Liquidation Trust*

As of December 1, 1966, the Federal Assets Liquidation Trust (FALT) was created pursuant to a trust indenture entered into between the Association, as Trustee and as Trustors, of the Department of Housing and Urban Development, the Department of Health, Education and Welfare (Office of Education), the Department of Agriculture (the Farmers Home Administration), the Veterans Administration, and the Small Business Administration. Four issues of participation certificates aggregating $3,230 million were sold to private investors, as follows:

(1) On January 5, 1967, the Association, as Trustees, sold at 100, for delivery on January 19, $1,100,000,000 of series 1972, 1977 and 1982 A participation certificates to a nationwide group of underwriters and Federal Government Investment accounts. The certificates, which were issued in registered and bearer form, bear a rate of 5.20%, mature in annual installments of $275,000,000 each on January 19, 1972 and 1977, and $550,000,000 on January 19, 1982, and represent future payments of principal and interest from mortgages or other obligations placed in the pool for such purposes, as follows:

Agency	Amount of issue (in millions)	Pool
FNMA ($100. SAF; $365. ML)	$ 465	$ 724,417,886
College Housing (HUD)	150	158,612,000
Office of Education (HEW)	60	63,033,000
Small Business Administration	155	162.921.913
Veterans Administration	100	157,472,059
Farmers Home Administration (Agriculture)	170	179,052,368
	1,100	1,445,539,226

(2) On March 22, 1967, the Association, as Trustee, sold at 100, for delivery on April 5, $900,000,000 of series 1969, 1972, and 1987 B participation certificates to a nationwide group of underwriters and Federal Government Investment accounts. The certificates, which were issued in registered and bearer form, bear interest ranging between 4.75% and 5.10%, and of which $450,000,000 mature on April 7, 1969, $250,000,000 on January 19, 1972, and $200,000,000 on April 6, 1987, and represent future payments of interest and principal from mortgages or other types of obligations set aside for such purposes, as follows:

Agency	Amount of issue (in millions)	Additions to pool	Cumulative FALT issues (millions)	Total pool
FNMA ($100. SAF; $50. ML)	$150	—	$ 615	$ 721,417,886
College Housing (HUD)	225	$226,671,000	375	385,313,000
Public Facilities (HUD)	40	41,743,900	40	41,743,900
Office of Education (HEW)	15	15,029,000	75	78,062,000
Small Business Administration	175	184,470,422	330	317,392,335
Veterans Administration	75	25,996,818	175	183,468,877
Farmers Home Administration (Agriculture)	220	231,002,930	390	410,055,298
	900	721,911,070	2,000	2,170,153,296

(3) On June 15, 1967, the Association, as Trustee, sold at 100, for delivery on June 29, $900,000,000 of series 1969 and 1972 C participation certificates to a nationwide group of underwriters and Federal Government Investment accounts. The certificates, issued in registered and bearer form, bore interest ranging between 5.25% and 5.50% and matured in equal installments of $450.000.000 each on September 26, 1969, and June 29, 1972, and represented future payments of interest and principal from mortgages or other types of obligations set aside for such purposes, as follows:

Agency	Amount of issue (in millions)	Additions to pool	Cumulative FALT issues (millions)	Total pool
FNMA ($100. SAF; $25. ML)	$125	$ 44,562,637	$ 710	$ 768,980,523
College Housing (HUD)	225	231,574,000	600	616,887,000
Public Facilities (HUD)	40	41,886,700	80	83,630,600
Office of Education (HEW)	25	25,000,000	100	103,062,000
Small Business Administration	190	190,245,136	520	537,637,471
Veterans Administration	85	89,307,816	260	272,776,723
Farmers Home Administration (Agriculture)	210	220,501,076	600	630,556,374
	900	843,077,395	2,900	3,013,530,691

(4) On March 26, 1968, the Association, as Trustee, sold at 100 for delivery on April 8, $330,000,000 of series 1973 D participation certificates to a nationwide group of underwriters. The certificates, issued in registered and bearer form, bore an interest rate of 6.45% and matured on April 9, 1973, and represented future payments of interest and principal from mortgages or other types of obligations set aside for such purposes, as follows:

Agency	Amount of issue (in millions)	Additions to pool	Cumulative FALT issues (millions)	Total pool
Small Business Administration	$330	$331,088,957	$ 850	$ 868,726,128
FNMA	—	—	710	768,980,523
College Housing (HUD)	—	—	600	616,887,000
Public Facilities (HUD	—	—	80	83,630,600
Office of Education (HEW)	—	—	100	103,062,000
Veterans Administration	—	—	260	272,776,723
Farmers Home Administration (Agriculture)	—	—	600	630,556,371
	330	331,088,957	3,230	3,311,619,618

d. *Federal Assets Financing Trust*

As of November 1, 1967, the Federal Assets Financing Trust (FAFT) was created pursuant to a trust indenture entered into between the Association, as Trustor, and as Trustee; by supplemental agreement, the trust indenture was supplemented by the addition, as Trustors, of the Department of Housing and Urban Development, the Department of Health, Education and Welfare, the Department of Agriculture (the Farmers' Home Administration), the Veterans Administration and the Small Business Administration. Four issues of participation certificates aggregating $4,250 million have been sold to private investors, as follows:

(1) On November 28, 1967, the Association, as Trustee, sold at 100 for delivery on December 11, $1,000,000,000 of series 1970 and 1987 A participation certificates to a nationwide group of underwriters and Federal Government Investment accounts; of this issue $650,000,000 mature on February 11, 1970, and $350,000,000 on December 11, 1987. The certificates, issued in registered and bearer form, bear interest at 6.35% for the 1970 A maturity and 6.40% for the 1987 A maturity; and represent future payments of interest and principal from mortgages or other types of obligations set aside for such purpose, as follows:

Agency	Amount of issue (in millions)	Pool
FNMA (SAF)	$ 125	$ 125,026,545
College Housing (HUD)	350	350,598,000
Housing for the Elderly (HUD)	50	50,799,704
Veternas Administration	175	175,500,540
Office of Education (HEW)	25	25,000,000
Farmers Home Administration (Agriculture)	175	181,719,460
Small Business Administration	100	100,495,027
	1,000	1,009,139,276

(2) On January 16, 1968, the Association, as Trustee. sold for delivery on January 30, $1,250,000,000 of series 1971 and 1988 B participation certificates to a nationwide group of underwriters and Federal Government Investment accounts. The Series 1971-B certificates bear interest at 6.0% and were sold at 100; the Series 1988-B certificates bear interest at 6.05%, and were sold at 99⅝ to yield 6.0827%. The certificates were issued in registered and bearer form. Of this issue, $800,000,000 matured on February 1, 1971, and $450,000,000 will mature on February 1, 1988, and represent future payments of interest and principal from mortgages or other types of obligations set aside for such purpose, as follows:

Agency	Amount of issue (in millions)	Additions to pool	Total FAFT issues (millions)	Total pool
FNMA ($125 SAF; $90 ML)	$ 215	$ 216,800,963	$ 340	$ 341,827,508
College Housing (HUD)	450	451,464,000	800	802,062,000
Public Facilities (HUD)	80	80,489,800	80	80,489,800
Housing for the Elderly (HUD)	—	—	50	50,799,701
Office of Education (HEW)	30	30,000,000	55	55,000,000
Veterans Administration	250	260,398,362	125	135,898,902
Farmers Home Administration (Agriculture)	225	226,000,000	100	407,719,460
Smal Business Administration	—	—	100	100,495,027
	1,250	1,265,153,125	2,250	2,274,292,401

(3) On March 26, 1968, the Association, as Trustee, sold at 100, for delivery on April 8, $670,000,000 of series 1971 and 1988 C participation certificates to a nationwide group of underwriters and Federal Government Investment accounts. The certificates, issued in registered and bearer form, bear interest at the rate of 6.30% for the series 1971 C maturity and 6.45% for the series 1988 C maturity; of the issues, $335.000,000 matured on April 8, 1971, and the remainder will mature on April 8, 1988, respectively, and represent future payments of interest and principal from mortgages or other types of obligations set aside for such purposes, as follows:

Agency	Amount of issue (in millions)	Additions to pool	Total FAFT issues (millions)	Total pool
FNMA ($125 ML)	$125	$125,256,366	$ 465	$ 467,083,874
College Housing (HUD)	200	201,361,000	1,000	1,003,426,000
Public Facilities (HUD)	—	—	80	80,489,800
Housing for the Elderly (HUD)	10	10,056,698	60	60,856,402
Office of Education (HEW)	30	30,000,000	85	85,000,000
Public Health (HEW)	15	15,000,000	15	15,000,000
Veterans Administration	165	170,032,273	590	605,931,175
Small Business Administration	—	—	100	100,495,027
Farmers Home Administration (Agriculture)	125	126,033,860	525	533,753,320
	670	677,743,197	2,920	2,952,035,598

(4) On July 23, 1968, the Association, as Trustee, sold at 100, for delivery on August 12, $1,330,-000,000 of series 1978 and 1988 D participation certificates to a nationwide group of underwriters and Federal Government Investment accounts. The certificates, issued in registered and bearer form, bear interest at the rate of 6.125% for the 1978 D maturity and of 6.20% for the 1988 D maturity; of the issues, $500,000,000 mature on August 14, 1978, and $830,000,000 August 12, 1988, and represent future payments of interest and principal from mortgages or other obligations set aside for such purposes, as follows:

Agency	Amount of issue (in millions)	Additions to pool	Total FAFT issues (millions)	Total pool
FNMA (ML)	$ 140	$ 140,027,364	$ 605	$ 607,111,238
College Housing (HUD)	600	605,000,000	1,600	1,608,426,000
Public Facilities (HUD)	—	—	80	80,489,800
Housing for the Elderly (HUD)	40	40,138,402	100	100,991,801
Office of Education (HEW)	15	15,011,000	115	115,011,000
Veterans Administration	260	264,861,147	850	870,792,322
Small Business Administration	50	50,009,678	150	150,501,705
Farmers Home Administration (Agriculture)	225	226,000,089	750	759,753,409
	1,330	1,341,047,680	4,250	4,293,083,278

The proceeds from the described sales of participation certificates were remitted by the Trustee to the Trustors and were applied by them to reduce the use of Government funds. Interest and principal derived from the pooled obligations will be used by the Trustee to pay the interest on the certificates and to provide for redemption at maturity. Such payments were guaranteed by the Association in its ordinary, as distinguished from its fiduciary, capacity under its Management and Liquidating Functions. In this connection, the Secretary of the Treasury, by separate letters dated October 5, 1964, May 28, 1965, May 25, 1966, December 21, 1966, and November 15, 1967, respectively, provided assurance that funds could be borrowed from the United States Treasury pursuant to the Charter Act to make timely payments of interest on, or principal of the certificates should the need arise. The Attorney General of the United States stated in an opinion dated September 30, 1966, that "FNMA's guaranty of a participation certificate brings into being a general obligation of the United States backed by its full faith and credit," and that "the holders of participations guaranteed by FNMA hold valid general obligations of the United States and are in a position to reach beyond the assets of FNMA to the United States for payment, if necessary." Pursuant to the Housing and Urban Development Act of 1968, all the participation certificates became an obligation of GNMA.

The amounts, terms, and interest rates of the participation certificates that were issued under this authority as of August 31, 1968, are shown on pages 57-58.

Types of Mortgages or Loans Authorized for Purchase and the Dates on Which Such Types Were Authorized by Statute

1. *FHA-Insured Mortgages*

Sec. 8, April 20, 1950, P. L. 475, 81st Congress (except for commitments outstanding, expired August 2, 1954); this section was absorbed by sections 203(h) and (i);
Sec. 203, June 27, 1934, P. L. 479, 73d Congress;
Sec. 207, June 27, 1934, P. L. 479, 73d Congress;
Sec. 210, February 3, 1938, P. L. 424, 75th Congress (expired June 3, 1939);
Sec. 213, April 20, 1950, P. L. 475, 81st Congress;
Sec. 220, August 2, 1954, P. L. 560, 83d Congress;
Sec. 221, August 2, 1954, P. L. 560, 83d Congress;
Sec. 231, September 23, 1959, P. L. 86-372;
Sec. 232, September 23, 1959, P. L. 86-372;
Sec. 233, June 30, 1961, P. L. 87-70;
Sec. 234, June 30, 1961, P. L. 87-70;
Sec. 235, August 1, 1968, P. L. 90-448;
Sec. 236, August 1, 1968, P. L. 90-448;
Sec. 237, August 1, 1968, P. L. 90-448;
Sec. 242, August 1, 1968, P. L. 90-448;
Sec. 603, March 28, 1941, P. L. 24, 77th Congress (except for commitments outstanding, expired April 30, 1948);
Sec. 608, May 26, 1942, P. L. 559, 77th Congress, except for commitments outstanding, expired March 1, 1950;
Sec. 610, August 5, 1947, P. L. 366, 80th Congress (secs. 603 and 608 insured pursuant to sec. 610). FNMA purchases discontinued by administrative action August 20, 1952; this section discontinued August 2, 1954, and absorbed by FHA section 223, but by administrative action such mortgages were not purchased by FNMA;
Sec. 611 (Individual only), August 10, 1948, P. L. 901, 80th Congress (no purchases made or committed by FNMA and authority to purchase terminated July 7, 1953, by administrative action);
Sec. 803 (Wherry Act), August 8, 1949, P. L. 211, 81st Congress; also Armed Services Housing (Capehart housing) included pursuant to P. L. 345, 84th Congress, August 11, 1955 (except for commitments outstanding, expired October 1, 1962);
Sec. 809, June 13, 1956, P. L. 574, 84th Congress;
Sec. 810, September 23, 1959, P. L. 86-372;
Sec. 903, September 1, 1951, P. L. 139, 82d Congress (except for commitments outstanding, expired August 1, 1955);
Sec. 908, September 1, 1951, P. L. 139, 82d Congress (except for commitments outstanding, expired August 1, 1955);
Sec. 1002, August 10, 1965, P. L. 89-117;
Sec. 1004, November 3, 1966, P. L. 89-754;
Sec. 1101, November 3, 1966, P. L. 89-754.

2. *VA-Guaranteed Mortgages*

The Association was authorized on the dates indicated below to purchase the following types of VA mortgages guaranteed under the Servicemen's Readjustment Act of 1944, or Chapter 37 of title 38, United States Code, as amended:

Sec. 501, July 1, 1948, P. L. 864, 80th Congress;
Sec. 502, July 1, 1948, P. L. 864, 80th Congress (Purchases discontinued by administrative action November 1, 1954);
Sec. 505a, July 1, 1948, P. L. 864, 80th Congress (Purchases discontinued by administrative action August 20, 1952).

Public Law 531, 82d Congress, approved July 14, 1952, and P. L. 560, 83d Congress, approved August 2, 1954, authorized purchases of insured VA loans but by administrative action VA purchases are confined to guaranteed mortgages. (See also footnote 17 with respect to codification, restatement and amendment of the foregoing VA sections under chapter 37 of title 38, United States Code.)

3. *Farmers Home Administration Loans*

The Corporation was authorized by P. L. 89-117, approved August 10, 1965, to purchase rural housing loans insured by the Farmers Home Administration of the Department of Agriculture (FHDA loans) under title V of the Housing Act of 1949.

Statutory Borrowing Authority

1. *Prior to Enactment of the Charter Act*

Maximum statutory borrowing authority or other limitations outstanding at any time prior to the enactment of the Housing Act of 1954 (P. L. 560, 83d Congress, approved August 2, 1954) were established as follows:

February 3, 1938, P. L. 424, 75th Congress, $220 million (20 times the sum of its paid up capital of $10 million and paid-in surplus of $1 million);
July 1, 1948, P. L. 864, 80th Congress, $840 million plus 40 times earned surplus (40 times the sum of its paid up capital of $20 million and paid-in surplus of $1 million, plus 40 times earned surplus);
July 19, 1949, P. L. 176, 81st Congress, $1,500 million;
October 25, 1949, P. L. 387, 81st Congress, $2,500 million;
April 20, 1950, P. L. 475, 81st Congress, $2,750 million;
July 14, 1952, P. L. 531, 82nd Congress, $3,650 million.

2. *Under the Charter Act*

The Charter Act authorized separate borrowing authority for each of the three functions or operations that were established thereunder and required that separate accountability be maintained for each such activity. The borrowing or other limitations that were prescribed by the Charter Act from time to time are as follows:

a. *Secondary Market Operations*

Borrowing authority is limited to 25 times the sum of capital, capital surplus, general surplus, reserves, and undistributed earnings applicable to such operations. An initial leverage of 10 to 1 was established by the Charter Act on August 2, 1954 (P. L. 560, 83d Congress), and was increased to 15 to 1 by P. L. 89-566, approved September 10, 1966; it was further increased to 20 to 1 by the Secretary of Housing and Urban Development under the regulatory power vested in him by P. L. 90-448, approved August 1, 1968, by publication in the Federal Register as of October 1, 1968, 33 F. R. 14779, 24 C. F. R. 81.4. It was later increased to 25 to 1 by the Secretary by publication in the Federal Register as of December 5, 1969, 34 F. R. 19656, 24 C. F. R. 81.4.

b. *Special Assistance Functions*

(1) *Under Direction of the President of the United States*

The Charter Act as of August 2, 1954, established a portfolio and commitment limitation of $300 million outstanding at any one time under the direction of the President of the United States, including $100 million of commitments outstanding at any one time for the purchase of immediate (20%) participations in mortgages but excluding the amount of any related (80%) deferred participations. The authority to purchase 20 percent participations was repealed by P. L. 85-104, approved July 12, 1957, and the funds theretofore reserved for the purchase of 20 percent participations were made available for purchases of whole mortgages. Public Law 85-104 also increased by $150 million to $450 million the authorization to purchase whole mortgages. The President's authorization was further increased by $500 million to $950 million by P. L. 85-364, approved April 1, 1958.

Under the provisions of P. L. 87-70. approved June 30, 1961, the President's authority was increased to $2,046,546.576 by (1) a general increase of $750,000,000 in special assistance authority; (2) an increase of $207,188,642 represented by the transfer to his specific control of the unused commitment and purchasing authorization as of June 30, 1961, remaining from the Special Assistance Program established by P. L. 85-364, approved April 1, 1958, the Emergency Housing Act of 1958 (Special Assistance Program Number 10, Low-and-Moderate-Priced Housing Mortgages), as to which commitment and purchasing authority was terminated by P. L. 87-70, and (3) an increase on July 1, 1961, of $139,357,934, which amount was equal to the net decrease during the fiscal year 1961 in the aggregate principal amount of all mortgages owned by the Association under its Management and Liquidating Functions.

Public Law 87-70 provided for the transfer on July 1 of each of the years 1961 through 1964 of an amount equal to the net liquidation of the portfolio of the Management and Liquidating Functions during the preceding fiscal year, computed in the manner described in the next preceding paragraph of this subsection, and its merger with, the special assistance authority that is under the direction of the President of the United States and for such authority to be increased by any amounts so transferred. The amounts by which the authority of the President was expanded under this arrangement were $139,-357,934 on July 1, 1961, $170,472.120 on July 1, 1962. $146,028.069 on July 1. 1963. and $147,221,-681 on July 1, 1964.

The President's special assistance authority was expanded by P. L. 89-117, approved August 10, 1965, by (1) a general increase of $100,-000,000 on August 10, 1965; (2) an increase on August 10, 1965, of $303,760,878, represented by the transfer to his specific control of the unused commitment and purchasing authority remaining as of that date from the Armed Services Housing program (authorized by the Congress under P. L. 345, 84th Congress, approved August 11, 1955, (Special Assistance Program Number 7)) after reserving $58,750,000 for use in making commitments to purchase and purchases of FHA section 809 mortgages. The 1965 Act also provided for additional general increases as follows: $450,000,-000 on July 1, 1966, (rescinded by P. L. 89-429, approved May 24, 1966); $550,000,000 on July 1, 1967; and $525,000,000 on July 1, 1968. It also requires the transfer to, and merger with, the President's authority on July 1, 1966, and on July 1 of each year thereafter of the unused commitment and purchase authority remaining in Special Assistance Program Number 7 as of the end of the preceding fiscal year after reserving $58,750,000 for commitments to purchase and purchases of FHA section 809 mortgages, as above set forth. The amounts so transferred were $4,387,833 on July 1, 1966, $6,209,900 on July 1, 1967, and $5,299,254 on July 1, 1968. The President's authority was decreased by $500,000,000 on September 10, 1966, by P. L. 89-566, approved on that date, by transfer of that amount to the special assistance program authorized by the Congress for low-and-moderate-cost housing mortgages. P. L. 90-448, approved August 1, 1968, will increase the President's authority by $500,000,000 effective on July 1, 1969. The aggregate amount of outstanding special assistance authority subject to direction of the President of the United States as of August 31, 1968, was $3,504.9 million.

