

LES AUCOIN
1ST DISTRICT, OREGON



CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

April 4, 1979

Dear Colleague:

On March 22, John LaFalce and I introduced the Housing Opportunity Act of 1979. This bill will open the door to home ownership for an estimated 8.5 million families without any impact on the federal budget.

As members of the Banking Subcommittee on Housing and Community Development, we are familiar with the impact on first time home buyers of rising home prices. One way to increase affordability is to better fit financing costs to income flows through alternative mortgage instruments. These alternative instruments do nothing to halt inflation in housing prices but they do provide an important means for home owners to cope with inflation.

HUD currently offers a program through FHA which insures Graduated Payment Mortgages (GPM)--a type of alternative mortgage instrument. The problem with this GPM program is that the downpayment is nearly double the downpayment required for standard FHA insurance. And the monthly payments increase at a fairly steep rate in the early years of the mortgage.

Our legislation would amend the GPM program by reducing the downpayment requirement and extending the graduated payments over a longer period.

For example, under the current GPM program, the down payment on a \$55,000 home is \$4,200. Under the Housing Opportunity Act, the down payment required is only \$2,250.

With regard to monthly payments, the current FHA Graduated Payment Mortgage program typically provides for a 7.5% annual increase in payments for five years, with level payments during the balance of the mortgage. The Housing Opportunity Act would allow 6% annual increases in payments over 10 years.

These two steps--lower down payment requirements and more gradual payment increases--will help make home ownership a reality for thousands of families--at a time when thousands are being priced out of the market. The attached fact sheet provides additional details on the program.

We hope you will join us in supporting this important new legislation. If you would like to co-sponsor, or have additional questions, call Suzanne or David at x50855.

Sincerely,

A handwritten signature in dark ink that reads "Les AuCoin". The signature is fluid and cursive, with a long horizontal stroke at the end.

LES AUCOIN
Member of Congress

LA/dk

EXAMPLES

FACT SHEET ON THE HOUSING OPPORTUNITY ACT OF 1979

OBJECTIVE

The purpose of the Act is to bring homeownership within the reach of millions of middle income families presently priced out of the market, but doing so without requiring any federal expenditures.

Increasing numbers of American families are being priced out of the homeownership market by the rapidly escalating costs of housing. The median sales price of a newly constructed single-family home in October, 1978 was \$58,400, an increase of \$5,300 from six months earlier. Using FHA qualification standards, a first time home buyer would need an income of almost \$27,000 in order to purchase this home. The purpose of the Homeownership Opportunity Act is to bring homeownership within the reach of families with incomes of \$15,000* to \$24,000

NATURE OF THE PROGRAM

The program offers a 10 year graduated payment mortgage, with initial monthly mortgage payments low enough to qualify families with incomes between \$15,000 and \$24,000. As presently structured, families would have the option of keeping the initial low monthly mortgage payment for two years or five years. They would also have

the option of having their payments increase at a rate of 4% per year or 6% per year. This will assure that any family, regardless of its income expectations, would be able to qualify for the program and meet future mortgage payments.

The attached tables show how the monthly mortgage payment for a \$55,000 home would be reduced from \$450 to as low as \$333 per month. This would mean up to 8 million additional families would be qualified to purchase a \$55,000 home.

On the first table, the monthly mortgage payment is held constant for the first two years of home ownership, and the payments then increase at the rate of 6% per year for 10 years. The other three tables show the change in monthly payments if the family elects to have the initial monthly payment held constant for five years and/or to have monthly mortgage payments increase at the rate of 4% per year for 10 years.

The fifth table shows the comparable monthly mortgage payments and downpayment under the most popular option (7 1/2 percent increase in payments, 5 years of graduated payments) of HUD's current Section 245 GPM program.

The tables demonstrate that despite the negative amortization in the early years of the mortgage, an appreciation rate of only 4% in the value of the house will result in positive equity buildup and a decreasing loan to value ratio.

*For a \$40,000 mortgage, the income needed to qualify would be about \$15,000 a year.

\$55,000 SALES PRICE—HOA GRADUATED PAYMENT MORTGAGE PLAN WITH 10 YR OF PAYMENTS INCREASING 6 PERCENT PER YEAR; CONTRACT RATE 9.5 PERCENT
[30-yr term; 2 yr of level payments; mortgage amount \$52,750; downpayment \$2,250; income to qualify, \$18,000]

Year	Monthly payment	Annual mortgage insurance premium	Amount of principal paid in year	Loan balance at end of year	Estimated value of home ¹	Loan to value ratio	Owner's net equity	Year	Monthly payment	Annual mortgage insurance premium	Amount of principal paid in year	Loan balance at end of year	Estimated value of home ¹	Loan to value ratio	Owner's net equity
1	\$316.57	\$266.60	-\$1,266.59	\$54,016.59	\$57,200	94.4	\$3,183.41	9	476.01	303.60	-56.33	60,750.87	78,282	77.6	17,531.13
2	316.57	273.22	-1,392.30	55,408.89	59,488	93.1	4,079.11	10	504.57	303.09	296.13	60,454.74	81,413	74.3	20,958.26
3	335.57	279.96	-1,292.37	56,701.26	61,868	91.6	5,166.74	11	534.84	300.69	705.05	59,749.69	84,670	70.6	24,920.31
4	355.70	286.14	-1,168.22	57,869.48	64,342	89.9	6,472.52	12	566.93	296.10	1,177.33	58,572.36	88,056	66.5	29,483.64
5	377.04	291.64	-1,017.00	58,886.09	66,916	88.0	8,029.91	13	566.93	289.95	1,294.15	57,278.21	91,579	62.5	34,300.79
6	399.66	296.30	-833.90	59,719.99	69,593	85.8	9,873.01	14	566.93	283.19	1,422.62	55,855.99	95,242	58.6	39,396.41
7	423.64	299.98	-616.03	60,336.02	72,376	83.4	12,039.98	15	566.93	275.76	1,563.81	54,291.78	99,051	54.8	44,759.22
8	449.06	302.49	-358.52	60,694.54	75,271	80.6	14,526.46								

¹ Based on a 4-percent appreciation value per year.

Source: NAHB Economics Division.

\$55,000 SALES PRICE—HOA GRADUATED PAYMENT MORTGAGE PLAN WITH 10 YR OF PAYMENTS INCREASING 6 PERCENT PER YEAR; CONTRACT RATE 9.5 PERCENT
[30-yr term; 5 yr of level payments; mortgage amount \$52,750; downpayment \$2,250; income to qualify, \$19,300]

Year	Monthly payment	Annual mortgage insurance premium	Amount of principal paid in year	Loan balance at end of year	Estimated value of home ¹	Loan to value ratio	Owner's net equity	Year	Monthly payment	Annual mortgage insurance premium	Amount of principal paid in year	Loan balance at end of year	Estimated value of home ¹	Loan to value ratio	Owner's net equity
1	\$343.88	\$255.83	-\$924.23	\$53,674.23	\$57,200	93.8	\$3,525.77	9	434.14	309.35	-667.91	62,236.65	78,282	79.5	16,045.35
2	343.88	270.66	-1,015.95	54,690.18	59,488	91.9	4,797.82	10	460.19	312.10	-407.62	62,644.27	81,413	76.9	18,768.73
3	343.88	275.97	-1,116.97	55,806.97	61,868	90.2	6,061.03	11	487.80	313.45	-101.93	62,746.20	84,670	74.1	21,923.80
4	343.88	281.80	-1,227.63	57,034.60	64,342	88.6	7,307.40	12	517.07	313.16	254.86	62,491.34	88,056	71.0	25,564.66
5	343.88	288.21	-1,349.45	58,384.05	66,916	87.2	8,531.95	13	548.09	310.95	669.10	61,822.24	91,579	67.5	29,756.76
6	364.51	294.68	-1,074.73	59,608.78	69,593	85.7	9,984.22	14	580.98	306.53	1,147.80	60,674.44	95,242	63.7	34,567.67
7	386.39	300.46	-822.47	60,680.87	72,376	83.8	11,695.13	15	615.84	299.55	1,698.69	58,976.75	99,051	59.5	40,075.25
8	409.57	305.40	-887.87	61,568.74	75,271	81.8	13,702.16								

¹ Based on a 4-percent appreciation value per year.

Source: NAHB Economics Division.

\$55,000 SALES PRICE—HOA GRADUATED PAYMENT MORTGAGE PLAN WITH 10 YR OF PAYMENTS INCREASING AT 4 PERCENT PER YEAR; CONTRACT RATE 9.5 PERCENT
[30-yr term; 2 yr level payments; mortgage amount \$52,750; downpayment \$2,250; income to qualify, \$19,800]

Year	Monthly payment	Annual mortgage insurance premium	Amount of principal paid in year	Loan balance at end of year	Estimated value of home ¹	Loan to value ratio	Owner's net equity	Year	Monthly payment	Annual mortgage insurance premium	Amount of principal paid in year	Loan balance at end of year	Estimated value of home ¹	Loan to value ratio	Owner's net equity
1	\$355.51	\$265.50	-\$778.47	\$53,528.47	\$57,200	93.5	\$3,671.53	9	467.82	284.08	216.39	56,696.93	78,282	72.4	21,585.07
2	355.51	269.57	-855.73	54,384.20	59,488	91.4	5,103.80	10	486.54	282.42	472.44	56,224.49	81,413	70.7	23,817.81
3	369.73	272.64	-762.39	55,146.59	61,868	89.1	6,721.41	11	505.99	279.40	763.33	55,461.16	84,670	65.1	25,188.51
4	384.52	277.20	-652.66	55,799.25	64,342	86.7	8,542.75	12	526.24	274.84	1,092.81	54,368.35	88,056	61.7	27,088.84
5	399.90	280.18	-524.63	56,323.88	66,916	84.1	10,582.12	13	526.24	269.14	1,201.27	53,167.08	91,579	58.1	30,687.65
6	415.89	282.47	-376.14	56,700.02	69,593	85.8	12,892.98	14	526.24	262.86	1,320.51	51,846.57	95,242	54.4	34,411.92
7	432.53	283.96	-204.93	56,904.95	72,376	78.6	15,471.05	15	526.24	255.96	1,451.55	50,395.02	99,051	50.9	43,395.43
8	449.83	284.54	-8.37	56,913.32	75,271	75.6	18,357.68								

¹ Based on a 4-percent appreciation value per year.