(2) *Under Direction of the Congress*

By a series of legislation enacted prior to September 30, 1959, the Congress had established specific special assistance programs with commitment and purchasing authority totaling $1,725 million outstanding at any one time. The aggregate authority provided for these Congressional programs was decreased on June 30, 1961, by $207,188,642 (represented by the decrease in Special Assistance Program Number 10 as above described) to $1,517,811,358, which amount is to be further progressively reduced by an amount equal to the principal reduction of the mortgages owned by the Association under its program Number 10. Also, as above stated, authority for specific Congressional programs was decreased on August 10, 1965, by $303,760,878 (said amount being the then unused portion of the authorization that had been made available for Special Assistance Program Number 7, exclusive of $58,750.000 reserved for commitments to purchase and purchases of FHA section 809 mortgages), and was to be further reduced on July 1, 1966, and each July 1 thereafter by an amount equal to that which otherwise would be available for new purchases under the program. The Association's Congressional special assistance authority was reduced by $4,387,833, $6.209,900, and $5.299,254, respectively. on July 1, 1966, July 1, 1967, and July 1, 1968, pursuant to that legislation. The Congressional authority was increased by $1 billion on September 10, 1966, through the establishment under P. L. 89-566. of a special assistance housing program of that amount for low and moderate-income families. As noted above, $500 million of that amount was obtained by reducing the authority of the President for specific programs and the remaining $500 million was provided in the form of additional borrowing authority from the Secretary of the Treasury, thereby increasing the total authority for all congressional special assistance programs from $1,725 million to $2,725 million. As of August 31, 1968, the amount of authority outstanding in respect to the various special assistance programs that had been established by the Congress aggregated $1,500.3 million.

The special assistance programs which at August 31, 1968, had been established under authority of the Charter Act are described on pages 33-35.

c. *Management and Liquidating Functions*

The total mortgages and commitments held by the Association under its Management and Liquidating Functions could not exceed those outstanding at

October 31, 1954, and in no event could they exceed $3,650 million (excluding therefrom the amount of any mortgages, loans or obligations acquired by it from authorized sources pursuant to P. L. 86-372, approved September 23, 1959, and P. L. 89-117, approved August 10, 1965, (see footnote 40). At October 31, 1954, the Management and Liquidating Functions portfolio and purchase liability aggregated $3,012.9 million; thereafter, the outstanding mortgages, commitments or other obligations under these functions were required by law to be reduced by orderly liquidation until their complete disposition is effected. As previously stated in subsection (2)(b)(1) of this section, authority equal to the net amounts by which this portfolio was decreased during fiscal years 1961 through 1964 (aggregating $603,079,804) was transferred to, and merged with the authority of the President of the United States in respect to the Association's Special Assistance Functions.

Special Assistance Programs Established by the President of the United States

The President of the United States, after taking into account (1) the conditions in the building industry and the national economy and (2) conditions affecting the home mortgage investment market generally, or various types or classifications of home mortgages, or both, and after determining that such action is in the public interest, could under section 305(a) of the Charter Act, authorize the Association, for such period of time and to such extent as he prescribed, to exercise its powers to make commitments to purchase and to purchase such types, classes, or categories of home mortgages (including participations therein) as he determined. Pursuant to this authority, the President had, as of August 31, 1968, approved the establishment of the following special assistance programs, which on September 1, 1968 became responsibilities of GNMA.

Program Number — *Description and Limitation of Program*

1 $5 million of purchases and commitments outstanding at any one time covering residential properties intended to be made available primarily for families who are the victims of a catastrophe that the President of the United States has determined to be a major disaster pursuant to P. L. 875, 81st Congress, approved September 30, 1950. Established September 14, 1954, in the amount of $10 million, but reduced by $5 million to $5 million on October 1, 1966;

2 $25 million of purchases and commitments outstanding at any one time covering residential properties on the Island of Guam. Originally authorized for $15 million, but subsequently reduced or increased, as follows:
- (a) decreased by $7.5 million to $7.5 million on April 4, 1958;
- (b) increased by $4 million to $11.5 million on April 10, 1968;
- (c) increased by $13.5 million to $25 million on July 22, 1968;

3 $260 million of purchases and commitments outstanding at any one time covering residential properties rehabilitated or constructed in connection with Rehabilitation or Neighborhood Conservation housing programs and for families that are displaced from urban renewal areas or as a result of Government action. Established January 26, 1955, for $100 million, and subsequently increased, or reduced, as follows:
- (a) increased by $50 million to $150 million on October 10, 1957;
- (b) increased by $250 million to $400 million on April 4, 1958;
- (c) increased by $200 million to $600 million on September 8, 1959;
- (d) increased by $50 million to $650 million on January 5, 1961;

Program Number — *Description and Limitation of Program*

- (e) increased by $75 million to $725 million on August 4, 1961, including authority to purchase FHA-insured section 220(h) home improvement loans in urban renewal areas;
- (f) increased by $150 million to $875 million on July 20, 1962;
- (g) reduced by $112.5 million to $762.5 million on June 14, 1965;
- (h) reduced by $502.5 million to $260 million on October 1, 1966;

4 $57 million of purchases and commitments outstanding at any one time covering housing located in Alaska. Established July 1, 1955, for $10 million and subsequently increased, or reduced, as follows:
- (a) increased by $5 million to $15 million on April 4, 1958;
- (b) increased by $5 million to $20 million on November 6, 1958;
- (c) increased by $8 million to $28 million on June 4, 1959;
- (d) increased by $10 million to $38 million on November 27, 1959;
- (e) increased by $10 million to $48 million on April 22, 1960;
- (f) increased by $10 million to $58 million on March 24, 1961;
- (g) reduced to $56,975,000 in December 1963, and terminated;

Program terminated January 31, 1963, subject to their outstanding commitments. Mortgages on housing in Alaska were made eligible for purchase under the Secondary Market Operations on March 13, 1962;

5 $11 million of purchases and commitments covering defense housing programed by the HHFA Administrator in an area determined by the President of the United States to be a critical defense housing area, and FHA section 803 (Wherry Act military housing) mortgages with respect to which FHA issued a commitment to insure prior to August 11, 1955. Established July 1, 1955, for $25 million, but reduced to $11,131,000 October 10, 1957, and to $11,072,000 on April 4, 1958, and terminated;

6 $1 million of purchases and commitments outstanding at any one time covering FHA-insured section 213 consumer type cooperative housing mortgages. Established January 8, 1962, for $10 million, but reduced to $8 million January 31, 1963, and to $710,000 June 30, 1964, and terminated;

8 $55 million of purchases and commitments outstanding at any one time covering residential properties for elderly persons. Established October 18, 1956, for $20 million, and subsequently increased, or reduced, as follows:
- (a) increased by $50 million to $70 million on April 4, 1958;
- (b) increased by $20 million to $90 million on March 9, 1960;
- (c) increased by $30 million to $120 million on August 1, 1960;
- (d) increased by $10 million to $130 million on January 17, 1961;
- (e) increased by $30 million to $160 million on June 8, 1961;
- (f) increased by $41 million to $201 million on August 4, 1961;
- (g) increased by $50 million to $251 million on March 14, 1962;
- (h) reduced by $196 million to $55 million on October 1, 1966;

On February 16, 1962, purchases under this program were restricted to nonprofit type FHA-insured section 231 mortgages.

Effective on January 1, 1962, FHA-insured section 203 mortgages covering housing for elderly persons

Program Number — *Description and Limitation of Program*

were made eligible for purchase under the Secondary Market Operations, and on February 16, 1962, both profit motivated and nonprofit FHA-insured section 231 mortgages were made eligible for purchase under the Secondary Market Operations;

9 $2 million of purchases and commitments relating to FHA-insured sections 203(b), 203(i) and 222 housing mortgages with original principal balances of $10,000 or less. Established March 7, 1958, for $200 million, but reduced to $4 million on April 4, 1958, and on June 4, 1958, to $1,744,000, and terminated;

11 $2,520 million of purchases and commitments outstanding at any one time covering FHA-insured section 221(d)(3) below-market interest rate housing mortgages. Established August 4, 1961, for $30 million, and subsequently increased, as follows:
- (a) $100 million to $130 million on March 14, 1962;
- (b) $250 million to $380 million on July 20, 1962;
- (c) $370 million to $750 million on July 29, 1963;
- (d) $200 million to $950 million on May 15, 1964;
- (e) $350 million to $1,300 million on August 10, 1964;
- (f) $112.5 million to $1,412.5 million on June 14, 1965;
- (g) $425 million to $1,837.5 million on October 5, 1965;
- (h) $32.5 million to $1,870 million on October 1, 1966;
- (i) $300 million to $2,170 million on August 29, 1967;
- (j) $350 million to $2,520 million on July 22, 1968;

12 $13 million of purchases and commitments outstanding at any one time covering FHA-insured section 233 experimental housing mortgages. Established August 4, 1961, for $5 million and subsequently increased, or reduced, as follows:
- (a) increased by $10 million to $15 million on May 7, 1965;
- (b) reduced by $2 million to $13 million on October 1, 1966;

13 $5 million of purchases and commitments outstanding at any one time covering housing on restricted Indian lands. Established October 10, 1962.

15 $200 million of purchases and commitments outstanding at any one time covering mortgages on housing subject to annual payment contracts entered into under section 101 of the Housing and Urban Development Act of 1965, which are insured under section 221(d)(3) of the National Housing Act and bear interest at the maximum rate permitted by FHA regulations commonly referred to as Rent Supplement Housing. Established October 1, 1966.

Special Assistance Programs Established by the Congress

In addition to the special programs that could be undertaken pursuant to specific authorization of the President of the United States, the Association was directly authorized by the Congress to undertake four other special programs, and in connection therewith to:

Program Number — *Description and Limitation of Program*

6 Enter into advance commitment contracts and purchase transactions not in excess of $225 million outstanding at any one time if such commitments or transactions relate to mortgages with respect to which the Federal Housing Commissioner shall have issued pursuant to section 213 either a commitment to insure or a statement of eligibility. With respect to $200 million of the overall authorization, commitments in any State may not exceed $20 million outstanding at any one time, and $50 million shall be available solely for commitments or purchases of mortgages certified by FHA to be "consumer" cooperatives; also, of the commitments in any one State, not more than $15 million may be outstanding at any one time for commitments and purchases of non-consumer types of cooperative housing mortgages. Of the remaining $25 million, which is not subject to a State limitation, $12.5 million shall be available for commitments or purchases of mortgages certified by FHA to be consumer cooperatives and $12.5 million for builder-sponsored cooperative mortgages. Public Law 345, 84th Congress, approved August 11, 1955, established a commitment and purchasing authorization of $50 million outstanding at any one time with a $5 million State commitment limitation; the authorization was increased to $100 million by P. L. 85-10, approved March 27, 1957, and the State limitation on commitments was increased to $10 million; the authorization was increased to $200 million by P. L. 85-104, approved July 12, 1957, and to $225 million by P. L. 86-372, approved September 23, 1959, as herein described;

7 Make commitments to purchase and purchase mortgages which are insured by FHA under title VIII of the National Housing Act, as amended on or after August 11, 1955, provided the total amount of purchases and commitments to purchase such mortgages do not exceed $500 million outstanding at any one time, and of which not less than $58.75 million shall be made available for purchases and commitments to purchase section 809 mortgages covering sales type housing for essential civilian employees at a research or development installation of one of the military departments of the United States and employees connected with any NASA or AEC research or development installation.

Public Law 345, 84th Congress, approved August 11, 1955, established a section 803 commitment and purchasing authority of $200 million outstanding at any one time; civilian employee housing (section 809) was added by P. L. 574, 84th Congress, approved June 13, 1956, and mortgages covering rental-type housing for military and essential civilian employees in defense impacted areas (section 810), by P. L. 86-372, approved September 23, 1959. Sections 809 and 810 were expanded by P. L. 88-127, approved September 23, 1963, to include housing for employees of the National Aeronautics and Space Administration (NASA) and Atomic Energy Commission employees (AEC) at any NASA or AEC research or development installations; the authorization was increased to $450 million by P. L. 85-104, approved July 12, 1957, of which 7.5 percent ($33.75 million) was reserved for section 809 mortgages; the authorization was further increased to $500 million by P. L. 85-364, approved April 1, 1958, and the amount reserved for section 809 mortgages was increased to $58.75 million.

Purchasing and commitment authority under this program was decreased on August 10, 1965, by $303,760,878 to $196,239,122 pursuant to P. L. 89-117, under which there was required to be transferred to, and merged with, the special assistance funds under direction of the President authority equal to the amount which, on August 10, 1965, was otherwise available for commitments and purchases of FHA section 803 and 810 mortgages; transfers and mergers are required to be similarly effected on July 1, 1966, and on July 1 of each year thereafter of the commitment and purchase authority remaining unused as of the end of the preceding fiscal year in respect to FHA section 803 and 810 mortgages. The amount transferred to, and merged with, the President's authority on July 1, 1966,

Program
Number Description and Limitation of Program

July 1, 1967, and July 1, 1968, was $4,387,833, $6,209,900, and $5,299,254, respectively. Of the total authority provided for this program, $58,750,000 is required to be reserved for commitments and purchases of FHA-insured section 809 mortgages.

The section 803 military housing mortgages included in this program are the so-called Capehart military housing mortgages which are identified with Senator Capehart of Indiana, sponsor of the legislation authorizing the establishment of armed services housing insurance.

10 Make commitments to purchase and purchase mortgages which were insured by FHA under title II of the National Housing Act or which were guaranteed by VA under the Servicemen's Readjustment Act of 1944 provided (a) the original principal balance of any such mortgage did not exceed $13,500, (b) construction of the related housing had not commenced at the time application was made for the Association's commitment, and (c) the total amount of purchases and commitments under this authority did not exceed $1 billion outstanding at any one time.

Program established by P. L. 85-364, approved April 1, 1958. The issuance of commitments was discontinued by administrative action on October 8, 1958. P. L. 87-70, approved June 30, 1961, terminated this program and reduced the commitment and purchasing authority thereunder by $207,188.642 to $792,811,358, which amount will be further progressively reduced by an amount equal to the principal reduction of the mortgages held in the Association's portfolio under this program. At August 31, 1968, the Association's authority under this program had been reduced by $905 million to $95 million.

14 Make commitments to purchase and purchase mortgages which are insured by FHA under title II of the National Housing Act or guaranteed by VA under Chapter 37 of title 38, U. S. Code, provided (a) the original principal balance of any such mortgage does not exceed $15,000, or $17,500 ($22,500 in Alaska, Guam or Hawaii) if the Secretary of Housing and Urban Development finds that cost levels in any area so require, (b) construction of the related housing has not commenced at the time application is made for FNMA's commitment, and (c) the total of purchases and commitments under this authority does not exceed $1 billion outstanding at any one time.

Program established by P. L. 89-566, approved September 10, 1966. Of the $1 billion authority, $500 million was obtained by reducing the authority of the President for specific programs and transferring that amount to this program and the remaining $500 million was authorized to be borrowed from the Secretary of the Treasury.

Statutory and Administrative Mortgage Amount Limitations

1. *Prior to 1954*

Prior to July 1, 1948, the dollar amount of a mortgage that could be purchased by the Association was not limited by statute or by administrative determination. Public Law 864, 80th Congress, approved July 1, 1948, provided that no mortgage could be purchased by the Association if its original principal amount exceeds or exceeded $10,000 for each family residence or dwelling unit covered by the mortgage. The $10,000 limitation was not applicable, however, to contracts entered into prior to November 1, 1954, relating to FHA-insured mortgages on housing located in Alaska (P. L. 52, 81st Congress, approved April 23, 1949); or in Guam or Hawaii (P. L. 94, 83d Congress, approved June 30, 1953); or to a qualified FHA-insured section 213 cooperative housing mortgage if such mortgage was the subject of a commitment made by the Association and covered housing in which the number of rooms equaled or exceeded six for each family unit and in which the number of bedrooms equaled or exceeded three for each family unit (P.L. 94, 83d Congress).

2. *Special Assistance Functions*

The dollar limitation on the original principal amount of a mortgage that could be purchased under the Special Assistance Functions was established by P. L. 560, 83d Congress, approved August 2, 1954, at $15,000 per family dwelling unit. The $15,000 statutory limitation was increased by P. L. 86-372, approved September 23, 1959, to $17,500 in original principal amount for each family residence or dwelling unit covered by the mortgage. The increased mortgage amount limitation was administratively established on November 7, 1959, for all special assistance programs not otherwise exempted from the limitation by statute.

Mortgages covering property located in Hawaii, Alaska and Guam and FHA-insured section 803 housing were made exempt from any dollar amount limitation by P. L. 1020, 84th Congress, approved August 7, 1956. A ceiling of $13,500 was prescribed for each single family housing mortgage originated under the Association's $1 billion emergency special assistance program established by P. L. 85-364, approved April 1, 1958. The $17,500 ceiling exemption provided for section 803 mortgages by P. L. 1020, 84th Congress was also accorded to FHA-insured section 220 mortgages by P. L. 86-372, approved September 23, 1959; and to FHA-insured section 213 mortgages on cooperative housing located in urban renewal areas and FHA-insured sections 809 and 810 mortgages by P. L. 87-70, approved June 30, 1961. The limitation was removed on August 10, 1965, by P. L. 89-117, approved August 10, 1965, in respect to any FHA section 221(d)(3) below-market interest rate mortgage if the related property has the benefit of a local tax abatement sufficient to keep rentals at the level they would be if the $17,500 limitation were applied. The 1965 act increased to $20,000 for each residence or dwelling unit the maximum amount of any mortgage not otherwise exempted by statute, if such family residence or dwelling unit contains four or more bedrooms. P. L. 89-566, approved September 10, 1966, established a general mortgage amount ceiling of $15,000 for each single family mortgage purchased under the $1 billion special assistance program authorized by that act, provided, however, that the ceiling could be $17,500 ($22,500 in Alaska, Guam, or Hawaii) in any geographical area where the Secretary of Housing and Urban Development found that cost levels so required. P.L. 89-754, approved November 3, 1966, exempted any FHA-insured title X mortgage from the $17,500 statutory amount limitation if such mortgage related to a new community.

3. *Secondary Market Operations (SMO)*

The dollar limitation on the original principal amount of a mortgage that could be purchased by the Corporation under SMO was established by P.L. 560, 83d Congress, approved August 1, 1954, at $15,000 per family residence or dwelling unit. The $15,000 statutory limitation was increased to $20,000 of principal obligation for each family residence or dwelling unit by P.L. 86-372, approved September 23, 1959. The maximum limitation was administratively increased to $20,000 in original principal amount on January 5, 1960. The statutory mortgage amount limitation was eliminated by P.L. 88-560, approved September 2, 1964. Effective April 2, 1966, the maximum ceiling was administratively established at $15,000, except in respect to Hawaii and Alaska, to reduce the volume of mortgages then being offered for purchase and to conserve Corporation funds. The limit was established at $18,750 on Hawaii mortgages (25% above $15,000), but was not imposed on Alaska mortgages in view of the high cost aspects of housing in that area. On October 4, 1966, the ceiling was increased to $25,000 in respect to proposed new construction and $17,500 on existing homes ($25,000 and $18,750 respectively, in Hawaii, but none in Alaska). The ceiling on existing home mortgages was increased to $20,000 on November 2, 1966, in all States except Alaska. The purchase ceilings were removed effective February 3, 1967.

Statutory Dollar Volume Limitations on Mortgage Purchases

Statutory limitations on the dollar volume of mortgages that could be purchased from a seller were established at various times as follows:

Public Law 864, 80th Congress, approved July 1, 1948, limited purchases to 25 percent of the overall dollar amount of all loans, both FHA and VA, originated by a seller which would otherwise qualify for purchase; this limitation was increased on August 10, 1948, to 50 percent by P. L. 901, 80th Congress. Under P. L. 387, 81st Congress, approved October 25, 1949, VA section 501 mortgages guaranteed after October 25, 1949, and FHA section 803 mortgages were exempted from the restriction and under P. L. 531, 82nd Congress, approved July 14, 1952, the 50 percent limitation (established at 25 percent by administrative action in respect to FHA mortgages) was reimposed with respect to all mortgages except those covering defense, disaster, and military housing. Mortgages delivered for purchase under an Advance Contract to Purchase ("one-for-one" program described on page 37 were exempted from the purchase limitation by P. L. 94, 83d Congress, approved June 30, 1953; the limitation was entirely omitted as a purchasing requirement under P. L. 560, 83d Congress, approved August 2, 1954. The dollar volume limitations were never made applicable to mortgages covering Alaska housing.

Limitation on Ownership of Mortgages

Public Law 864, 80th Congress, approved July 1, 1948, provided that no mortgage could be offered for purchase if it were previously sold by the originating mortgagee before the offering date. This requirement was eliminated on August 2, 1954, by P. L. 560, 83d Congress, but was reimposed administratively effective September 7, 1956 in respect to mortgages offered for purchase under the Special Assistance Functions.