Source: NAHB Economics Division.

\$55,000 SALES PRICE—HOA GRADUATED PAYMENT MORTGAGE PLAN WITH 10 YR OF PAYMENTS INCREASING AT 4 PERCENT PER YEAR; CONTRACT RATE 9.5 PERCENT
[30-yr term; 5 yr of level payments; mortgage amount \$52,750; downpayment \$2,250; income to qualify, \$20,800]

Year	Monthly payment	Annual mortgage insurance premium	Amount of principal paid in year	Loan balance at end of year	Estimated value of home ¹	Loan to value ratio	Owner's net equity	Year	Monthly payment	Annual mortgage insurance premium	Amount of principal paid in year	Loan balance at end of year	Estimated value of home ¹	Loan to value ratio	Owner's net equity
1	\$376.19	\$264.92	-\$519.24	\$53,269.24	\$57,200	93.1	\$3,935.76	9	440.08	287.57	-182.88	57,614.85	78,282	73.6	20,667.15
2	376.19	267.63	-570.77	53,840.01	59,488	90.5	5,647.76	10	457.69	288.03	19.66	57,595.19	81,413	70.7	23,817.81
3	376.19	270.61	-627.43	54,467.44	61,868	88.0	7,400.56	11	475.99	287.41	251.14	57,344.05	84,670	67.7	27,325.95
4	376.19	273.89	-689.71	55,157.15	64,342	85.7	9,184.85	12	495.03	285.56	514.78	56,829.27	88,056	64.5	31,226.73
5	376.19	277.49	-758.15	55,915.30	66,916	83.6	11,000.70	13	514.84	282.31	814.10	56,015.17	91,579	61.2	35,563.83
6	391.23	281.03	-644.73	56,560.03	69,593	81.3	13,032.97	14	535.43	277.48	1,153.06	54,862.11	95,242	57.6	40,379.89
7	406.88	283.95	-512.57	57,072.50	72,376	78.9	15,303.40	15	556.85	270.85	1,535.98	53,326.13	99,051	53.8	45,724.87
8	423.16	286.17	-359.37	57,431.97	75,271	76.3	17,839.03								

¹ Based on a 4-percent appreciation value per year.

Source: NAHB Economics Division.

\$55,000 SALES PRICE—HUD GRADUATED PAYMENT MORTGAGE PLAN III WITH 5 YR OF PAYMENTS INCREASING AT 7.5 PERCENT PER YEAR; CONTRACT RATE 9.5 PERCENT
[30-yr term mortgage amount \$50,800; downpayment \$4,200; income to qualify, \$18,400]

Year	Monthly payment	Annual mortgage insurance premium	Amount of principal paid in year	Loan balance at end of year	Estimated value of home ¹	Loan to value ratio	Owner's net equity	Year	Monthly payment	Annual mortgage insurance premium	Amount of principal paid in year	Loan balance at end of year	Estimated value of home ¹	Loan to value ratio	Owner's net equity
1	\$323.70	\$256.22	-\$983.71	\$51,783.71	\$57,200	90.5	\$5,416.29	9	464.71	255.25	726.74	50,651.02	78,282	64.7	27,630.98
2	347.97	260.67	-777.07	52,560.78	59,488	88.4	6,927.22	10	464.71	251.46	798.87	49,852.15	81,413	61.2	31,569.85
3	374.07	263.99	-526.99	53,087.77	61,868	85.8	8,780.23	11	464.71	247.29	878.13	48,974.02	84,670	57.8	35,695.98
4	402.13	265.95	-277.52	53,315.29	64,342	82.9	11,027.71	12	464.71	242.70	965.31	48,008.71	88,056	54.5	40,047.23
5	432.28	268.29	127.86	53,187.43	66,916	79.5	13,728.57	13	464.71	237.65	1,034.10	46,947.61	91,579	51.3	44,631.39
6	464.71	264.70	547.13	52,640.30	69,593	75.6	16,952.70	14	464.71	232.11	1,193.41	45,781.20	95,242	48.1	49,460.80
7	464.71	261.85	601.42	52,038.88	72,376	71.9	20,337.12	15	464.71	226.02	1,282.19	44,499.01	99,051	44.9	54,551.99
8	464.71	258.71	661.12	51,377.76	75,271	68.3	23,839.24								

¹ Based on a 4-percent appreciation value per year.

Source: NAHB Economics Division.