Purchases of Mortgages from Federal, State, or Municipal Instrumentalities

Public Law 864, 80th Congress, approved July 1, 1948, contained a general provision prohibiting the Association from purchasing a mortgage if it were offered by, or covered property held by, a Federal, State or municipal instrumentality, and was expanded by P. L. 560, 83d Congress, approved August 2, 1954, to include a territorial instrumentality in that restriction. The restriction was modified in some degree by P. L. 86-372, approved September 23, 1959, to permit the Association, under its Management and Liquidating Functions, to commit to purchase and to purchase, service, or sell any mortgages offered to it by the HHFA Administrator or by the Agency's constituent units or agencies. Public Law 87-70, approved June 30, 1961, removed the restriction with respect to any mortgage which is insured by FHA under section 221(d)(3) of the National Housing Act and the mortgagor is a public body or agency which is not receiving financial assistance from the United States exclusively pursuant to the United States Housing Act of 1937. Further liberalization was provided by P. L. 89-117, approved August 10, 1965, to allow the Association, under its Management and Liquidating Functions, to commit to purchase, and to purchase, service or sell any mortgages covering residential property offered to it by any Federal instrumentality or the head thereof. Also, under that law, the Corporation under the SMO can purchase qualified FHA or VA mortgages and FHDA loans from any Federal instrumentality having authority to effect such sales and to acquire the Corporation's common stock; and to purchase FHDA loans from State, territorial, or municipal instrumentalities. Public Law 90-448, approved August 1, 1968, repealed the statutory restriction on the Corporation's purchases of eligible insured and guaranteed mortgages from Federal, State and Municipal instrumentalities.

Waiting and Cutoff Periods

1. *Prior to 1954*

Under P. L. 864, 80th Congress, approved July 1, 1948, purchases were limited to mortgages which were insured or guaranteed after April 30, 1948. Effective on May 10, 1950, the Association established a requirement (which was applicable to over-the-counter or immediate purchases) specifying that the VA Certificate of Guaranty or the FHA Insurance Endorsement must have been dated not less than two months nor more than twelve months prior to the date of delivery of a mortgage to the Association for purchase. Mortgages covering defense, military, disaster and Alaska housing, and mortgages delivered pursuant to commitment contracts or to a Purchase Receipt were not subject to the two months waiting period. The two months waiting period requirement was adopted for the purpose of encouraging sellers to dispose of their mortgages in the private secondary market rather than in the Association-financed secondary market, thereby conserving the Association's purchasing authorization and lessening the impact of the Association's activities on the Federal budget. Public Law 531, 82nd Congress, approved July 14, 1952, established a February 29, 1952, cutoff on purchases of mortgages other than those relating to defense and disaster housing.

a. *Special Assistance Functions*

By administrative action, effective September 28, 1956, the Association required that an offer of a home mortgage (i.e., a mortgage covering property upon which there is located a dwelling designed principally for residential use for not more than four families) for sale to the Association on an immediate purchase basis in the Special Assistance Functions must be made to the Association within three months of the date of the final FHA Insurance Endorsement or the VA Certificate of Guaranty. On March 21, 1960, the offering cutoff period for mortgages under the Special Assistance Functions was established at four months.

2. *The Secondary Market Operations*

The offering restriction was established at four months by administrative action on November 23, 1956, in respect to immediate purchases; it was extended to 12 months on June 30, 1958, reestablished at four months on September 12, 1959, and on November 28, 1962, the cutoff was fixed at August 2, 1954, the earliest date then permitted by the Charter Act; on and after January 18, 1966, mortgages were required to be submitted for purchase within four months following issuance of the FHA insurance or VA Certificate of Guaranty. The four-month delivery requirement was repealed effective February 3, 1967, thereby permitting delivery of acceptable mortgages that were insured or guaranteed on or after August 2, 1954. Public Law 90-448, approved August 1, 1968, repealed the August 2, 1954, statutory cutoff date which had been established by P. L. 560, 83d Congress.

Types of Mortgage Acquisition Programs

From time to time, mortgages have been acquired under various arrangements designed to achieve certain prescribed objectives or to aid in financing certain types or categories of housing. These purchasing arrangements are described below:

1. *Immediate or Over-the-Counter Purchases*

Mortgages on one-to-four family housing have been regularly purchased on an over-the-counter or immediate purchase basis under all of the operations or functions. Such purchases related to mortgages on existing construction (housing that was in existence at the time of the contract) that were then ready for delivery for purchase. Multi-family housing mortgages are also purchased over-the-counter under the Secondary Market Operations. Immediate purchases of one-to-four family housing mortgages were discontinued under the Secondary Market Operations on May 4, 1968, and were replaced by purchases under the Corporation's Free Market System.

2. *"Set Aside Funds" (Management and Liquidating Functions)*

In addition to regular over-the-counter and commitment purchases of mortgages covering nondefense and nondisaster housing the Association, by administrative actions taken during the last half of calendar year 1951, "set aside" a total of $600 million of its uncommitted funds (i.e., $350 million on July 15, $50 million on August 31, and $200 million on October 2) to be available for over-the-counter or immediate purchases of eligible FHA-insured or VA-guaranteed mortgages covering (a) housing programed by the Housing and Home Finance Administrator in critical defense housing areas prior to November 21, 1951, (HHFA Programs 1 through 94), (b) military housing insured under title VIII of the National Housing Act as to which FHA commitments to insure were issued on or after March 1, 1951 but prior to November 21, 1951, (the so-called Wherry Act military housing which is identified with Senator Wherry of Nebraska, co-sponsor with Senator Maybank of South Carolina of the legislation under which authority to insure section 803 housing mortgages was initially authorized), and (c) housing intended to meet the needs of families who were victims of catastrophes which the President of the United States had determined to be major disasters. The setting aside of funds for these purchases was not a contractual undertaking by the Association to purchase mortgages, but it did provide reasonable assurance that funds would be available when the mortgages were presented for purchase.

3. *Purchase Receipt Program (Management and Liquidating Functions)*

Between October 1, 1952, and June 30, 1953, the Association, by administrative action, established special Purchase Funds to be available for over-the-counter or immediate purchases of eligible mortgages from those institutions that purchased nondefense and nondisaster mortgages from that portfolio. This program provided for the issuance without charge or fee of a non-contractual and nontransferable Purchase Receipt either to (a) the purchaser that signed the Association's Mortgage Sales Agreement or (b) the immediate assignee of the mortgages, in an amount equal to the unpaid principal amount of the nondefense and nondisaster mortgages that were purchased from the Association's portfolio. The holder of the Purchase Receipt was thereafter permitted to sell to the Association within one year after issuance thereof an equal dollar volume of mortgages which, at the time of delivery, met all the statutory and administrative requirements applicable to other over-the-counter sales. Mortgages totaling $46.4 million were sold in connection with the Purchase Receipt program during the nine-month period it was in operation and mortgages aggregating $40.3 million were purchased pursuant to the arrangements. The program was succeeded by a procedure made possible by authority contained in P. L. 94, 83d Congress, approved June 30, 1953, under which the Association could issue commitments (Advance Contract to Purchase ("one-for-one" commitments)) on a basis described in subsection (4) immediately following.

4. ***"One-for-One" Program (Advance Contract to Purchase) —Management & Liquidating Functions***

The Association on July 27, 1953, announced the inauguration of a program to purchase and sell mortgages on the basis of what came to be known as the "one-for-one" program. This program, authorized by P. L. 94, 83d Congress, approved June 30, 1953, enabled the Association to issue commitments (Advance Contract to Purchase) providing for the purchase of eligible mortgages within one year after issuance of the contracts in a dollar amount equal to the principal amount paid to the Association for mortgages which investors had purchased from the Management and Liquidating Functions portfolio. The "one-for-one" contracts were issued either to (a) the purchaser that signed a Mortgage Sales Agreement, or (b) the immediate assignee of the mortgages. The "one-for-one" plan expired July 1, 1954, and the total amount of the commitments that could be issued thereunder could not exceed $500 million.

The Association initially offered in connection with its "one-for-one" program to sell mortgages on one-to-four family dwellings at prices ranging from 96 to 100 and, on January 29, 1954, increased the rate to prices ranging from 98 to 100. Sales of mortgages covering multi-family housing mortgages were effected on a negotiated basis. Under this procedure, the Association purchased only those mortgages bearing the highest interest rates permitted by FHA and VA ($4\frac{1}{2}$ percent covering one-to-four family dwellings and $4\frac{1}{4}$ percent on multifamily dwellings).

In order to obtain an Advance Contract to Purchase from the Association as a part of its "one-for-one" program, a purchaser was charged a non-refundable commitment fee equal to 1 percent of the total amount of the contract, and sellers delivering mortgages under such contracts were required to pay an Acquisition and Service charge equal to $\frac{1}{2}$ of 1 percent of the aggregate principal amount paid for the mortgages by the Association under the contracts. The "one-for-one" commitments were not subject to extension nor were the commitment amounts increased.

During the eleven months the "one-for-one" program was in operation (July 23, 1953, through June 30, 1954), the unpaid principal balances of the mortgages sold under the "one-for-one" procedure totaled $514,395,000 and purchase discounts absorbed in connection therewith totaled $14,483,-000, resulting in net proceeds to the Association of $499,-812,000. Advance Contracts were issued in the amount of $499,812,000. Mortgages totaling $434,482,000 were delivered for purchase under these commitments and contracts amounting to $65,330,000 were either cancelled or expired.

5. *Defense-Disaster Housing Mortgages—Management and Liquidating Functions*

Public Law 139, 82d Congress, approved September 1, 1951, authorized the Association to issue before December 31, 1951, advance commitments which did not exceed $200 million outstanding at any one time, if such commitments related to mortgages (a) covering defense housing programed by the Housing and Home Finance Administrator in an area determined by the President of the United States, or his designee, to be a critical defense housing area; or (b) with respect to which the Federal Housing Commissioner had issued a commitment to insure pursuant to title VIII of the National Housing Act, as amended, (Wherry Act military housing); or (c) covering housing intended to be made available primarily for families who were victims of catastrophes which the President of the United States had determined to be major disasters.

The commitment authority provided in P. L. 139 was increased by P. L. 309, 82d Congress, approved April 9, 1952, to $252 million; P. L. 531, 82d Congress, approved July 14, 1952, increased the amount to $1,152 million outstanding at any one time and provided a June 30, 1953, termination date; P. L. 94, 83d Congress, approved June 30, 1953, changed the termination date to June 30, 1954 (subsequently extended to July 31, 1954, by P. L. 438, 83d Congress, approved June 29, 1954), and repealed the restriction that no part of the $900 million of purchasing authority provided by P. L. 531 could be used for over-the-counter purchases of nondefense and nondisaster housing mortgages.

6. Cooperative Housing Mortgages

Public Law 243, 82d Congress, approved October 30, 1951, authorized the Association to enter into advance commitments which did not exceed $30 million outstanding at any one time, if such commitments related to mortgages with respect to which the Federal Housing Commissioner had issued prior to June 29, 1951, pursuant to section 213 of the National Housing Act, as amended, either a commitment to insure or a statement of eligibility, provided not more than $3.5 million of such authorization was made available to any one State. Public Law 243 was amended by P.L. 94, 83d Congress, approved June 30, 1953, by substituting September 1, 1953, for June 29, 1951, as the final date on which the FHA commitment or statement of eligibility could be issued, and by removing the $10,000 statutory mortgage amount limitation for each dwelling unit under circumstances outlined on page 000. Public Law 243 was repealed on August 2, 1954, by P.L. 560, 83d Congress. The Association's cooperative housing commitment authority was reestablished by direct authorization of the Congress under the provisions of P.L. 345, 84th Congress, approved August 11, 1955, as part of the Special Assistance Functions (page 00). FHA section 213 mortgages are also purchased in the SMO.

7. Transfers and Purchases from Other Federal Government Instrumentalities — Management and Liquidating Functions

Public Law 86-372, approved September 23, 1959, authorized the Association under its Management and Liquidating Functions to make commitments to purchase and to purchase, service, or sell any mortgages offered to it by the HHFA Administrator, or the HHFA, or by such Agency's constituent units or agencies or the heads thereof, after such Administrator had found the acquisition thereof to be in the interest of the efficient management and liquidation of the mortgages. This authority was expanded by P. L. 89-117, approved August 10, 1965, to permit the Association to make commitments to purchase, and to purchase, service, or sell any obligations (not necessarily mortgages) offered to it by the HHFA or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any mortgages covering residential property offered to it by any Federal instrumentality or the head thereof. Under the cited legislation, financing of HHFA programs and of its constituent units and agencies and, pursuant to P. L. 89-174, approved September 9, 1965, of its successor, the Secretary of Housing and Urban Development, can be concentrated in the Association; P. L. 89-117 also permits steps to be taken to centralize in it the Federal Government's ownership, management (servicing), and sales of residential mortgages to the extent deemed desirable from time to time. Pursuant to authority provided by P. L. 86-372, approved September 23, 1959, the Association, during fiscal year 1960, acquired the major part of the HHFA portfolio of World War II Lanham Act mortgages and contracts then being serviced by the Public Housing Administration, and during fiscal year 1962 acquired a portion of HHFA's portfolio then being serviced by the Community Facilities Administration. During fiscal years 1964-1969, the Association acquired from the Federal Housing Administration Commissioner-owned mortgages aggregating $1,757.2 million representing the unpaid principal balances of mortgages that agency was holding in connection with its sales of owned properties to private purchasers.

8. Acquisition of Federal Housing Commissioner-Owned Mortgages in Exchange for FNMA-Held FHA Debentures

Under arrangements made with the Federal Housing Commissioner on March 16, 1962, FNMA acquired for the portfolios of its Secondary Market Operations, Special Assistance Functions, and Management and Liquidating Functions Federal Housing Commissioner-owned mortgages in exchange for FHA debentures it held as a consequence of foreclosure proceedings involving certain FHA mortgages.

9. Participations—Special Assistance Functions

Public Law 560, 83d Congress, approved August 2, 1954, authorized the Association under its Special Assistance Functions to make commitments to purchase immediate participations in mortgages and to make related deferred participation agreements. No participations were purchased by the Association under this authority which was repealed by P. L. 85-104, approved July 12, 1957.

The procedure provided for the purchase of immediate participations (of a 20 percent undivided interest in mortgages) and an agreement to purchase the related deferred participations (80 percent) upon the occurrence of such default as would give rise to the right to foreclose. The commitment period for an immediate participation was 12 months in respect to one-to-four family housing mortgages and 24 months in connection with multifamily mortgages. The commitment period for a deferred participation was 5 years. A seller desiring to enter into a participation agreement was required to pay the Association a commitment fee (which was non-refundable if the application was accepted) equal to 1 percent of the original principal amount of the mortgages. Prior to the termination of any 5-year deferred commitment period, the seller could effect renewal of the deferred commitment for a succeeding period of 5 years upon payment of an additional commitment fee of 1 percent of an amount equal to 80 percent of the principal amount of the mortgage that was outstanding and unpaid at the end of such period.

10. Construction Loans—Special Assistance Functions

Public Law 89-754, approved November 3, 1966, authorized the Association, in any case where it makes a commitment under its Special Assistance Functions to purchase a mortgage insured under (1) section 213, (2) section 220, or (3) section 221(d)(3) and executed by a cooperative (including an investor-sponsor) a limited dividend corporation, a private nonprofit corporation or association, or a mortgagor qualified under section 221(e), such commitment may provide for participation by the Association in the making of insured advances on the mortgage during construction. Public Law 90-448, approved August 1, 1968, added to this authority by advances in connection with mortgages insured under Section 236 of the National Housing Act. Such participations must be limited to 95 percent of the amount of each of the advances involved, and the mortgagee providing the balance of such amount must perform all necessary servicing and processing of such advances until the final insurance endorsement of the mortgage. The Secretary of Housing and Urban Development is required to determine the reasonableness of the fee to be paid a participating mortgagee, taking into account its services and the extent of its participation in the advances. No loans were made by the Association pursuant to this authority.

11. Purchase Options—Secondary Market Operations

Under a supplement to its regular purchasing procedure inaugurated in January 1956, but terminated on July 17, 1968, in connection with the purchase of an acceptable one-to-four family housing mortgage at its current price, the Corporation concurrently permitted the seller to obtain an option to repurchase the mortgage at the price paid by the Corporation. The option period was originally 9 months and was increased to 12 months on July 27, 1964.

12. Purchases from Federal and Other Instrumentalities—Secondary Market Operations

Public Law 89-117, approved August 10, 1965, authorized the Corporation (1) to purchase FHA and VA mortgages and FHDA loans from any Federal instrumentality having authority to effect such sales and to acquire the Corporation's common stock and (2) to purchase FHDA loans from State, territorial and municipal instrumentalities.

13. *Participations—Secondary Market Operations*

The Corporation is authorized by P.L. 88-560, approved September 2, 1964, to purchase, sell, and deal otherwise in participations in FHA-insured and VA-guaranteed mortgages and by P.L. 89-117, approved August 10, 1965, FHDA-insured loans. Prior to September 2, 1964, it was prohibited by law from dealing in participations in its Secondary Market Operations. Participations in mortgages and loans may be purchased and sold at prices determined on the basis of negotiation between the Corporation and the seller or buyer.

14. *Standby Commitments—Secondary Market Operations*

Public Law 1020, 84th Congress, approved August 7, 1956, authorized the Corporation in its Secondary Market Operations to issue advance commitments (i.e., prior to commencement of construction) only at prices which were sufficient to facilitate advance planning of home construction, but which were sufficiently below the prices then being offered by FNMA for immediate purchases to prevent excessive sales to the Corporation pursuant to such commitments. This authority was expanded on October 18, 1960, by P.L. 86-372, approved September 23, 1959, to permit commitments to be issued to facilitate home financing (i.e, issued to facilitate financing of then unstarted construction, construction in process of completion, or completed construction). These commitments are commonly referred to in the trade as "standby" commitments.

The statutory requirement that commitments must be issued at prices which were sufficient to facilitate home financing was repealed by P.L. 89-754, approved November 3, 1966. As a consequence, the Corporation could then issue both "firm" and standby commitments in the Secondary Market Operations.

The standby commitment procedure was discontinued in respect to FHA and VA one-to-four family housing mortgages on May 4, 1968, and such mortgages were thereafter purchased only under commitments issued under the Corporation's Free Market System or auction of forward commitment funds described below. Multifamily housing mortgages continued to be offered for purchase under standby commitments or at negotiated prices on an individual case basis.

The objective of the standby procedure was to enable sellers, through the use of the Corporation's commitments, to obtain construction funds for proposed housing; the procedure also was utilized to facilitate the financing of housing on which construction was completed or was in process of completion with the expectation that the mortgages, when ready for delivery, would be sold to other investors. The seller could elect to sell the mortgages to other purchasers, but during the commitment period the Corporation was prepared to purchase the mortgages at the contract price, i.e.. it occupied a standby position under which it would purchase the mortgages if the seller elected not to hold or to dispose of them elsewhere.

The provision for the issuance of standby commitments replaced another type of commitment procedure formerly authorized by section 304(d) of title II of P.L. 560, 83d Congress, approved August 2, 1954. Under that procedure, the Corporation, at the discretion of its Board of Directors, could issue purchase contracts (commitments—"one-for-one" program) in an amount not exceeding the amount of mortgages purchased from the Corporation, entitling the holder thereof to sell to it mortgages in the amount of the contract, subject to such terms and conditions as it might prescribe. No administrative action to effectuate such a program was ever taken by the Corporation under that authority, which was subsequently repealed on August 7, 1956, by P.L. 1020, 84th Congress.

15. *Commitments and Purchases of Home Mortgages Under Free Market Procedure—Secondary Market Operations*

Between November 1, 1954 (the effective date of the Charter Act), and May 4, 1968, home (one-to-four family housing) mortgages were purchased in the Secondary Market Operations on an over-the-counter or Immediate Purchase Contract basis at published or negotiated prices, and between August 7, 1956, and May 4, 1968, pursuant to Standby Commitment Contracts. On May 4, 1968, the practice of accepting offers of home mortgages under Immediate Purchase and Standby Commitment contracts was discontinued; multifamily housing mortgages continued to be purchased under either type of contract at negotiated prices on an individual case basis. Effective May 6, 1968, the Corporation inaugurated its so-called Free Market procedure pursuant to which qualified sellers desiring to sell home mortgages to it were required to make offers on either a competitive or noncompetitive basis for specific dollar amounts of the Corporation's funds, within dollar and other limitations established and announced by it from time-to-time, on a 90-day, 6-month or 12-month commitment contract basis (modified on November 14, 1968, to permit sellers to obtain 15-month and 18-month contracts on new construction). Subject to pre-established and announced limitations, sellers specified the amount of funds desired with respect to each type of contract. Competitive sellers were required to specify the precise yield at which they propoesd to sell mortgages to the Corporation; acceptable offers are evaluated and accepted competitively on the basis of yield, cost of borrowing funds for the operations, and such other factors. Acceptable noncompetitive offers were approved in toto under each type of contract, prior to approval of any competitive offers, at the average price of all accepted competitive offers applicable to each such contract category. Commitment contracts issued under the Free Market procedure do not require delivery of mortgages thereunder.

The auction procedure underwent a change at the November 10, 1970 auction, when FNMA stopped making 15 and 18 month commitments. At the July 26, 1971 auction, FNMA ceased to make FMS commitment on the 6 and 12 month basis and offered only 3 month commitments. This 3 month period was changed at the October 18. 1971 auction to a 4 month commitment period. At the February 14, 1972 auction Conventional Mortgages became eligible for Free Market System commitments. Separate auctions are held for FHA/VA and conventional mortgages.

16. *Commitments and Purchases of Home Mortgages Under Convertible Standby Procedure—Secondary Market Operations*

Convertible Standby Commitments are issued for both FHA-VA and conventional mortgages. Effective dates are October 24, 1972 for FHA-VA loans and January 30, 1973 for conventional loans. These are 12 month optional delivery commitments on single family residences.

The holder of a Convertible Standby Commitment may, after four months, request the conversion of the commitment to a yield equal to the average yield accepted in the FMS-FHA/VA or conventional auction for 4 month commitments immediately preceding the date of conversion. Upon conversion, the remaining commitment period is reduced to 4 months, but in no case can it exceed the expiration date of the original commitment.

Prior to June 30, 1975, the fee for obtaining 12-month convertible standby commitments was ½ of 1 percent. The fee for delivering mortgages at either the standby yield or the converted yield was also ½ of 1 percent. However, since June 30, 1975, sellers who convert commitments and deliver mortgages at the latest Free Market System auction yield pay ½ percent for conversion and ½ percent for delivery for a total cost of 1½ percent.

Several other changes in the convertible standby program were implemented and became effective after June 30, 1975. These are:

—Maximum loan limit for 95 percent conventional mortgages was increased from $40,000 to $42,000. (It remains $50,000 for Alaska and Hawaii).

—The minimum offer amount for 12-month convertible standby commitments was increased from $10,000 to $25,000.

—Offers for 12-month convertible standby commitments were limited to one per day per seller.

—Sellers of mortgages to FNMA must specify how many mortgages are expected to be delivered under each 12-month convertible standby commitment obtained.

17. *Purchases of Multi-family Housing Mortgages—Secondary Market Operations*

a. *Preliminary Commitments*

The Board of Directors on February 26, 1969, authorized expansion of the Corporation's FHA section 236 mortgage commitment procedure to encourage project developments involving those types of mortgages. On May 8, 1970, the Corporation extended this change to cover all eligible multi-family mortgages with the exception of those insured under FHA sections 235(j) and 213(j), and Title X. Under the new procedure, a preliminary commitment is issued to the mortgagee at a price developed from the Corporation's Free Market System average prices, as of the time it receives FHA's feasibility letter inviting a formal application for a commitment. The amount of FNMA's preliminary commitment is limited to the amount stated in the FHA letter and is issued and renewed on a monthly basis not to exceed 12 months. Within the 12-month period, the sponsor initiates the necessary preliminary work, processes the application to FHA, and obtains a commitment from FHA to insure the mortgage. During that period of time, it is protected against sudden fluctuations in the money and capital markets. A periodic charge is made for the commitment, which is self-canceling unless renewed prior to its expiration. If the project mortgage amount changes prior to the issuance of the FHA commitment, the FNMA commitment can be amended and the fee adjusted accordingly.

After issuance of the FHA commitment to insure, the seller can, at its election, request a firm FNMA commitment. No part of the fee previously paid to FNMA is credited toward the required 1 percent commitment fee and ½ percent Purchase and Marketing fee. The seller may elect to accept the price established as of the date of FHA's feasibility letter or the price prevailing for that type of mortgage at the time of application for FNMA's firm commitment. Unlike the preliminary commitment, delivery of the related mortgage is mandatory after issuance of FNMA's firm commitment. This procedure was discontinued effective September 4, 1971 with respect to Preliminary and Firm Commitments.

b. *Firm Commitments*

Effective on November 13, 1968, the Corporation initiated a procedure under which it issued firm commitments providing for the purchase of market interest rate, FHA insured, multifamily housing mortgages at prices which will produce yields to the Corporation generally comparable to those received under the Free Market System and subject to the payment of the required commitment fees, purchase and marketing fees and subscriptions for common stock at the then applicable rate. Delivery of the mortgages was mandatory under these commitments. This procedure was discontinued effective September 4, 1971.

c. *Standby Project Commitments*

Effective September 7, 1971 commitments issued on projects were of a standby nature, that is the commitment is an optional delivery commitment and the commitment holder has the option to sell the mortgage to investors other than FNMA. These commitments are for a period of 24 months and have no purchase or marketing fee associated with them.

d. *Immediate Purchase Contracts*

These commitments are for project mortgages and are available to approved sellers only if the FHA final insurance endorsement has been received. The yields required on these contracts are related to the results of the Free Market System commitment auctions. Stock subscriptions and purchase and marketing fees were required on these mortgages. Effective on project commitment contracts executed on or after April 25, 1973 no common stock subscription is required.

18. *Construction Loans—SMO*

Effective on June 30, 1969, the Corporation instituted a program for participating in insured construction loan advances in connection with FHA section 221(d)(3) Rent Supplement and section 236 projects. FNMA's participation was limited to a project on which there was an outstanding FNMA or GNMA commitment contract to purchase the mortgage upon completion and final insurance by FHA. On May 8, 1970, this program was extended to include all multi-family projects except those insured by FHA under sections 235 (j) and 213 (j), and Title X.

Participation by FNMA is limited to 95 percent of the amount of each loan advance insured by FHA and disbursed by the Seller, which must be the only participant with the Corporation unless additional participants are approved by FNMA. The Seller is required to administer the loan advances and participation funds.

19. *Tandem Plans—FNMA-GNMA Joint Programs*

a. *FHA Sections 221(d)(3) and 236—Low and Moderate Income Housing*

Effective on November 26, 1969, the Corporation entered into an agreement with the Government National Mortgage Association (GNMA) for the commitment and purchase of mortgages insured under FHA section 221(d)(3) Rent Supplement and section 236, involving nonprofit mortgagors (including nonprofit cooperatives) under a program referred to as the Tandem Plan. The program called for GNMA to commit to purchase the mortgages at par, the commitment being made after obtaining the FHA insurance commitment. If at any time prior to the final insurance endorsement of the mortgage FNMA's preferred price for such loans reached par, GNMA, at its option, could require FNMA to assume the commitment at the par price. If by the time of final endorsement FNMA's preferred price had not reached par, FNMA assumed the commitment at its then current preferred price and GNMA absorbed the discount. In either case, GNMA transferred the fees it has collected to FNMA at the formal date of assumption. A project involving a limited dividend or other type of mortgagor may be eligible if it had previously been covered by a commitment for a below-market interest rate mortgage which had been converted to any of the types of mortgages covered by the plan.

Effective September 21, 1971, GNMA required assumption by FNMA of all Section 221(d)(3) and 236 commitments immediately upon execution by GNMA. GNMA, however, reserved the right to re-assume the commitment contract or have it assumed by a third party.

On June 1, 1972, the foregoing program was modified slightly. FNMA began warehousing 221(d)(3) and 236 mortgages for GNMA and was paid ⅛ of 1 percent per quarter for serving this function. The commitment could be reassigned to GNMA at its request at anytime. If and when the mortgage is delivered for purchase, FNMA consummates the purchase and receives the remainder of the 1 percent commitment fee at that time. This was designed to encourage GNMA to find other investors for those mortgages so that FNMA would not be all but the sole investor.

b. *FHA Section 235(i), Homeownership Mortgages for Lower Income Families*

Pursuant to an agreement entered into between FNMA and GNMA, effective January 14, 1970, a new program was initiated for the commitment and purchase of mortgages insured under FHA section 235(i). The program calls for

GNMA to commit to purchase such mortgages bearing an interest rate of 8½ percent at a price of 96, or such other prices as may be consistent with the laws of states limiting the interest rates, with the objective that FNMA will assume the commitments and that GNMA will not be required to purchase the mortgages.

Sellers may obtain GNMA commitments in this program only after the FHA firm commitments to insure under section 235 have been issued. Commitments are for one year or sixty days after final endorsement of the related loan by FHA, whichever is shorter. Construction may not have started prior to issuance of the FHA initial commitment or VA Certificate of Reasonable Value, or in any event earlier than December 12, 1969. Only one mortgage may be covered by each commitment contract. A commitment fee of ½ of 1 percent would be payable to GNMA unless the Seller certifies that it was the holder of an unexpired FNMA Free Market System commitment contract with an original term of six months or longer and indicated its willingness to cancel said contract in the amount of the GNMA Commitment.

If at any time prior to delivery for purchase of a mortgage covered by the GNMA commitment FNMA's average price of accepted six-month commitments under its Free Market System reached 96, FNMA assumed the commitment at that price. If the FNMA Free Market price for six-month contracts did not reach 96 during the life of the commitment and the mortgage was submitted for purchase, the contract would be considered assumed automatically by FNMA at the latest average six-month auction price. Upon assumption of the commitment by FNMA, GNMA would pay FNMA the difference between the contract purchase price (96) and the FNMA price. Any commitment fees previously collected by GNMA would be paid to FNMA as of the date of assumption.

Effective September 21, 1971 the price for FNMA's assumption of commitments shall be the average FNMA price of accepted three-month commitments at the FNMA FMS auction immediately preceding the date of purchase of the mortgage.

Assignments to FNMA by GNMA were to be immediate upon execution by GNMA. GNMA could also request reassignment of commitments. No offset of a Tandem plan commitment for a 235(i) against a FNMA FMS commitment was permitted and therefore no waiver of the commitment fee.

On June 1, 1972 the agreement was further modified. FNMA will warehouse commitments of 235(i) mortgages for GNMA but upon delivery for purchase FNMA assigns the commitment back to GNMA and GNMA purchases the mortgage.

This new agreement is an attmept to interest other investors in these mortgages and find other buyers besides FNMA.

c. *Assistance Programs for Unsubsidized FHA and VA Mortgages*

Effective September 1, 1971 FNMA and GNMA entered into an agreement to provide additional support to the overall FHA/VA housing market. Basically, these are price support programs which support the market price of FHA/VA mortgages in periods of mortgage market instability. One program covers unsubsidized 1-4 family housing and another covers unsubsidized multifamily housing.

Assistance to the market is provided through an above-market commitment price by GNMA. The commitment holder is encouraged to buy his commitment back usually at a price lower than GNMA has paid, and seek another investor.

FNMA acts as the administrator and warehousing source for these commitments.

Treatment of Tax and Insurance Escrow Funds by Servicers

Prior to July 1949, servicers were required to remit all collections, including those for the payment of taxes, charges, assessments, and hazard insurance to the Association and such items were paid direct. Beginning in July 1949, such funds then held by the Association were transferred to the appropriate servicers and were deposited in a custodial account maintained by each such servicer in a depository institution approved by it, and the servicers thereafter paid taxes, hazard insurance, etc., as they became payable. In January 1953, the dollar amount of the funds that could be held on deposit by a servicer in an approved custodial account was limited to $250,000, and in January 1954 these deposits were further limited to (a) a sum not exceeding $10,000 for any one mortgagor account, or (b) in any event not in excess of $250,000. Effective at the end of, and subsequent to, February 1955, the total amount of the deposits that could be held by a servicer in an approved custodial account or accounts could not exceed the greater of (a) $2,500 or (b) a sum equal to two times the average monthly collection of the deposits for taxes, hazard insurance, etc., but in no event in excess of $250,000.

With respect to home mortgages purchased after Augus 1970, all escrow funds are held by the servicers.

Establishment of Purchase Prices

1. *Secondary Market Operations*

a. *Immediate Purchase Contracts (Home Mortgages)*

In the interest of assuring sound operations, the prices that were paid by the Corporation for mortgages and loans purchased on an immediate purchase basis between November 1, 1954, when the Secondary Market Operations were established, and May 4, 1968, when this procedure was discontinued, were required by law (P. L. 1020, 84th Congress, approved August 7, 1956) to be established from time to time within the range of market prices for the particular class of mortgages involved, as determined by the Corporation. Between August 2, 1954, and August 7, 1956, pursuant to P. L. 560, 83d Congress, approved August 2, 1954, purchase prices were required by law to be established at the "market price" for the particular class of mortgages involved, as determined by the Corporation.

Generally speaking, the volume of the Corporation's purchases and sales, and the establishment of its purchase prices, sale prices, and charges or fees, are required by law to be determined from time to time, consistently with the objective that such purchases and sales should be effected only at such prices and on such terms as will reasonably prevent excessive use of the Corporation's facilities, and that the operations will be fully self-supporting.

b. *Determination of Purchase Prices (Immediate Purchase Contracts) (Home Mortgages)*

During the period in which the Corporation's SMO Immediate Purchase procedure was in effect (November 1, 1954-May 4, 1968), the Corporation discharged its charter mandate to establish its immediate purchase price schedules in conformity with the requirements of the Charter Act by obtaining, periodically, from private buyers and sellers of mortgages at many locations throughout the country details concerning their individual private purchases and sales. In order to be helpful in the establishment of the Corporation's prices, the information gathered was analyzed by relating the purchase and sale prices applicable to the individual transactions or groups of transactions to sundry factors such as the interest rates of the individual loans, the amounts of the borrowers' equities, the geographical locations of the mortgaged properties, and the remaining terms of the loans. The continuous price surveys conducted by the Corporation showed that, while it could occasionally be possible under this pricing procedure for its purchase prices to be slightly higher or slightly lower in comparison with certain selected individual private transactions, nevertheless the

Corporation's prices were closely akin to the average market prices within the price ranges disclosed by such purchase and sales transactions of private investors in the general secondary market.

The prices that can be paid by the Corporation for FHDA-insured loans vary according to their yields. Immediate purchase prices for multifamily housing mortgages are determined by negotiation on an individual case basis.

Acceptance of offers for one-to-four family housing mortgages under immediate purchase contracts was discontinued on May 4, 1968, immediately preceding the inauguration of the Free Market System of forward commitments on May 6.

c. *Standby Purchase Prices (Home Mortgages)*

Public Law 86-372, approved September 23, 1959, provided that standby commitments could be issued in the SMO only at prices which were sufficient to facilitate advance planning of home construction but sufficiently below the prices then being offered by the Corporation for immediate purchases to prevent excessive sales to it under the commitments.

This requirement was repealed by P.L. 89-754, approved November 3, 1966, and, as a consequence, the Corporation was authorized to issue both firm and standby commitments. Effective May 4, 1968, the practice of issuing standby commitments to purchase specific one-to-four family housing mortgages was discontinued, and thereafter commitments were issued for specific dollar amounts of funds on a competitive and noncompetitive basis under the Free Market System procedure of issuing forward commitments. However, the Corporation continues to issue commitments to purchase market rate multifamily housing mortgages at prices described on pages 39-40.

d. *Determination of Purchase Prices Under the Free Market System*

Qualified organizations that desire to sell home mortgages to the Corporation pursuant to commitments under its Free Market System were required to make offers on either a noncompetitive or competitive basis for specific dollar amounts of funds, within dollar and other limitations established and announced from time to time on a 90-day, 6-month, a 12-month, a 15-month or an 18-month commitment basis. Competitive sellers are required to specify in respect to each type of contract desired the precise yield at which they propose to sell mortgages to the Corporation. Acceptable noncompetitive offers, subject to preestablished limitations, are approved in toto under each type of contract, at the average price of all accepted competitive offers applicable to each such contract category. Effective July 26, 1971, FNMA only offered 90-day commitments. The term was changed on October 26, 1971, to 120-day commitments or 4-month commitments.

e. *Purchase Prices — Convertible Standby Contracts (Home Mortgages)*

Convertible Standby Commitments are issued for both FHA/VA and conventional home mortgages. These programs were instituted on October 24, 1972 for FHA/VA loans and on January 30, 1973 for conventional loans. The commitment period is 12 months.

The yield required is determined periodically by the Corporation and is related to yields obtained in the FMS auctions, adjusted for future interest rate developments.

The holder of a convertible standby commitment may, at any time during the commitment term, request the conversion of the commitment to a yield equal to the average yield accepted in the FMS-FHA/VA or conventional auction for 4 month commitments immediately preceding the date of conversion. When converted the commitment period is reduced to 4 months. Of course the holder has the option of delivering at the standby yield (yield quoted when commitment obtained) at any time in the 12 month commitment period.

f. *Purchase Prices — Project Mortgage Commitments*

Effective April 10, 1969, the prices for FHA section 207 housing mortgages were based on the weighted average of the prices in the latest Free Market System auction preceding the receipt of the Seller's offer. More favorable prices were established for FHA section 221(d)(3) Rent Supplement and section 236 mortgages by making allowances for the fees paid to servicers for servicing single family mortgages as compared to direct servicing costs.

Effective April 10, 1969, the prices for FHA section 221(d)(3) Rent Supplement and section 236 mortgages involving nonprofit and cooperative mortgagors were established at par whenever the average of the prices for proposed construction commitments in the five most recent Free Market System auctions was 96 or greater; such prices would be correspondingly reduced below par by the amount that the five-auction average fell below 96. No change was made in the prices for Section 221(d)(3) Rent Supplement and Section 236 mortgages involving limited dividend mortgagors.

Effective April 22, 1969, the prices for mortgages other than those insured under FHA section 221(d)(3) Rent Supplement and section 236 were established at the average of the prices for proposed construction in the latest five auctions, and on July 19, 1969, prices for all FHA section 221(d)(3) Rent Supplement and section 236 mortgages were made the same, i.e., par when the average of proposed construction prices in the latest five FMS auctions was 96 or over, to be correspondingly reduced below par by the amount that average fell below par.

Effective April 30 and May 11, 1970, prices on mortgages insured under sections 232, 242, Title X and Title XI were established to provide the same yield as those not insured under section 221(d)(3) Rent Supplement and section 236, but giving effect to their earlier maturities.

On October 12, 1971, the purchase price of 7 percent Project mortgages under the standby procedure was administratively established at 90 until further notice. FNMA will convert the standby price of 90 for mortgages bearing interest rates other than 7 percent on an equivalent yield basis and then lower the price to the next quarter point. The standby commitment is an optional delivery commitment, but upon delivery to FNMA the purchase price is adjusted (but not to exceed par) to yield FNMA the lesser of, (1) the yield set forth in the commitment contract or, (2) the yield applicable to Immediate Purchase Contracts as the date of disbursement of the loan proceeds by FNMA. This immediate purchase price is related to the average price of all accepted 4 month bids in the most recent FMS auction. Those mortgages purchased under FHA section 221(d)(3) or 236 are purchased on the same basis, but the first $1 billion are purchased by FNMA at a special preferential price.

2. *The Special Assistance Functions*

The Charter Act requires that the prices paid by the Association for mortgages purchased under its Special Assistance Functions shall be established from time to time by the Association. At times, however, minimum purchase prices have been established by statute. Public Law 1020, 84th Congress, approved August 7, 1956, required the Association to pay not less than 99 for mortgages purchased under contracts entered into during the period of a year ending August 7, 1957; this provision was modified, however, by P. L. 85-104, approved July 12, 1957, under which the Association was required to pay not less than par (100) for mortgages purchased under contracts entered into during the period between July 12, 1957, and August 7, 1958. The par purchase price provision of the legislation was not reenacted during 1958 and, in effect, the Association's authority to establish purchase prices for mortgages purchased under the Special Assistance Functions reverted to the status provided by the Charter Act (P. L. 560, 83rd Congress): the original statutory language was restored by P. L. 86-372, approved September 23. 1959.

Commitment Procedure

Advance commitment procedures providing for future purchases of mortgages have been modified from time to time. A historical summary of previous principal requirements and many newer procedures are described below:

1. *Procedure Prior to the Charter Act*

From March 22. 1938. until January 1, 1942. the commitment fee was 1 percent. but it was refunded upon delivery of the mortgage for purchase within the commitment period; the commitment term was 6 months for one-to-four family housing mortgages and on a negotiated basis for multifamily housing mortgages. On January 1. 1942, the term was established at 9 months. and the fee remained at 1%, but a contract could be further extended upon payment of a commitment fee of ¼ of 1% of the amount of the mortgage for each month or portion thereof by which the contract, as extended, exceeded 9 months from the date of the original commitment. On July 20, 1948, the term was extended to one year for one-to-four family housing mortgages and new commitments were discontinued in respect to multifamily housing mortgages (resumed on the latter type on September 15, 1948). The commitment term for multifamily housing mortgages was established on September 15, 1948, as the time between the date on which the Association executed the contract and the latest date on which amortization payments could commence.

Between July 20, 1948, and November 1. 1954. sellers were required to deposit with the Association in the case of mortgages covering one-to-four family housing an amount equal to 1% of the original principal amount of each mortgage included in the commitment contract as a commitment deposit. As a means of encouraging the seller to retain the mortgage or to dispose of it elsewhere, the Association retained only ½ of the deposit as a commitment fee if, upon the written request of seller, the mortgage was withdrawn from the commitment within the commitment period, provided the improvements on the mortgaged premises were ready for occupancy and the mortgage in all other respects was eligible for purchase from the seller to which the commitment was issued. If the mortgage was delivered to the Association for purchase, ½ of the deposit was retained. If the contract was terminated by the Association pursuant to its terms, or if the mortgage was neither delivered to the Association nor withdrawn from the commitment within the commitment period, the entire deposit was retained.

The commitment deposit between September 15, 1948, and November 1, 1954, in respect to multifamily mortgages, was ½% of the original principal amount of the mortgage. If the mortgage was delivered to the Association, the entire deposit was retained as a commitment fee, but only ½ was retained if the mortgage was withdrawn from the commitment within the commitment period, provided the improvements were completed and the mortgage was in all other respects eligible for purchase; the entire deposit was retained if the contract was terminated by the Association or if the mortgage was neither delivered to the Association nor withdrawn from the commitment within the commitment period.

A nonrefundable commitment fee of 1% and an Acquisition and Service charge of ½% of the amount of the contract were charged in connection with the issuance of a one-year Advance Contract to Purchase ("one-for-one" program) and purchases thereunder. For details of this procedure see page 37. Increases in amounts of commitment contracts and extensions of the contract terms were not granted in connection with the "one-for-one" program.

2. *Special Assistance Functions*

During the period between November 1, 1954, and February 16, 1962, the commitment fee was nonrefundable if the application for the commitment contract was approved by the Association. The amount of the commitment fee between November 1, 1954, and July 12, 1957, was 1% of the amount of the mortgage and the Purchase and Marketing Fee was uniformly ½ of 1% of the amount of the mortgage. The maximum fees (Purchase and Marketing Fee and commitment fee) were established by P.L. 85-104, approved July 12, 1957, at 1½%, of which not more than ½ could be collected at the time of issuing the commitment and the balance could be collected at the time of delivery of the mortgage for purchase. The commitment fee was administratively established on December 11, 1956, at ½ of 1% in the case of section 803 mortgages. The statutory fees and charges restriction imposed by P.L. 85-104 was rescinded by P.L. 86-372, approved September 23, 1959. On September 30, 1959, the Association administratively reestablished the nonrefundable commitment fee and Purchase and Marketing Fee at 1% and ½%, respectively, (except as to section 803 mortgages on which both fees remained unchanged at ½%). The Purchase and Marketing fee was established at 1% on November 29, 1966, with respect to mortgages purchased under Special Assistance Program No. 14 covering low and moderate cost housing. Increases in amounts of special assistance commitments could be granted upon payment of the required commitment fee on the increased commitment amounts.

Public Law 86-372 also required the Association, in respect to special assistance commitment contracts entered into prior to August 27, 1958, to extend or reissue such contracts for a reasonable additional period or periods, according to the circumstances, on terms no less favorable than the terms of the original commitments if the holder thereof could not deliver the mortgages covered thereby within the original commitment period and established that hardship to such holder would have resulted therefrom and that inability to deliver the mortgages was beyond the control of the holder.

Effective on February 16, 1962, the Association adopted a policy of refunding three-fourths of its commitment fee charged in conenction with outstanding and future commitments issued under its Special Assistance Functions for the purchase of multifamily housing mortgages. provided the seller, within the commitment period, requested such a refund, agreed to the immediate termination of the commitment contract, and furnished evidence satisfactory to the Association that arrangements had been completed for financing the mortgages otherwise.

The procedure was extended on November 20, 1962, to include project mortgages covering five or more housing units.

3. *Secondary Market Operations*

a. *Standby and Immediate Purchase Commitments*

Between August 7, 1956, when the Corporation's standby procedure was established and February 29, 1968, the standby commitment fee charged by FNMA was nonrefundable if the application for commitment were approved by the Corporation. On the latter date, the Corporation adopted a policy in respect to multifamily housing mortgages of refunding ½ of the commitment fee if the mortgage were delivered for purchase to some other buyer. The cash payment charged in connection with the issuance of standby commitments was 1½% of the original principal amount of the mortgages, of which ½ of 1% represents a contribution to capital incident to subscriptions for Corporation common stock. If the mortgage was delivered for purchase pursuant to the standby contract, the seller would then make an additional contribution to capital in an amount equal to ½ of 1% of the principal amount of the mortgages, but no other fees or charges are imposed. If, however, the mortgage was delivered for purchase on the basis of an immediate purchase contract rather than pursuant to the standby contract, the purchase transaction then becomes the usual type of secondary market immediate purchase, i.e., the seller in those circumstances was required to contribute to capital at the rate in effect at the time the offer is approved (immediate purchase contract executed) and, in addition, pay the usual Purchase and Marketing Fee. Increases in the amounts of standby commitment contracts were granted in appropriate circumstances upon payment of the required commitment fees on the amounts of the increased commitments. Effective on project commitments executed on or after April 25, 1973, no stock subscription is required.

b. *Free Market System Commitments*

The Corporation charges a commitment fee, payable at the time of issuance of the contract, of ½% of the principal amount of a 90 day commitment contract under its Free Market procedure, ¾% in respect to a 6-month contract, 1% for a 12-month contract, 1¼% for a 15-month contract and 1½% for an 18-month contract. No part of the fee is refundable. In addition, since August, 1969, the Seller is required to pay a nonrefundable offering fee of 1/100 of 1% of the amount of funds requested in the offer, whether or not the related commitment is issued. As mentioned earlier, effective July 26, 1971, FNMA only made 90-day commitments. This was changed on October 26, 1971, to a 4-month commitment.

Fees and Charges

Certain fees have been charged from time to time for various services with the objective of reasonably preventing excessive use of the corporate facilities and of assuring to the extent possible that the operations will be fully self-supporting. The following types of fees are, or have been, charged for services rendered:

a. Acquisition and Service Charge of ½ of 1% of the unpaid principal balances of mortgages purchased under the Association's "one-for-one" program during fiscal year 1954 in the Management and Liquidating Functions;
b. Commitment fee equal to 1% of the amount of mortgages involved in standby and firm contracts issued by the Corporation and an amount varying between ½% and 1½% under the Free Market Procedure; the fee ranged from ½% to 1% for commitments issued under the Association's Special Assistance Functions; and was 1% for one-to-four family housing mortgages and ½% for multifamily housing mortgages prior to August 2, 1954;
c. Purchase and Marketing Fee varying between ½ percent and ¾ percent of the principal amount of the mortgages involved under the Special Assistance Functions and ranging between ½ percent and 1½ percent in respect to Immediate Purchase contracts issued generally on or before May 4, 1968, under the Secondary Market Operations. A Purchase and Marketing fee was not charged in connection with purchases of FHA section 221(d)(3) below-market-interest-rate mortgages under the Special Assistance Functions or mortgages purchased under standby commitments in the Secondary Market Operations.
d. Purchase Option Fee ranging from ½ percent to 1 percent of the unpaid principal amount of mortgages sold to the Corporation under a purchase-option contract issued by the Corporation.
e. Service charge of 2 percent of the full amount of the construction loan in which the Corporation agrees to participate (the maximum initial charge permitted by FHA), to be collected by the Seller and distributed as follows:

1½ percent of its share of the loan to FNMA and the remainder to the Seller; except:

(1) in any case the Seller receives a minimum of $7,500 or the maximum obtainable, whichever is less; and (2) if the mortgage amount exceeds $4,000,000 or if FNMA participation in the loan advances is less than 50 percent, the distribution of the fee is determined by negotiation.

Suspension of Purchasing and Commitment Issuance

At various times the Association has suspended, in whole or in part, the issuance of advance commitments and further acceptance of deliveries of mortgages for purchase on an over-the-counter or immediate purchase basis. The circumstances of these suspensions were as follows:

(1) July 6, 1949-July 19, 1949: The issuance of commitments and acceptance of over-the-counter deliveries of mortgages were suspended because of the exhaustion of uncommitted funds. The Association's total authorization was increased from $840 million to $1.5 billion (P. L. 176, 81st Congress, approved July 19, 1949); although the uncommitted funds decreased to $140.7 million on September 30, 1949, commitment and purchasing activities were not suspended; the Congress on October 25, 1949, increased the authorization to $2.5 billion (P. L. 387, 81st Congress);
(2) March 20, 1950-April 20, 1950: Issuance of commitments and acceptance of over-the-counter deliveries were suspended because of the exhaustion of uncommitted funds. Resumption of over-the-counter purchasing was made possible by P. L. 475, 81st Congress, approved April 20, 1950, which provided an increase of $250 million in the authorization, but further issuance of advance commitments was discontinued. Over-the-counter purchasing actually began under instructions issued May 10, 1950;
(3) April 2, 1952-September 2, 1952: Further acceptance of over-the-counter deliveries of nondefense and nondisaster mortgages was suspended because of the exhaustion of unobligated funds. Issuance of commitments for purchases of defense, disaster, and military housing mortgages continued under authority of P. L. 309, 82nd Congress, approved April 9, 1952, and P. L. 531, 82nd Congress, approved July 14, 1952. Over-the-counter purchasing of nondisaster housing mortgages was resumed September 2, 1952, by reason of the availability of approximately $362 million of funds previously set aside for the purchase of defense, disaster, and military housing mortgages and the additional accumulation of principal funds from repayments, sales, and other principal credits;
(4) April 10, 1953-November 1, 1954: Except as to mortgages covering Alaska housing, over-the-counter purchases of which were terminated on August 2, 1954, by P. L. 560, 83d Congress, and mortgages delivered pursuant to the Purchase Receipt procedure which expired on June 30, 1954, further acceptance of over-the-counter deliveries of mortgages covering nondefense and nondisaster housing was suspended as a precautionary measure pending a necessary review of the Association's purchasing policy in a changing market; the issuance of commitments for the purchase of defense, military, and disaster housing mortgages and of commitments covering nondefense and nondisaster housing mortgages (Advance Contract to Purchase — "one-for-one" program) continued until July 1, 1954, under authority of P. L. 94, 83d Congress, approved June 30, 1953, (extended to July 31, 1954 by P. L. 438, 83d Congress, approved June 29, 1954, except as to contracts issued under the "one-for-one" program). Public Law 243, 82d Congress was also amended by

P. L. 94, 83d Congress to permit the issuance of cooperative housing commitments as described on page A 46. Purchasing on an immediate purchase basis was resumed November 1, 1954, in connection with the Secondary Market Operations and under immediate purchase and commitment contracts in the Special Assistance Functions pursuant to authority contained in P.L. 560, 83d Congress, on August 2, 1954.

Mortgage Sales and Sales Prices

1. *Management and Liquidation Function*

The prices at which mortgages have generally been offered for sale to private investors from time to time from the portfolio of the Association's Management and Liquidating Functions were as follows:

Prior to July 16, 1951, mortgages on one-to-four family dwellings were offered for sale at the unpaid principal balances thereof plus accrued interest to the date of payment therefor and, in addition thereto, a premium computed on the principal balance equal to ½ of 1% for each VA mortgage and a premium of a varying range (depending upon the type of mortgage and market conditions) of ¾ of 1% to 4¼% on FHA mortgages. Mortgages on multifamily dwellings were sold on a negotiated basis. From July 16, 1951, to July 27, 1953, mortgages covering one-to-four family dwellings were offered for sale at 100 plus interest to date of payment, and mortgages covering multifamily dwellings were sold on a negotiated basis (not below 100).

Sales prices, subject to change without notice, of mortgages covering one-to-four family dwellings announced on July 27, 1953, and July 30, 1955, respectively, were:

Class	Section	Interest rate	Price	Service fee
VA	501	4	96	
Mortgages	501	4½	100	
	502	4	96	
	502	4½	100	
	505a	4	97.75	
FHA	8	4¼	96	
Mortgages	8	4¼	99	½
Title I	8	4½	97	
	8	4½	100	½
FHA	203	4	96	
Mortgages	203	4¼	97.75	
Title II	203	4½	100	
FHA	203	5	100	
Mortgages	213 (Ind.)	4	96	
Title II	213 (Ind.)	4½	100	
FHA	603	4	96	
Mortgages	603	4¼	97.75	
Title VI				
FHA	903	4¼	97.75	
Mortgages	903	4½	100	
Title IX				

The initial offerings of certain 4 and 4¼% mortgages at less than 100 were calculated to permit yields approximately equivalent to the yields that would be received from similar types of mortgages bearing interest at the rate of 4½% and selling at 100.

Sales prices, subject to change without notice, of mortgages covering one-to-four family housing, announced on January 29, 1954, and in effect until July 30, 1955, were:

Class	Section	Interest rate	Price	Service fee
VA	501	4	98	
Mortgages	501	4½	100	
	502	4	98	
	502	4½	100	
	505a	4	99.50	
FHA	8	4¼	98	
Mortgages	8	4¼	100	½
Title I	8	4½	100	
	8	4½	100	½
FHA	203	4	98	
Mortgages	203	4¼	99.75	
Title II	203	4½	100	
	203	5	100	
	213	4	98	
	213 (Ind.)	4½	100	
FHA	603	4	98	
Mortgages	603	4¼	99.75	
Title V				
FHA	903	4¼	99.75	
Mortgages	903	4½	100	
Title IX				

The increase in sales prices announced on January 29, 1954, resulted from the general improvement in the mortgage market and particularly the firming up of Government bond prices.

Information on sales practices since January 29, 1954, with respect to the Management and Liquidating Functions may be obtained from the U.S. Department of Housing and Urban Development.

U. S. Treasury Bond-FNMA Mortgage Exchange — Management and Liquidating Functions

On October 21, 1959, and February 9, 1960, respectively, the Association inaugurated programs providing for the exchange on a competitive basis of a portion of VA-guaranteed 4% mortgages held in its Management and Liquidating Functions portfolio for nonmarketable United States 2¾% Treasury Bonds, Investment Series B, 1975-80. The Administration's budget for fiscal year 1960 contemplated that $335 million of these mortgages would be exchanged for bonds which would then be retired. The proceeds would be credited on the Association's United States Treasury-held notes; the transaction was designed to offset the net impact of the Association's Special Assistance Functions upon the Treasury during fiscal year 1960.

A basic purpose of the exchange was to accomplish one of the Association's statutory objectives—the liquidation of a portion of the Management and Liquidating Functions portfolio "in an orderly manner, with a minimum of adverse effect upon the home mortgage market and minimum loss to the Federal Government." An additional and significant benefit accrued to the Government. This benefit was a reduction of Government debt through retirement of bonds acquired by the Association in the exchange and surrender to the United States Treasury for cancellation. Such bond retirements were reflected in the Budget as receipt items (credited against Association expenditures) just as the purchases of the mortgages were originally reflected in the Budget as expenditure items.

The United States Senate on August 20, 1959, passed a "sense of the Senate" resolution (S. Res. 130) disapproving but not prohibiting the plan. Similar action was not taken by the House of Representatives.

Under the first exchange, $150 million of mortgages were made available for exchange. Offers to exchange bonds for mortgages aggregating $282,881,300 were received and $188,328,000 were approved at prices ranging from 101.125 to 105.13 ($101.125 to $105.13 face amount of bonds for each $100.00 of unpaid principal amount of mortgages to be acquired) or an average exchange price of 102.03. Actual transactions aggregating $186,564,063 principal amount of mortgages were effected in exchange for $190,302,000 face amount of bonds.

In the second exchange transaction, which was announced on February 9, 1960, $200 million of mortgages were made available in exchange for bonds. Offers to exchange aggregating $129,708,861 were received and were approved at prices ranging from 100 to 104.01 or at an average exchange price of 101.28. Under the second exchange, $124,738,870 principal amount of mortgages were exchanged for $126,087,000 face amount of bonds.

The Association's overall experience under the two United States Treasury bond-FNMA mortgage exchange programs is shown in more detail in its analysis of combined exchange programs which follows:

Analysis of Combined Exchange Program

Total mortgages made available for sale		$305,000,000
Total offers received (average price $101.47)		442,590,161
Total offers approved (average price $101.72)		318,036,861
Less: Cancellations	$4,842,000	
Other	1,891,928	6,733,928
Total Principal amount of mortgages sold		311,302,933
Add: Premium on sales (1.714%)	5,336,826	
Mortgage interest and advances	1,345,803	
Net cash adjustment	700,217	7,382,846
Total exchanges		318,685,779
Face amount of bonds redeemed		316,389,000
Accrued interest on bonds		2,296,779
Total bonds and interest received		318,685,779
Excess face amount of bonds received over principal amount of mortgages sold		5,086,067

2. *Special Assistance Functions*

Information on this subject may be obtained from the U. S. Department of Housing and Urban Development.

3. *Secondary Market Operations*

Please refer to pages 9-10 of the text and Table 3 of Appendix B.

C.

APPENDIX B

Digest of Principal Provisions of Legislation Authorizing Operations of the Federal National Mortgage Association

Public Law Number, Citation and Approval Date — *Principal Provisions*

424, 75th Congress, 52 Stat. 48. Feb. 3, 1938

Association established on February 10, 1938, under provisions of title III of the National Housing Act, as then amended, to (1) provide a secondary market for mortgages insured by FHA under title II of that Act by purchasing, servicing or selling such mortgages; (2) make real estate loans eligible for insurance or insured under title II (except section 203) of the National Housing Act; (3) purchase, service or sell uninsured first mortgages on real estate, and other such liens as are commonly given in the various jurisdictions to secure advances thereon; and (4) borrow money for any of the foregoing purposes through the issuance of notes, bonds, debentures or other such obligations; maximum borrowing authority outstanding at any one time established at $220 million (20 times capital of $10 million and paid-in surplus of $1 million).

24, 77th Congress, 55 Stat. 55. Mar. 28, 1941

Added title VI to the National Housing Act and authorized the purchase of FHA-insured title VI mortgages by the Association.

864, 80th Congress, 62 Stat. 1206. Jul. 1, 1948

(1) Extended secondary market authority to include purchases, sales and servicing of VA-guaranteed (GI) loans; (2) increased capitalization by $10 million to $20 million to be provided by the Reconstruction Finance Corporation; (3) purchases limited to mortgages insured or guaranteed after April 30, 1948; (4) maximum borrowing authority increased from $220 million outstanding at any one time to $840 million, plus 40 times earned surplus (40 times the sum of capital of $20 million, paid-in surplus of $1 million and earned surplus); (5) prescribed that no mortgage could be offered for purchase unless offered by the original mortgagee prior to any other sale thereof; (6) deleted authority to make real estate loans eligible for insurance or insured under title II of the National Housing Act and to purchase, service and sell uninsured first mortgages; (7) limited purchases to 25 percent of the overall amount of all loans, both FHA and VA, originated by a seller which otherwise would qualify for FNMA purchases; (8) provided that the maximum original principal amount of a mortgage purchased by the Association shall not exceed or have exceeded $10,000 for each family residence or dwelling unit covered thereby; (9) provided that no mortgage could be offered for purchase by, or if it covered property held by, a Federal, State or municipal instrumentality; and (10) terminated authority to purchase FHA-insured mortgages on rental housing, and VA-guaranteed cooperative housing mortgages.

901, 80th Congress, 62 Stat. 1268. Aug. 10, 1948

(1) Increased the statutory limitation on purchases established by P. L. 864, 80th Congress, from 25 percent to 50 percent of all FHA and VA mortgages originated by a seller which otherwise qualified for purchase; (2) reinstated authority to purchase FHA-insured rental housing and VA-guaranteed cooperative housing mortgages.

52, 81st Congress, 63 Stat. 57. Apr. 23, 1949

(1) Authorized by Alaska Housing Act to purchase, service or sell FHA-insured mortgages on properties in Alaska and to make direct (primary) FHA-insured loans to finance Alaska residential housing construction; (2) Alaska housing mortgages exempted from $10,000 mortgage amount ceiling established by P. L. 864, 80th Congress, and other statutory purchasing requirements prescribed by title III of the National Housing Act, as heretofore or hereafter amended, or by any other law unless enacted expressly in limitation thereof.

176, 81st Congress, 63 Stat. 446. Jul. 19, 1949

Increased authorization to commit to purchase and to purchase FHA-insured title II and VI mortgages and VA-guaranteed mortgages from $840 million outstanding at any one time to $1,500 million.

211, 81st Congress, 63 Stat. 570. Aug. 8, 1949

Authorized to purchase FHA-insured title VIII mortgages (military housing) provided for under this Act and exempted such mortgages from the 50 percent limitation on the amount of mortgages that could be purchased from any one mortgagee.

387, 81st Congress, 63 Stat. 905. Oct. 25, 1949

(1) Increased purchase and commitment authorization outstanding at any one time by $1 billion to $2,500 million; (2) VA-guaranteed section 501 mortgages guaranteed after October 25 exempted from the 50 percent purchase limitation established by P. L. 901, 80th Congress.

475, 81st Congress, 64 Stat. 48. Apr. 20, 1950

(1) Increased purchase authorization outstanding at any one time by $250 million to $2,750 million and revoked authority to make advance commitments to purchase mortgages; (2) made FHA-insured section 8, low cost housing mortgages, and FHA-insured section 213 cooperative housing mortgages eligible for purchase; (3) exempted VA-guaranteed section 502 mortgages from the 50 percent purchase amount limitation established by P. L. 901, 80th Congress; and (4) VA-guaranteed mortgages must meet

the minimum construction requirements prescribed by the Administrator of Veterans Affairs.

139, 82nd Congress, 65 Stat. 293. Sept. 1, 1951 — Authorized to purchase FHA-insured title IX mortgages provided for under this Act, and to issue advance commitments not in excess of $200 million outstanding at any one time for purchases of mortgages on programed housing in critical defense housing areas, housing in major disaster areas, and on FHA-insured title VIII housing for personnel essential to operation of the military departments or the Atomic Energy Commission.

243, 82nd Congress, 65 Stat. 699. Oct. 30, 1951 — Authorized to issue advance commitments not in excess of $30 million outstanding at any one time to purchase FHA-insured section 213 cooperative housing mortgages in respect to which the Federal Housing Commissioner had issued prior to June 29, 1951, either a commitment to insure or a statement of eligibility, and limited the amount of such commitments that could be made available in any one state to not more than $3.5 million.

309, 82nd Congress, 66 Stat. 51. Apr. 9, 1952 — Increased commitment authority from $200 million outstanding at any one time to $252 million for mortgages on housing of the types provided for by P. L. 139. 82nd Congress.

531, 82nd Congress, 66 Stat. 601. Jul. 14, 1952 — (1) Increased purchasing and commitment authorization outstanding at any one time by $900 million to $3,650 million and made such additional authority available solely for commitments to purchase and purchases of mortgages on defense, disaster and military housing; (2) commitments and purchases of mortgages on other types of housing limited to $2,750 million outstanding at any one time; (3) limited purchases to 50 percent of the overall amount of all loans both FHA and VA (except defense, disaster and military) originated by a seller which otherwise qualified for purchase; (4) provided that no mortgage except a defense or disaster mortgage could be purchased by the Association unless guaranteed or insured after February 29, 1952, or purchased pursuant to a commitment made by the Association; and (5) authorized to purchase mortgages on properties located in Guam..

94, 83rd Congress, 67 Stat. 121. Jun. 30, 1953 — (1) Authorized "one-for-one" plan not to exceed $500 million (to July 1, 1954), a program under which commitments were issued to purchase eligible mortgages within one year after issuance of the contracts in a dollar amount equal to the principal amount paid to the Association for mortgages which investors had purchased from its portfolio; (2) extended authority to issue advance commitment contracts for 1 year (to June 30, 1954) to purchase mortgages covering military, defense and disaster housing; (3) amended P. L. 243, 82nd Congress, to liberalize advance commitment authority relative to FHA section 213 cooperative housing mortgages and extended to September 1, 1953, the date on which commitments could be issued for the purchase of such mortgages; (4) deleted the commitment and purchasing limitation of $2,-750 million for mortgages on other than defense, disaster and military housing; and (5) exempted FHA-insured mortgages covering properties located in Hawaii or Guam from the $10,000 mortgage amount ceiling established by P. L. 864, 80th Congress.

438, 83rd Congress, 68 Stat. 320. Jun. 29, 1954 — Extended authority to commit to purchase mortgages on defense, disaster and military housing from June 30, 1954, to July 31, 1954.

560, 83rd Congress, 68 Stat. 590. Aug. 2, 1954 — (1) Title III of the National Housing Act entirely rewritten as the Federal National Mortgage Association Charter Act; Association rechartered and designated as a constituent agency of HHFA; authorized to exercise three primary functions with separate accountability: (a) to provide supplementary assistance to the secondary market for residential housing financed principally by private capital (limited to the sum total of capital, surplus, reserves, and undistributed earnings plus outstanding obligations not in excess of ten times the sum of capital, surplus, reserves and undistributed earnings) (hereinafter referred to as the Corporation and/or the Secondary Market Operations); (b) to provide supplementary assistance through Federal financing of special housing programs designated by the President of the United States (within a limitation of $300 million outstanding at any one time) (hereinafter referred to as the Association and/or the Special Assistance Functions); and (c) to manage and liquidate the then existing FNMA portfolio and mortgages that may be acquired under contracts entered into prior to November 1, 1954 (hereinafter referred to as the Association and/or the Management and Liquidating Functions); (2) prescribed that the maximum original principal amount of a mortgage that could be purchased by the Corporation or by the Association under its Special Assistance Functions may not exceed or have exceeded $15,000 for each family residence or dwelling unit covered thereby; (3) repealed the authority provided under P. L. 243. 82nd Congress, and section 2(b) of P. L. 52, 81st Congress; and (4) provided that mortgages purchased by the Corporation shall have been insured or guaranteed on or after August 2, 1954.

345, 84th Congress, 69 Stat. 635. Aug. 11, 1955 — Authorized the Association under its Special Assistance Functions to provide special assistance for FHA-insured mortgages covering section 213 cooperative housing and section 803 mortgages on armed services housing without prior Presidential direction. In providing this assistance, the Association was authorized to (1) enter into commitments to purchase mortgages not in excess of $50 million outstanding at any one time, with not more than $5 million of the authorization to be available for such commitments in any one State if such commitments relate to mortgages with respect to which the Federal Housing Commissioner shall have issued pursuant to section 213 either a commitment to insure or a statement of eligibility; and (2) make commitments to purchase and purchase mortgages insured by FHA under title VIII of the National Housing Act, as amended on and after August 11, 1955, provided the total amount of such purchases and commitments does not exceed $200 million outstanding at any one time.

574, 84th Congress, 70 Stat. 274. Jun. 13, 1956 — Authorized mortgages to be insured by FHA under section 809 of the National Housing Act covering sales type housing for essential civilian employees at a research or development installation of one of the military departments of the United States; the Association authorized in its Special Assistance Functions to purchase section 809 mortgages under the provisions of P. L. 345, 84th Congress. (Expanded by P. L. 88-127, approved September 23, 1963, to include also civilian employees connected with a research or development installation of NASA or AEC.)

1020, 84th Congress, 70 Stat. 1091. Aug. 7, 1956 — (1) Removed the statutory $15,000 mortgage purchase amount ceiling established by P. L. 560, 83rd Congress, for each family residence or dwelling unit covered by mortgages on housing in Alaska, Guam, Hawaii and on FHA section 803 military housing; (2) revised the percentage ratio of common stock required by P. L. 560, 83rd Congress, to be subscribed by sellers under the Secondary Market Operations from not less than 3 percent of the unpaid principal amount of the mortgages involved to 2 percent and authorized the Corporation to fix the percentage at a greater or lesser percentage than 2 percent, but not less than 1 percent, as the Corporation may determine from time to time, taking into consideration conditions in the mortgage market and the general economy; (3) authorized the Corporation to issue commitment contracts of a type known in the trade as "standby commitments" for the purchase of FHA-insured and VA-guaranteed mortgages on new construction; (4) authorized the Corporation to establish purchase prices "within the range of market prices," as determined by the Corporation, rather than "at the market price" for such mortgages, as required by P. L. 560, 83rd Congress; (5) required the Association, for a period of one year from the date of the enactment of this Act, to pay not less than 99 for mortgages purchased in the Special Assistance Functions; and (6) related the $50 million of total authorization outstanding at any one time for FHA section 213 cooperative housing mortgages in the Special Assistance Functions not only to commitments but also to purchases and provided that the $5 million State commitment authorization established by P. L. 345, 84th Congress, shall be on a revolving basis.

85-10, 71 Stat. 7. Mar. 27, 1957 — (1) Increased by $50 million to $142.8 million the amount of preferred stock the Corporation is authorized to sell to the Secretary of the Treasury; (2) increased the amount of Corporation's obligations which may be held by the Secretary of the Treasury from the $1 billion limitation established by P. L. 560, 83rd Congress, to $1.350 million; (3) increased the Association's Special Assistance Functions authority available for commitments to purchase and purchases of FHA-insured section 213 cooperative housing mortgages from $50 million outstanding at any one time to $100 million, and increased the amount of such commitments which may be available for any one State from $5 million to $10 million.

85-104, 71 Stat. 294. Jul. 12, 1957 — (1) Increased by $65 million to $207.8 million the amount of preferred stock the Corporation was authorized to sell to the Secretary of the Treasury; (2) increased the amount of the Corporation's obligations which the Secretary of the Treasury may hold at any one time from $1.350 million to $2.250 million; (3) changed the percentage ratio of common stock required to be subscribed by sellers of mortgages to the Corporation to not more than 2 percent nor less than 1 percent of the unpaid principal amount of the mortgages involved, as determined by the Corporation from time to time, taking into consideration conditions in the mortgage market and the general economy; (4) required the Association to pay par (100) for mortgages purchased in the Association's Special Assistance Functions pursuant to contracts entered into during the period between July 12, 1957, and August 7, 1958, and established the maximum aggregate percentage amount of fees (at 1½% of the principal amount of the mortgage involved) that the Association could charge in connection with commitments and purchases under said functions; (5) increased the amount of the purchases and commitments that may be authorized by the President of the United States under the Special Assistance Functions from $300 million outstanding at any one time to $450 million; (6) increased the amount available under the Special Assistance Functions for commitments and purchases of FHA-insured section 213 cooperative housing mortgages from $100 million outstanding at any one time to $200 million with certain limitations with respect to amounts available for any one State and for consumer type housing; and (7) increased the authority available under the Special Assistance Functions for commitments to purchase and for purchases of FHA-insured armed services housing mortgages from $200 million outstanding at any one time to $450 million of which 7.5 percent ($33.75 million) was required to be reserved for commitments to purchase and purchases of FHA-insured section 809 housing mortgages.

85-364, 72 Stat. 73. Apr. 1, 1958 — Provided the Association in its Special Assistance Functions, with additional mortgage purchase authority as follows: (1) the total amount of the Association's authority to purchase and to commit to purchase mortgages under direction of the President of the United States was increased by $500 million, bringing the total amount of such authorization to $950 million outstanding at any one time; and (2) the dollar amount of purchases and commitments authorized under programs specifically approved by the Congress was increased by $1,050 million to $1,700 million outstanding at any one time, such increase consisting of (a) $1,000 million of authority outstanding at any one time specifically approved for purchases and commitments to purchase mortgages of $13.500 or less, relating to low and moderate priced housing upon which construction had not commenced and (b) an increase of $50 million to $500 million outstanding at any one time, of the authority to make commitments to purchase and to purchase mortgages insured by FHA under title VIII of the National Housing Act, as amended, and of which not less than $58.75 million shall be made available for purchases and commitments to purchase FHA section 809 mortgages.

86-372, 73 Stat. 654. Sept. 23, 1959 — (1) Increased the statutory dollar amount limitation established by P. L. 560, 83rd Congress, on the maximum original principal obligation of a mortgage that may be purchased under the Association's Special Assistance Functions from $15,000 to $17.500 and the maximum principal amount of a mortgage that may be purchased by the Corporation from $15.000 to $20.000 for each family residence or dwelling unit covered by the mortgage (mortgages covering housing in Alaska, Hawaii, Guam and FHA-insured section 220 and 803 housing mortgages were exempted from these dollar amount limitations); (2) increased the amount available under the Association's Special Assistance Functions for commitments and purchases of FHA-insured section 213 cooperative housing mortgages from $200 million outstanding at any one time to $225 million ($12.5 million to be made available solely for builder-sponsored type cooperative housing and $12.5 million for consumer type housing); (3) extended the time for submission of certain mortgages covered by commitments previously issued under the Special Assistance Functions; (4) authorized the Association under the Management and Liquidating Functions to make commitments to purchase and to purchase, service and sell any mortgage offered to it by HHFA or any of the HHFA constituent agencies when the Housing and Home Finance Administrator has determined that the acquisition thereof by the Association is in the interest of the efficient management and liquidation of the mortgages; (5) authorized the Corporation to enter into standby commitments for the purchase of mortgages covering existing housing; (6) deleted the par purchase price and maximum fees and charges provisions established by P. L. 85-104 in respect to the Association's Special Assistance Functions; (7) broadened the type of securities other than U. S. bonds in which the Corporation and the Association could invest surplus cash; and (8) authorized FHA to insure mortgages under section 810 of the National Housing Act covering rental type housing for military and essential civilian employees in defense impacted areas (expanded by P. L. 88-127, approved September 23, 1963, to include also civilian employees connected with a research or development installation of NASA or AEC). Purchase of section 810 mortgages may be made under the provisions of P. L. 345, 84th Congress.

87-70, 75 Stat. 149, Jun. 30, 1961 — (1) Increased the amount of the Association's Special Assistance Functions authority under direction of the President of the United States from $950 million outstanding at any one time to $2,046.6 million by (a) a general increase of $750 million in special assistance authority, (b) an increase of $207.2 million represented by the transfer of unused commitment and purchase authority as of June 30, 1961, remaining from the special assistance program established by P. L. 85-364, and (c) an increase on July 1, 1961, of $139.4 million which amount was equal to the net decrease for the fiscal year 1961 in the aggregate principal amount of all mortgages owned by the Association under its Management and Liquidating Functions, and made provision for a further increase in such authority by an amount which is equal to the net decrease in the aggregate principal amount of all mortgages owned by the Association under its Management and Liquidating Functions during each of fiscal years 1962, 1963, and 1964; (2) terminated the Association's special assistance authority provided by P. L. 85-364, to purchase and to commit to purchase low and moderate priced housing mortgages of $13.500 or less; (3) exempted FHA-insured section 213 mortgages covering cooperative housing in urban renewal areas and section 809 and 810 mortgages from the Association's statutory purchase amount ceiling of $17.500 per family residence or dwelling unit applicable to the Special Assistance Functions; (4) authorized the Association to commit to purchase and purchase FHA section 221(d)(3) below-market interest rate mortgages under the Special Assistance Functions; (5) authorized the Corporation to make short-term loans of one year or less which do not exceed 80 percent of the unpaid principal balances of the FHA-insured or VA-guaranteed mortgages securing such loans; and (6) provided that the Corporation may establish an issue price in excess of par (100) for each share of common stock subscribed by organizations that sell mortgages to, or that borrow from, the Corporation (capital contributions) and that any such excess shall be paid into surplus of the Corporation.

88-560, 78 Stat. 769, Sept. 2, 1964 — (1) Removed the $20,000 purchase amount ceiling established by P. L. 86-372 for each family residence or dwelling unit covered by a mortgage purchased by the Corporation; (2) authorized the Corporation to purchase, sell or deal otherwise in participations in insured or guaranteed mortgages; (3) increased the amount of short-term loans the Corporation can make from 80 percent of the amount of FHA or VA loans securing such loans to 90 percent; (4) authorized the Association under its Management and Liquidating Functions to act in a fiduciary capacity to facilitate the substitution of private funds for Government financing of the Association's first mortgages and those in which the United States or an agency or instrumentality thereof has a financial interest, through sales of beneficial interests, or participations, in such mortgages to private investors; and (5) authorized the Association under its Special Assistance Functions to commit to purchase and to purchase management-type section 213(j) mortgages which have been certified by the Federal Housing Commissioner to be consumer cooperatives (without regard to limitations on amounts heretofore established for any one state and subject to the total authorization made available for the program) with respect to which the Federal Housing Commissioner shall have issued a commitment to insure or a statement of eligibility.

89-117, 79 Stat. 451, Aug. 10, 1965 — (1) Authorized Corporation to purchase FHA-insured and VA-guaranteed mortgages and mortgages insured by the Farmers Home Administration of the Department of Agriculture under title V of the Housing Act of 1949 from any Federal agency or instrumentality having authority to effect such sales and to subscribe for Corporation common stock and to purchase Farmers Home Administration-insured mortgages from State, territorial and municipal instrumentalities; (2) increased the Association's special assistance authority under direction of the President by $100 million and authorized (a) the transfer, at August 10, 1965, to the President's authority of an amount equal to the amount which would otherwise have been available for new commitments and purchases of FHA section 803 and 810 mortgages under the Association's Special Assistance Program Number 7, (b) additional transfers of authority which similarly would become available on July 1, 1966, and on July 1 of each year thereafter, and (c) concomitant decrease of the commitment and purchasing authority for section 803 and 810 mortgages by the amounts transferred; (3) provided for a general increase in the President's special assistance authority of $450 million on July 1, 1966, $550 million on July 1, 1967, and of $525 million on July 1, 1968; (4) authorized the Association, under its Management and Liquidating Functions, to make commitments to purchase, and to purchase, service or sell any obligations offered to it by HHFA or by its constituent units or agencies or any mortgages covering residential property offered to it by any Federal instrumentality; (5) eliminated the $17,500 purchase amount applicable to the Special Assistance Functions ceiling for any section 221(d)(3) below-market interest rate mortgage if it covers property which has the benefit of local tax abatement sufficient to keep rentals at the level they would be if the $17.500 limitation were applied; (6) increased the purchase amount ceiling to $20.000 for any mortgage under the Special Assistance Functions in respect to which the related family residence or dwelling unit contains four or more bedrooms; (7) authorized the Congress to appropriate funds necessary to reimburse the Association for any differential (including interest, other costs and a fair proportion of administrative expenses) between the total outlay in connection with the sale of participations involving section 221(d)(3) below-market interest rate mortgages insured after August 10, 1965, and the total receipts from such mortgages; and (8) the Association authorized, under its fiduciary capacity, to sell participations in obligations owned by it or offered to it by HHFA or its constituent units or agencies.

89-429, 80 Stat. 164, May 24, 1966 — (1) Authorized the Association, as Trustee, to sell beneficial interests, or participations, in mortgages or other types of obligations in which (a) the Farmers Home Administration of the Department of Agriculture, (b) the Office of Education of the Department of Health, Education and Welfare, (c) the Department of Housing, and Urban Development except the Secondary Market Operations, (d) the Veterans Administration, (e) the Export-Import Bank of the United States, or (f) the Small Business Administration, have a financial interest, provided the participations which are issued for the account of any such trustor shall not exceed an amount which is authorized by an appropriation act; stipulated that the proceeds from participations sold for the account of a trustor shall be treated by such trustor as otherwise provided by law for sales or repayments of such obligations; and authorized the trustor to pay the trustee from appropriated funds or otherwise such insufficiencies as the trustee may require on account of such participations; (2) rescinded the $450 million of Association special assistance authority which was authorized by P. L. 89-117 to be made available to the Association on July 1, 1966.

89-566, 80 Stat. 738, Sept. 10, 1966 — (1) Increased the Corporation's private borrowing authority from ten times capital and surplus applicable to such operations to fifteen times; (2) increased by $110 million the amount of preferred stock that may be purchased by the Secretary of the Treasury under the Secondary Market Operations; and (3) increased the dollar amount of purchases and commitments authorized under Special Assistance programs specifically approved by the Congress by $1,000,000,000 outstanding at any one time provided construction of the housing had not commenced at time of applying for the commitment and the original principal amount of any such mortgage does not generally exceed $15,000 or $17,500 in any geographical area where the Secretary of Housing and Urban Development finds that cost levels so require ($22,500 in Alaska, Guam and Hawaii). Of the $1,000,000,000 authorization provided by this act, $500,000,000 shall be obtained by reducing the outstanding authority of the President of the United States by such amount.

89-754,
80 Stat. 1255.
Nov. 3, 1966

(1) Removed the $17,500 statutory mortgage purchasing limit otherwise applicable under the Association's Special Assistance Functions if such mortgages are insured under Title X of the National Housing Act and relate to new communities approved under that act; (2) authorized the Association under its Special Assistance Functions to participate in making insured advances during construction on FHA section 213 and 220 mortgages and certain 221(d)(3) mortgages; and (3) repealed the statutory limitation under which the Corporation could issue commitments at prices sufficiently high to facilitate home financing but sufficiently low to prevent excessive sales to the Corporation under such operations, thereby enabling the Corporation to issue both standby and firm commitments.

90-448,
82 Stat. 536.
Aug. 1, 1968
Effective Sept. 1, 1968

(1) Partitioned the Federal National Mortgage Association as it existed on August 31, 1968, into (a) a privately owned and financed corporation encompassing the former Secondary Market Operations of the Corporation (FNMA); (b) a federally-financed corporation encompassing the former Special Assistance Functions and Management and Liquidating Functions of the Association (GNMA); and (c) authorized the Corporation to issue securities against its portfolio of FHA and VA mortgages and to purchase securities issued by other holders of such mortgages when guaranteed by GNMA;

91-296,
84 Stat. 336.
Effective Jun. 30, 1970

Authorized the Corporation to purchase loans made by the Department of Health, Education and Welfare for construction or modernization of publicly-owned hospitals.

91-351
84 Stat. 450
July 24, 1970

(1) Authorized the Corporation to purchase conventional mortgages, subject to certain restrictions; (2) Authorized the Corporation to purchase mortgages subject to interest subsidy payments under section 243 of the National Housing Act.

91-609
84 Stat. 1770
December 31, 1970

Made the stock purchase plan permissive rather than mandatory and required that the requirement be not more than two percent. Required the approval of the Secretary of Housing and Urban Development for any changes in the requirement.

93-383
88 Stat. 633
Aug. 22, 1974

(1) Authorized the Corporation to locate its principal office within the District of Columbia or the metropolitan area thereof; (2) Increased from 75 percent to 80 percent the maximum loan to value ratio for conventional mortgages; (3) Increased maximum conventional mortgage from amount comparable to FHA limits to amount equal to limitations on Federal S&Ls.

93-541
88 Stat. 1739
Dec. 26, 1974

Authorized the Corporation to purchase loans made for construction or modernization of private non-profit hospitals which are guaranteed by the Secretary of Health, Education and Welfare.

APPENDIX C

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TABLE 1
FNMA Secondary Mortgage Market Activity by Calendar Year*
(Dollars in thousands)

Year	Purchases	Sales	Repayments	Other credits	Year end portfolio: Number of mortgages	Year end portfolio: Amount
Total	$27,960,394	$2,912,469	$3,482,178	$1,674,840	1,221,306	$19,890,907
1954	24	—	—	—	2	24
1955	86,019	—	393	—	9,483	85,680
1956	574,538	5,014	6,154	335	62,114	648,715
1957	1,021,011	2,887	28,721	2,310	146,869	1,635,841
1958	259,535	165,568	39,156	9,962	128,337	1,380,690
1959	734,569	3,474	47,472	14,525	187,144	2,049,788
1960	980,495	42,093	64,116	21,083	259,138	2,902,991
1961	624,390	521,999	79,016	54,433	254,976	2,871,933
1962	517,427	390,667	104,029	78,085	253,151	2,846,579
1963	181,290	779,824	109,723	76,531	191,712	2,061,791
1964	197,518	78,091	120,014	64,295	190,787	1,996,909
1965	756,933	46,562	125,612	62,193	239,978	2,519,475
1966	2,080,617	73	133,047	70,690	388,409	4,396,282
1967	1,399,602	11,744	169,912	92,224	469,930	5,522,004
1968	1,944,379	358	217,743	77,969	586,634	7,170,313
1969	4,242,974	—	266,279	67,245	833,142	11,079,583
1970	5,531,892	20,293	342,732	190,794	1,086,303	16,057,656
1971	4,039,794	335,523	613,764	633,421	1,166,276	18,514,742
1972	3,864,134	208,299	1,014,265	830,713	1,221,306	20,325,599
1973	6,252,239	70,773	1,241,724	806,713	1,344,600	24,458,628
1974	7,018,565	4,292	1,036,127	728,218	1,473,552	29,708,556

* Also the Corporation's fiscal year.

TABLE 2
FNMA Purchases by Year and Type of Mortgage
(Dollars in Thousands)

Year	Home FHA	Home VA	Home Conventional	Project	Participation Advances*	Total
1954	$ 11	$ 13	—	—	—	$ 24
1955	19,934	66,115	—	—	—	86,049
1956	121,619	452,919	—	—	—	574,538
1957	238,799	782,245	—	—	—	1,021,044
1958	184,550	74,985	—	—	—	259,535
1959	553,526	181,043	—	—	—	734,569
1960	696,453	284,042	—	—	—	980,495
1961	453,695	170,695	—	—	—	624,390
1962	404,941	142,486	—	—	—	547,427
1963	162,850	18,440	—	—	—	181,290
1964	181.989	15,559	—	—	—	197,548
1965	627,134	129,799	—	—	—	756,933
1966	1,635,124	445,493	—	—	—	2,080,617
1967	911,421	487,894	—	$ 287	—	1,399,602
1968	1.290.990	646,814	—	6,573	—	1,944,377
1969	2.789.943	1,311,650	—	18,374	—	4,119,967
1970	3.490,058	1,287,390	—	301,365	$453,079	5,531,892
1971	2.068,212	674,211	—	831,473	466,882	4,040,778
1972	1,775,421	765,332	$ 55,073	1,103,451	165,338	3,864,615
1973	1,600.661	1,630,594	938,570	1,957,096	125,499	6,252,420
1974	$1.303,276	$2,314,467	$1.128,283	$2.207,486	$ 65.053	$7,018,565

*Includes loans secured by mortgages.

TABLE 3
FNMA Secondary Market Sales of FHA and VA Mortgages by Calendar Year*
(Dollars in thousands)

Year	FHA Number of mortgages	FHA Amount	VA Number of mortgages	VA Amount	Total Number of mortgages	Total Amount
Total	118,061	$1,514,147	111,153	$1,398,322	229,214	$2,912,469
1954	—	—	—	—	—	—
1955	—	—	—	—	—	—
1956	193	1,250	336	3,761	529	5,011
1957	262	2,019	81	838	313	2,887
1958	12,702	138,813	27,159	326,725	10,161	165,568
1959	297	3,018	43	126	310	3,171
1960	2,239	28,796	992	13,297	3,231	12,093
1961	28,621	318,629	17,389	203,370	16,010	521,999
1962	15,820	195,103	16,006	195,561	31,826	390,667
1963	32,810	389,171	32,501	390,350	65,311	779,821
1964	1,118	41,511	2,966	33,550	7,111	78,091
1965	1,352	11,508	3,011	32,051	1,396	16,562
1966	7	73	—	—	7	73
1967	511	7,710	266	4,031	807	11,711
1968	16	188	9	170	25	358
1969	—	—	—	—	—	—
1970	1,145	18,478	104	1,815	1,249	20,293
1971	11,760	202,228	6,666	133,295	18,426	335,523
1972	5,848	149,229	3,288	59,070	9,136	208,299
1973	878	70,773	—	—	878	70,773
1974	34	4,292	—	—	34	4,292

*Also the Corporation's fiscal year.

TABLE 4
FNMA Mortgage Activity All Programs by Fiscal Year[1]
Prior to September 1, 1968
(Dollars in thousands)

Fiscal year	Purchases	Sales	Repayments	Other credits	Year end portfolio: Number of mortgages	Year end portfolio: Amount
Total	$21,056,752	$5,129,727	$3,770,983	$1,302,504	906,627	$10,853,538
1938	37,952	—	69	—	9,765	37,883
1939	92,006	345	4,318	—	31,119	125,226
1940	49,293	7	10,474	1,005	41,876	163,033
1941	45,935	8	13,719	1,128	52,026	194,113
1942	38,813	—	16,891	520	58,820	215,515
1943	7,081	126,691	23,473	212	18,603	72,217
1944	338	(11)	13,011	17	15,995	59,538
1945	113	38,116	11,201	3	2,895	10,031
1946	23	213	3,169	—	2,246	6,372
1947	63	11	1,157	5	1,835	4,962
1948	47,390	—	1,262	—	8,283	51,090
1949	423,516	—	10,027	114	70,512	164,195
1950	946,397	311,292	35,778	8,190	156,083	1,055,632
1951	855,692	272,105	48,991	11,016	223,561	1,578,879
1952	601,973	39,866	67,121	8,518	291,066	2,068,017
1953	585,709	60,000	86,511	9,516	346,851	2,497,699
1954	180,783	575,067	92,021	10,255	318,530	2,301,139
1955 (a)	651,165	201,097	120,622	25,102	351,339	2,608,183
1956	315,017	7,115	123,210	19,085	365,511	2,743,520
1957	1,078,121	1,809	132,567	10,730	418,007	3,643,535
1958	726,159	397,975	157,128	21,112	460,703	3,790,719
1959	1,376,272	87,991	211,222	35,122	527,015	4,829,683
1960 (b)	1,778,352	316,819	223,510	50,651	581,221	6,017,025
1961	786,192	556,621	228,658	80,085	575,873	5,938,153
1962 (c)	1,056,710	396,811	267,053	135,123	581,590	6,195,513
1963 (d)	386,288	1,103,625	291,902	162,150	191,809	5,020,854
1964 (d)	315,653	260,152	296,306	135,908	166,673	4,643,811
1965 (d)	509,150	347,911	290,101	125,338	153,131	4,389,908
1966 (d)	2,176,060	10,192	293,999	103,536	582,597	6,157,911
1967 (d)	1,836,769	9,108	266,125	127,690	691,378	7,591,187
1968 (d)	3,165,952	3,698	356,253	135,815	887,931	10,561,373
1969 (2 mos.) (d)	378,855	221	65,898	20,568	906,627	10,853,538

[1] For years ending June 30, and prior to separation of original FNMA into the present FNMA and GNMA.

(a) Includes the transfer of 15,023 FHA-insured and VA-guaranteed mortgages totaling $61,998,000, 12 direct RFC Mortgage Company loans totaling $2,154,000, and 4 Defense Homes Corporation loans amounting to $41,519,000 from RFC to FNMA on July 1, 1954 pursuant to Reorganization Plan Number 2 of 1954—Management and Liquidating Functions.
(b) Includes the acquisition of 13,840 HHFA mortgages and notes totaling $158,324,000 serviced by the Public Housing Administration pursuant to P. L. 86–372, approved September 23, 1959—Management and Liquidating Functions.
(c) Includes 105 FHA-insured and VA-guaranteed HHFA mortgages totaling $536,000 and 37 conventional mortgages totaling $115,000 serviced by the Community Facilities Administration under P. L. 86–372—Management and Liquidating Functions.
(d) Includes FHA-owned mortgages acquired in exchange for FNMA-held FHA debentures or for cash, as follows:

	Number	Amount
		(000)
1963	12,551	$ 121,626
1964	21,232	182,966
1965	16,682	156,316
1966	15,583	162,157
1967	18,757	346,011
1968	11,667	512,818
1969–2 months	6,607	75,219
Total	166,082	1,757,173

TABLE 5
FNMA Purchases of FHA and VA Mortgages All Programs by Fiscal Year[1] Prior to September 1, 1968 (Dollars in thousands)

Fiscal year	FHA-insured mortgages [a]		VA-guaranteed mortgages		Total purchases	
	Number of mortgages	Amount	Number of mortgages	Amount	Number of mortgages	Amount
Total	1,049,815	$13,299,713	752,352	$7,551,107	1,802,167	$20,851,150
1938	9,869	37,952	—	—	9,869	37,952
1939	21,998	92,006	—	—	21,998	92,006
1940	11,909	19,293	—	—	11,909	49,293
1941	12,101	15,935	—	—	12,101	15,935
1942	9,323	38,813	—	—	9,323	38,813
1943	1,637	7,081	—	—	1,637	7,081
1944	84	338	—	—	81	338
1945	27	113	—	—	27	113
1946	6	23	—	—	6	23
1947	9	63	—	—	9	63
1948	6,731	17,390	—	—	6,734	17,390
1949	10,108	297,190	22,551	126,056	62,962	123,516
1950	17,692	130,891	115,310	815,506	133,032	916,397
1951	3,130	30,852	106,613	821,810	109,773	855,692
1952	11,573	111,139	62,113	193,531	76,716	601,973
1953	30,972	295,546	31,970	290,163	65,912	585,709
1954	29,858	368,593	12,817	112,190	12,675	180,783
1955	20,655	261,126	16,657	316,366	67,312	610,192
1956	7,397	125,117	18,651	189,600	26,018	315,017
1957	23,137	255,615	70,312	822,176	93,179	1,078,121
1958	28,830	380,639	27,298	315,820	56,128	726,159
1959	16,771	812,306	46,268	563,966	93,039	1,376,272
1960	82,136	1,151,599	36,611	165,129	118,780	1,620,028
1961	16,022	639,998	10,987	146,286	57,009	786,281
1962	55,098	817,117	18,139	239,091	73,237	1,056,508
1963	25,791	310,926	3,173	15,327	29,267	386,253
1964	27,032	303,587	959	12,016	27,991	315,603
1965	37,857	162,167	3,660	16,871	11,517	509,311
1966	138,170	1,817,067	23,396	328,993	161,566	2,176,060
1967	112,295	1,508,525	23,971	328,211	136,269	1,836,769
1968	169,518	2,511,732	61,127	921,219	230,915	3,165,951
1969 2 mos.	18,770	288,111	6,010	90,111	21,780	378,855

[1] For years ending June 30, and prior to separation of original FNMA into the present FNMA and GNMA.

[a] Includes (1) the transfer of 15,023 FHA-insured and VA-guaranteed mortgages totaling $61,998,000 to FNMA from RFC on July 1, 1954, pursuant to Reorganization Plan Number 2, of 1954; (2) the transfer to FNMA of 105 HHFA-owned FHA-insured and VA-guaranteed mortgages in the amount of $536,000 serviced by the Community Facilities Administration during fiscal year 1962 under P. L. 86-372, approved September 23, 1959, and (3) 166,082 FHA-owned mortgages totaling $1,757,173,000 acquired during fiscal years 1963-1969 exchange for FNMA-held FHA debentures or for cash.

TABLE 6
FNMA Sales of FHA and VA Mortgages All Programs by Fiscal Year[1] Prior to September 1, 1968
(Dollars in thousands)

Fiscal year	FHA-insured mortgages		VA-guaranteed mortgages		Total sales	
	Number of mortgages	Amount	Number of mortgages	Amount	Number of mortgages	Amount
Total	229,890	$2,374,988	321,941	$2,724,717	551,831	$5,099,705
1938	—	—	—	—	—	—
1939	72	315	—	—	72	315
1940	2	7	—	—	2	7
1941	2	8	—	—	2	8
1942	—	—	—	—	—	—
1943	37,820	126,691	—	—	37,820	126,691
1944	(7)	(11)	—	—	(7)	(11)
1945	11,113	38,116	—	—	11,113	38,116
1946	2	213	—	—	2	213
1947	1	11	—	—	1	11
1948	—	—	—	—	—	—
1949	—	—	—	—	—	—
1950	26,800	206,040	18,083	105,252	44,883	311,292
1951	13,441	93,892	27,119	178,513	40,560	272,405
1952	3,678	23,918	2,811	15,948	6,489	39,866
1953	2,757	35,743	3,523	24,257	6,280	60,000
1954	7,588	119,528	59,281	455,539	66,869	575,067
1955	3,333	46,972	21,005	154,125	24,338	201,097
1956	305	1,927	814	5,188	1,119	7,115
1957	257	1,990	234	2,817	491	4,807
1958	10,256	115,652	23,452	282,323	33,708	397,975
1959	3,101	42,430	4,197	45,561	7,298	87,991
1960	195	2,450	57,818	314,399	58,013	316,849
1961	28,523	350,190	17,583	206,318	46,106	556,508
1962	21,481	233,417	13,418	163,399	34,899	396,816
1963	12,545	539,044	17,932	557,099	90,477	1,096,143
1964	10,103	114,755	9,895	98,924	19,998	213,679
1965	5,566	239,398	16,586	102,889	22,152	342,287
1966	344	2,693	922	7,799	1,266	10,492
1967	421	6,088	219	3,320	640	9,408
1968	157	2,954	49	744	206	3,698
1969 2 mos.	1	221	0	0	1	221

[1] For years ending June 30, and prior to separation of original FNMA into the present FNMA and GNMA.

TABLE 7
Private Financing of FNMA Secondary Market Activity Debentures

Description of SM debentures issued	Amount of issue (millions)	Issue date	Term of issue	Maturity date	Interest rate %
		1956			
1. SM-1956-A	$100*	Feb. 20	9 mos.	Nov. 20, 1956	3.125
2. SM-1957-A	100*	Aug. 20	9 mos.	May 20, 1957	3.35
3. SM-1957-B	100*	Nov. 20	9 mos.	Aug. 20, 1957	3.90
		1957			
4. SM-1957-C	200*	Jan. 21	8 mos.	Sep. 20, 1957	4.125
5. SM-1958-A	250*	Mar. 11	11 mos.	Feb. 10, 1958	4.00
6. SM-1958-B	200*	Apr. 10	11 mos.	Mar. 10, 1958	4.10
7. SM-1958-C	200*	May 20	11 mos.	Apr. 10, 1958	4.05
8. SM-1958-D	100*	June 21	11 mos.	May 8, 1958	4.25
9. SM-1958-E	165*	Aug. 20	11 mos.	July 10, 1958	4.375
10. SM-1958-F	200*	Sep. 20	11 mos.	Aug. 11, 1958	4.70
11. SM-1958-G	100*	Dec. 10	10 mos.	Oct. 10, 1958	4.20
12. SM-1965-A	100*	Dec. 10	7 yrs. 6 mos.	June 10, 1965	4.375
		1958			
13. SM-1959-A	150*	Feb. 10	1 year	Feb. 10, 1959	3.00
14. SM-1962-A	200*	Feb. 10	4 years	Feb. 13, 1962	3.50
15. SM-1963-A	150*	Mar. 10	5 years	Mar. 11, 1963	3.25
16. SM-1968-A	100*	Mar. 10	10 years	Mar. 11, 1968	3.625
17. SM-1959-B	100*	July 10	9 mos.	Apr. 10, 1959	1.65
18. SM-1958-H	100*	Aug. 11	3 mos.	Nov. 10, 1958	1.15
19. SM-1959-C	100*	Aug. 11	10 mos.	June 10, 1959	2.00
20. SM-1959-D	100*	Oct. 10	10 mos.	Aug. 10, 1959	3.875
21. SM-1963-B	100*	Nov. 10	5 years	Nov. 12, 1963	4.125
		1959			
22. SM-1959-E	100*	Feb. 10	8 mos.	Oct. 13, 1959	3.75
23. SM-1960-A	100*	Feb. 10	1 yr. 4 mos.	June 10, 1960	4.00
24. SM-1959-F	100*	Apr. 10	8 mos.	Dec. 10, 1959	3.75
25. SM-1969-A	90*	Apr. 10	10 years	Apr. 10, 1969	4.375
26. SM-1960-B	150*	June 10	9 mos.	Mar. 10, 1960	4.50
27. SM-1959-G	150*	Aug. 10	3 mos.	Nov. 10, 1959	3.70
28. SM-1961-A	150*	Sep. 23	2 years	Sep. 11, 1961	5.125
29. SM-1960-C	100*	Oct. 13	6 mos.	Apr. 11, 1960	5.30
30. SM-1960-D	200*	Nov. 10	6 mos.	May 10, 1960	5.125
31. SM-1960-E	200*	Dec. 10	9 mos.	Sep. 12, 1960	5.35
		1960			
32. SM-1972-A	100*	Feb. 10	12 years	Feb. 10, 1972	5.125
33. SM-1962-B	150*	Mar. 10	2 yrs. 6 mos.	Sep. 10, 1962	4.875
34. SM-1961-B	100*	Mar. 10	1 year	Mar. 10, 1961	4.875
35. SM-1970-A	150*	Apr. 11	10 years	Apr. 10, 1970	4.625
36. SM-1961-C	100*	Apr. 11	1 year	Apr. 10, 1961	4.125
37. SM-1961-D	200*	May 10	1 year	May 10, 1961	4.625
38. SM-1961-E	200*	June 10	1 year	June 12, 1961	4.75
39. SM-1971-A	75*	Aug. 23	11 years	Aug. 10, 1971	4.125
40. SM-1970-B	125*	Sep. 12	10 years	Sep. 10, 1970	4.125
41. SM-1966-A	100*	Dec. 12	6 years	Dec. 12, 1966	4.125
		1961			
42. SM-1961-A	100*	May 10	3 years	May 11, 1961	3.625
43. SM-1973-A	150*	June 12	12 years	June 12, 1973	4.25
44. SM-1961-B	150*	Sep. 11	3 years	Sep. 10, 1961	4.00
45. SM-1971-B	100*	Sep. 11	10 years	Sep. 10, 1971	4.50
46. SM-1972-B	100*	Dec. 11	10 yrs. 6 mos.	June 12, 1972	4.375
47. SM-1961-C	125*	Dec. 11	3 years	Dec. 11, 1961	3.875
		1962			
48. SM-1977-A	200	Feb. 13	15 years	Feb. 10, 1977	4.50
49. SM-1966-B	150*	Sep. 10	3 yrs. 6 mos.	Mar. 10, 1966	3.75
		1965			
50. SM-1967-A	150*	Oct. 11	2 years	Oct. 11, 1967	4.50
		1966			
51. SM-1967-B	150*	Feb. 10	1 year	Feb. 10, 1967	5.0
52. SM-1967-C	250*	Mar. 10	1 yr. 2 mos.	May 10, 1967	5.30
53. SM-1967-D	100*	May 23	1 year	June 12, 1967	5.15
54. SM-1968-B	350*	Aug. 23	2 years—17 days	Sep. 10, 1968	5.875
55. SM-1969-B	550*	Dec. 12	3 years	Dec. 12, 1969	6.0

* See footnote at end of table.

Description of SM debentures issued	Amount of issue (millions)	Issue date	Term of issue	Maturity date	Interest rate %
		1967			
56. SM–1969–C	250*	Feb. 10	2 years— 5 months	July 10, 1969	5.125
57. SM–1969–D	300*	May 10	2 years	May 12, 1969	4.65
58. SM–1968–C	400*	June 12	1 year	June 11, 1968	4.75
59. SM–1970–C	100*	Oct. 11	3 years	Oct. 13, 1970	5.75
60. SM–1969–E	250*	Dec. 28	1 year— 5 months	June 10, 1969	6.10
		1968			
61. SM–1971–C	350*	Mar. 11	3 years	Mar. 11, 1971	6.00
62. SM–1970–D	100*	June 11	2 years	June 10, 1970	6.60
63. SM–1971–D	350*	Sep. 10	3 years	Sep. 10, 1971	5.75
		1969			
64. SM–1970–E	250*	Feb. 6	1 year	Feb. 10, 1970	6.60
65. SM–1972–C	250*	Mar. 10	3 years	Mar. 10, 1972	6.75
66. SM–1971–E	250*	Apr. 10	2 yrs. 2 mos.	June 10, 1971	6.85
67. SM–1971–F	350*	May 12	2 yrs. 6 mos.	Nov. 11, 1971	6.85
68. SM–1970–F	100*	June 10	1 yr. 1 mo.	July 10, 1970	7.375
69. SM–1972–D	200*	June 10	3 yrs. 3 mos.	Sept. 11, 1972	7.10
70. SM–1970–G	250*	July 10	1 yr. 5 mos.	Dec. 10, 1970	8.10
71. SM–1970–H	350*	Sep. 10	1 yr. 2 mos.	Nov. 10, 1970	8.30
72. SM–1974–A	250*	Sep. 10	5 years	Sep. 10, 1974	7.85
73. SM–1971–G	100*	Oct. 11	1 yr. 4 mos.	Feb. 10, 1971	8.75
74. SM–1972–E	200*	Oct. 11	2 yrs. 5 mos.	Mar. 10, 1972	8.70
75. SM–1971–H	100*	Nov. 10	1 yr. 6 mos.	May 10, 1971	8.20
76. SM–1972–F	200*	Nov. 10	3 yrs. 1 mo.	Dec. 11, 1972	8.00
77. SM–1971–I	100*	Dec. 12	1 yr. 7 mos.	July 12, 1971	8.60
78. SM–1973–B	250*	Dec. 12	3 yrs. 3 mos.	Mar. 12, 1973	8.30
		1970			
79. SM–1971–J	500*	Feb. 10	1 yr. 2 mos.	Apr. 12, 1971	8.75
80. SM–1972–G	300*	Feb. 10	2 yrs. 4 mos.	June 12, 1972	8.70
81. SM–1971–K	500*	Mar. 10	1 yr. 9 mos.	Dec. 10, 1971	8.125
82. SM–1973–C	300*	Mar. 10	3 yrs. 6 mos.	Sep. 10, 1973	8.10
83. SM–1971–L	200*	Apr. 10	1 yr. 3 mos.	Aug. 10, 1971	7.375
84. SM–1974–B	350	Apr. 10	3 yrs. 11 mos.	Mar. 11, 1974	7.75
85. SM–1972–H	100*	May 11	2 yrs. 4 mos.	Sep. 11, 1972	8.10
86. SM–1971–M	500*	June 10	1 yr. 4 mos.	Oct. 12, 1971	8.15
87. SM–1971–N	250*	July 10	1 yr. 1 mo.	Aug. 10, 1971	8.05
88. SM–1973–D	350*	July 10	2 yrs. 11 mos.	June 12, 1973	8.35
89. SM–1974–C	400*	Aug. 5	3 yrs. 10 mos.	June 10, 1974	7.90
90. SM–1972–I	400*	Oct. 13	2 yrs. 1 mo.	Dec. 11, 1972	7.20
91. SM–1975–A	350	Oct. 13	4 yrs. 10 mos.	Sep. 10, 1975	7.50
92. SM–1973–E	450	Nov. 10	2 yrs. 4 mos.	Mar. 12, 1973	7.30
93. SM–1975–B	300	Nov. 10	4 yrs. 4 mos.	Mar. 10, 1975	7.55
94. SM–1973–F	500	Dec. 10	3 years	Dec. 10, 1973	5.75
95. SM–1977–B	250	Dec. 10	6 yrs. 6 mos.	June 10, 1977	6.375
		1971			
96. SM–1981–A	250	Jan. 21	10 yrs. 5 mos.	June 10, 1981	7.25
97. SM–1974–D	300*	Feb. 10	3 yrs. 7 mos.	Sep. 10, 1974	5.65
98. SM–1982–A	250	Feb. 10	11 yrs. 4 mos.	June 10, 1982	6.65
99. SM–1976–A	500	Mar. 11	5 years	Mar. 10, 1976	6.65
100. SM–1983–A	200	Mar. 11	12 yrs. 3 mos.	June 10, 1983	6.75
101. SM–1975–C	500	Apr. 12	4 yrs. 2 mos.	June 10, 1975	5.25
102. SM–1984–A	200	Apr. 12	13 yrs. 2 mos.	June 11, 1984	6.25
103. SM–1974–E	250*	May 10	3 yrs. 7 mos.	Dec. 10, 1974	6.10
104. SM–1977–C	150	May 10	6 yrs. 1 mo.	June 10, 1977	6.50
105. SM–1973–G	350*	June 10	2 yrs. 3 mos.	Sep. 10, 1973	6.125
106. SM–1976–B	250	June 10	5 years	June 10, 1976	6.70
107. SM–1973–H	550*	July 12	1 yr. 11 mos.	June 12, 1973	6.75
108. SM–1976–C	300	July 12	5 yrs. 5 mos.	Dec. 10, 1976	7.45
109. SM–1973–I	500*	Aug. 10	2 yrs. 4 mos.	Dec. 10, 1973	7.15
110. SM–1974–F	450	Sep. 10	3 yrs. 3 mos.	Dec. 10, 1974	6.45
111. SM–1977–D	300	Sep. 10	6 years	Sep. 12, 1977	6.875
112. SM–1981–B	250	Sep. 10	10 years	Sep. 10, 1981	7.25
113. SM–1975–D	600	Oct. 12	3 yrs. 5 mos.	Mar. 10, 1975	6.35
114. SM–1978–A	300	Oct. 12	7 yrs. 2 mos.	Dec. 11, 1978	6.75
115. SM–1974–G	350*	Nov. 11	2 yrs. 7 mos.	June 10, 1974	5.70
116. SM–1976–D	300	Nov. 11	4 yrs. 10 mos.	Sep. 10, 1976	6.125
117. SM–1983–B	250	Nov. 11	11 yrs. 10 mos.	Sep. 12, 1983	6.75
118. SM–1974–H	400*	Dec. 10	2 yrs. 3 mos.	Mar. 11, 1974	5.45
119. SM–1979–A	350	Dec. 10	8 years	Dec. 10, 1979	6.55
120. SM–1984–B	250	Dec. 10	13 years	Dec. 10, 1984	6.90

Description of SM debentures issued	Amount of issue (millions)	Issue date	Term of issue	Maturity date	Interest rate %
		1972			
121. SM–1976–E	450	Feb. 10	4 yrs. 4 mos.	June 10, 1976	5.85
122. SM–1980–A	250	Feb. 10	8 yrs. 1 mo.	Mar. 10, 1980	6.875
123. SM–1975–E	500	Mar. 10	3 yrs. 9 mos.	Dec. 10, 1975	5.70
124. SM–1992–A	200	Mar. 10	20 years	Mar. 10, 1992	7.00
125. SM–1976–F	500	June 12	4 yrs. 3 mos.	Sep. 10, 1976	5.85
126. SM–1979–B	300	June 12	7 yrs. 3 mos.	Sep. 10, 1979	6.40
127. SM–1992–B	200	June 12	20 years	June 10, 1992	7.05
128. SM–1977–E	500	Sep. 11	4 yrs. 6 mos.	Mar. 10, 1977	6.30
129. SM–1982–B	200	Sep. 11	10 years	Sep. 10, 1982	6.80
130. SM–1976–G	500	Dec. 11	4 years	Dec. 10, 1976	6.25
131. SM–1980–B	300	Dec. 11	8 years	Dec. 10, 1980	6.60
132. SM–1997–A	200	Dec. 11	25 years	Dec. 10, 1997	7.10
		1973			
133. SM–1975–F	650	Mar. 12	2 yrs. 6 mos.	Sept. 10, 1975	6.80
134. SM–1981–C	350	Mar. 12	8 years	Mar. 10, 1981	7.05
135. SM–1976–H	400	June 12	2 yrs. 9 mos.	Mar. 10, 1976	7.125
136. SM–1978–B	600	June 12	5 years	June 12, 1978	7.15
137. SM–1983–C	300	June 12	10 years	June 10, 1983	7.30
138. SM–1977–F	500	July 10	4 yrs. 5 mos.	Dec. 12, 1977	7.25
139. SM–1975–G	300	Sept. 10	2 yrs. 3 mos.	Dec. 10, 1975	8.25
140. SM–1977–G	400	Sept. 10	4 years	Dec. 12, 1977	7.85
141. SM–1979–C	300	Sept. 10	5 yrs. 9 mos.	June 11, 1979	7.85
142. SM–1977–H	500	Oct. 1	4 yrs. 2 mos.	Dec. 12, 1977	7.55
143. SM–1980–C	400	Oct. 1	6 yrs. 11 mos.	Sept. 10, 1980	7.50
144. SM–1977–I	500	Dec. 12	3 yrs. 6 mos.	June 10, 1977	7.20
145. SM–1979–D	500	Dec. 10	5 yrs. 3 mos.	Mar. 12, 1979	7.25
146. SM–1982–C	300	Dec. 10	9 years	Dec. 10, 1982	7.35
		1974			
147. SM–1977–J	400	Mar. 11	3 years	Mar. 10, 1977	7.05
148. SM–1978–C	550	Mar. 11	4 yrs. 6 mos.	Sept. 11, 1978	7.15
149. SM–1981–D	250	Mar. 11	7 yrs. 9 mos.	Dec. 10, 1981	7.30
150. SM–1976–I	600	June 10	2 yrs. 6 mos.	Dec. 10, 1976	8.45
151. SM–1978–D	650	June 10	3 yrs. 9 mos.	Mar. 10, 1978	8.45
152. SM–1980–D	600	June 10	6 years	June 10, 1980	8.50
153. SM–1978–E	450	July 10	4 yrs. 5 mos.	Dec. 11, 1978	8.95
154. SM–1982–D	300	July 10	7 yrs. 8 mos.	Mar. 10, 1982	8.87
155. SM–1976–J	700	Sept. 10	1 yr. 9 mos.	June 10, 1976	10.00
156. SM–1979–E	600	Sept. 10	4 yrs. 9 mos.	June 11, 1979	9.80
157. SM–1981–E	300	Sept. 10	7 years	Sept. 10, 1981	9.70
158. SM–1976–K	200	Dec. 10	1 yr. 9 mos.	Sept. 10, 1976	7.50
159. SM–1979–F	700	Dec. 10	4 yrs. 9 mos.	Sept. 10, 1979	7.80
160. SM–1984–C	300	Dec. 10	9 yrs. 9 mos.	Sept. 10, 1984	7.95

* Denotes SM debentures that have been redeemed.

Summary—Debentures

Total SM Debentures issued through December 31, 1974	$46,930,000,000
Total SM Debentures redeemed at maturity and by open market purchases	$23,932,000,000
Balance SM debentures outstanding at December 31, 1974	$22,998,000,000

Direct Placements — Debentures*

Amount of Issue (millions)	Issue date	Terms of issue	Maturity date	Interest rate %
$ 58	June 18, 1972	9 yrs. 10 mos.	May 1, 1982	5.84
156	June 29, 1972	8 yrs. 7 mos.	Jan. 29, 1981	6.15
5	Jan. 16, 1973	7 yrs. 9 mos.	Oct. 30, 1980	4.46**
9	Feb. 16, 1973	7 yrs. 5 mos.	July 31, 1980	3.18**
1	Feb. 16, 1973	7 yrs. 5 mos.	July 31, 1980	5.19
18	Mar. 21, 1973	8 yrs. 1 mo.	May 31, 1981	4.50**
2	Mar. 21, 1973	8 yrs. 1 mo.	May 1, 1981	5.77
26	Apr. 18, 1973	8 yrs. 1 mo.	Apr. 18, 1981	6.59

*See mortgage-backed bonds for other direct placements.
**Sold at discounts

Subordinated Capital Debentures

Amount of Issue (millions)	Issue date	Terms of issue	Maturity date	Interest rate %
$ 250	Sept. 30, 1968	5 years	Oct. 1, 1973	6.00
200	Apr. 1, 1970	5 years	Apr. 1, 1975	8.00
250*	Sept. 30, 1971	25 years	Oct. 1, 1997	4.375
250	Oct. 1, 1972	25 years	Oct. 1, 1997	7.40
300	Apr. 1, 1975	5 years	Apr. 10, 1980	7.625

*Convertible into common stock.

Short-term Discount Notes

Total short-term discount notes issued through December 31, 1974	$52,126,900,000
Total short-term discount notes redeemed	$48,657,270,000
Balance short-term discount notes outstanding at December 31, 1974	$ 3,469,020,000

Mortgage Backed Bonds

Amount of Issue (millions)	Issue date	Terms of issue	Maturity date	Interest rate %
$ 150	June 1, 1970	1 year	June 1, 1971	8.125
250	June 1, 1970	5 years	June 1, 1975	8.375
400	Sept. 9, 1970	2 yrs. 1 mo.	Oct. 2, 1972	7.50
21	Mar. 1, 1973**	12 yrs. 8 mos.	Oct. 31, 1985	5.49
10	Mar. 1, 1973**	11 yrs. 6 mos.	Aug. 31, 1984	5.50
81	Mar. 1, 1973**	13 years	Mar. 1, 1986	5.74
53	Mar. 14, 1973**	7 yrs. 10 mos.	Jan. 15, 1981	3.57*
6	Mar. 14, 1973**	7 yrs. 10 mos.	Jan. 15, 1981	5.47
35	June 21, 1973**	9 years	July 1, 1982	5.91
71	June 21, 1973**	9 years	July 1, 1982	5.85

*Sold at discount.
**Direct placements.

Table 8
Residential Mortgage Gross Investment
(Billions of Dollars)

Year	Total	Savings and Loan Associations	Mutual Savings Banks	Commercial Banks	Life Insurance Companies	FNMA Secondary Market Operations	Other
1955	26.0	11.1	4.1	4.1	4.7	0	2.0
1956	25.0	10.1	4.0	3.7	4.7	.6	1.9
1957	23.8	10.0	3.1	2.9	3.2	1.0	3.6
1958	28.2	12.0	3.9	4.2	3.3	—.2	5.0
1959	32.9	14.8	3.9	4.7	3.8	.7	5.0
1960	29.0	15.0	4.0	2.3	3.9	1.0	2.8
1961	33.1	16.7	4.4	3.0	4.1	.1	4.8
1962	37.3	19.6	5.5	4.7	4.3	.2	3.0
1963	42.0	23.5	6.7	6.3	5.3	—.6	.8
1964	48.3	23.9	7.4	6.5	5.9	.1	4.5
1965	49.6	23.2	7.5	8.9	6.4	.7	2.9
1966	40.7	16.3	6.0	8.0	5.2	2.1	3.1
1967	45.4	20.5	5.9	10.4	4.1	1.4	3.1
1968	47.9	22.4	5.6	10.6	3.6	1.9	3.8
1969	49.9	18.4	4.6	9.4	2.9	4.1	9.5
1970	48.9	19.5	4.8	7.4	3.0	5.1	9.1
1971	70.5	35.6	6.8	12.5	2.3	3.2	10.1
1972	93.1	48.8	9.7	17.9	2.5	3.7	10.5
1973	96.9	45.8	9.9	18.3	3.0	6.1	13.8
1974	80.1	36.1	6.3	15.1	2.7	6.9	13.0

Table 9
Residential Mortgage Net New Investment
(Billions of Dollars)

Year	Total	Savings and Loan Associations	Mutual Savings Banks	Commercial Banks	Life Insurance Companies	FNMA	Other
1956	11.4	4.2	2.1	1.2	2.6	.6	.9
1957	9.0	4.1	1.3	.1	.8	.9	1.8
1958	11.6	5.2	1.9	1.4	.9	—.3	2.5
1959	15.1	7.1	1.6	1.8	1.4	—.7	2.5
1960	12.0	6.4	1.8	.1	1.4	.9	1.4
1961	14.4	7.9	2.0	.9	1.2	.1	2.4
1962	16.3	8.6	2.8	2.2	1.2	—.7	1.5
1963	18.9	10.8	4.7	2.9	1.5	.1	—.2
1964	20.0	9.4	2.7	2.4	3.1	.8	2.5
1965	18.9	8.0	3.6	3.4	2.7	.5	.7
1966	13.8	3.7	2.2	2.5	2.1	1.9	1.4
1967	16.1	6.8	2.4	2.7	1.0	1.7	2.1
1968	18.5	8.0	2.0	3.7	.3	1.7	2.8
1969	20.4	8.4	1.9	3.5	.3	3.8	2.0
1970	19.3	9.1	1.3	1.0	.7	4.5	4.6
1971	36.4	20.9	3.1	6.4	—1.4	2.0	5.0
1972	51.3	28.1	4.2	10.8	—1.7	2.1	7.9
1973	50.2	22.9	3.8	12.1	.7	4.3	6.4
1974	37.4	15.4	1.3	6.2	2.0	5.4	7.1

TABLE 10
Private Financing of Association Management and Liquidating Functions
(Now GNMA)

Description of ML notes issued	Amount of issue (millions)	Issue date	Term of issue	Maturity date	Interest rate %
		1955			
1. ML–1958–A	$570*	Jan. 20	3 years	Jan. 20, 1958	2.50
		1957			
2. ML–1958–B	802*	Oct. 29	8 months	June 26, 1958	1.875
		1958			
3. ML–1960–A	797*	Jan. 20	2 years—7 months	Aug. 23, 1960	3.625

* Indicates note issues that have been redeemed.

Summary ML Notes

Total ML notes issued through December 31, 1968	$2,169,779,000
Total ML notes redeemed	2,169,779,000
Total ML notes outstanding at December 31, 1968	— 0 —

Pre-1954 Private FNMA Financing

Description of notes	Amount of issue (thousands)	Issue date	Term of issue	Maturity date	Interest rate %
1. Series A	$29,748*	May 16, 1938	5 years	May 16, 1943	2.0
2. Series B	55,492*	Jan. 3, 1939	5 years	Jan. 3, 1944	1.625

* Indicates note issues that have been redeemed.

Summary

Total Pre-1954 notes issued	$85,240,000
Total Pre-1954 notes redeemed	85,240,000
Total outstanding	— 0 —

TABLE 11

Participation Sales by Association Trusts
(Now GNMA)

	Issues (millions)	Total pool
Government Mortgage Liquidation Trust:		
Government National Mortgage Association	$ 745	$ 1,076,045,168
Veterans Administration	1,045	1,349,774,555
Total GMLT	1,790	2,425,819,723
Small Business Obligations Trust:		
Small Business Administration	350	531,656,118
Federal Assets Liquidation Trust:		
Small Business Administration	850	868,726,428
Government National Mortgage Association	710	768,980,523
College Housing—HUD	600	616,887,000
Public Facilities—HUD	80	83,630,600
Office of Education—HEW	100	103,062,000
Veterans Administration	260	272,776,723
Farmers Home Administration—Dept. of Agric.	600	630,556,374
Total FALT	3,230	3,314,619,618
Federal Assets Financing Trust:		
Government National Mortgage Association	605	607,111,238
College Housing—HUD	1,600	1,608,426,000
Public Facilities—HUD	80	80,489,800
Housing for the Elderly—HUD	100	100,994,801
Office of Education—HEW	100	100,011,000
Public Health Service—HEW	15	15,000,000
Veterans Administration	850	870,792,322
Small Business Administration	150	150,504,705
Farmers Home Administration—Dept. of Agric.	750	759,779,282
Total FAFT	4,250	4,293,109,151
Combined total	9,620	10,595,204,670

Participation Sales by Association Trusts (Now GNMA) continued

Issue date	Maturity dates	Annual interest rates %	Maturities No. (millions)	Maturities Amt. (millions)	Total issued (millions)
Government Mortgage Liquidation Trust:					
11/2/64	Nov. 1, 1965–1974	4.125–4.375	10	$ 30	$ 300
7/1/65	July 1, 1966–1980	4.375–4.50	15	35	525
12/1/65	Dec. 1, 1966–1980	4.625–4.70	15	25	375
4/4/66	Apr. 1, 1967–1976	5.40 –5.50	10	20	200
4/4/66	Apr. 1, 1977–1981	5.25 –5.45	5	42	210
6/23/66	June 23, 1979–1981	5.375–5.40	3	60	180
Total GMLT					1,790
Small Business Obligations Trust:					
6/23/66	June 23, 1967–1971	5.70 –5.75	5	70	350
Federal Assets Liquidation Trust:					
1/19/67	Jan. 19, 1972	5.20	1	275	
	Jan. 19, 1977	5.20	1	275	
	Jan. 19, 1982	5.20	1	550	1,100
1/5/67	Apr. 7, 1969	4.75	1	450	
	Jan. 19, 1972	5.00	1	250	
	Apr. 6, 1987	5.10	1	200	900
6/29/67	Sep. 29, 1969	5.25	1	450	
	June 29, 1972	5.50	1	450	9 00
1/8/68 *	June 29, 1973	6.15	1	330	330
Total FALT					3,230
Federal Assets Financing Trust:					
12/11/67 *	Feb. 11, 1970	6.35	1	650	
	Dec. 11, 1987	6.40	1	350	1,000
1/30/68 *	Feb. 1, 1971	6.00	1	800	
	Feb. 1, 1988	6.05	1	450	1,250
1/8/68 *	Apr. 8, 1971	6.30	1	335	
	Apr. 8, 1988	6.45	1	335	670
8/12/68	Aug. 11, 1978	6.125	1	500	
	Aug. 12, 1988	6.20	1	830	1,330
Total FAFT					4,250
Combined total					9,620

* Under debt limit: 6/30/68: 3,250
70: 2,600
71: 1,465
73: 1,135
88: 785
89: 0

Maturities
65 - 30
66 - 90
67 - 180
68 - 180
69 - 1,080
70 - 830
71 - 1,315
72 - 1,085
73 - 440
74 - 110
75 - 80
76 - 80
77 - 277
78 - 102
79 - 162
80 - 162
81 - 102
82 - 550
83 - 0
84 - 0
85 - 0
86 - 0
87 - 550
88 - 1,615

Regional Offices of Federal National Mortgage Association

Region	*Areas Serviced*
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