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FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
~~Memo~~	~~Califano & Levinson to President~~	~~9/4/68~~	~~C~~
~~Letter~~	~~Cecil R. King to President w/attachments~~	~~1/24/67~~	~~C~~
~~Memo~~	~~Jake Jacobsen to John Macy w/attachments~~	~~1216/66~~	~~C~~

opened 2/18/2011

FILE LOCATION

EX FG 170-6 FNMA

RESTRICTION CODES

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EXECUTIVE
FI5-4
FG170-6

THE UNDER SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

SEP 12 1968

MEMORANDUM FOR MR. JOSEPH A. CALIFANO, JR.

Subject: Sale by FNMA of Capital Debentures

1. The Treasury has approved the sale by FNMA of capital debentures in the amount of $250 million.

2. Proceeds from the sale of the debentures will be used to retire FNMA preferred stock held by the Secretary of the Treasury.

3. This is a necessary step in the conversion of FNMA's secondary market operations to a private corporation, and is within the guidelines for agency borrowing approved by the President.

(signed) Joe Barr

Joseph W. Barr

Copies to: Mr. Lawrence E. Levinson
Mr. Warren L. Smith

EXECUTIVE

FG 817

FG 170-6

September 4, 1968
Wednesday, 10:00 a.m.

FOR THE PRESIDENT

FROM Joe Califano and Larry Levinson

It is important to name the new FNMA Board so that the transfer of FNMA to the private sector can occur, allowing us to save about $200 million monthly in the Federal Budget. (The Board is actually named by Weaver and is not subject to Senate confirmation.)

Of the nine required members, you have so far approved:

1. Raymond Lapin (who as President of FNMA automatically serves on the Board).

2. William Sherrill (of the Federal Reserve).

3. Fred Deming (Treasury Under Secretary).

4. Phil Brownstein (Assistant Secretary of HUD).

You then asked for the following additional information:

-- FBI checks on Cecil Burney and Larry Blackmon.

-- Possibility of substituting Walter Heller for Jim Duesenberry.

-- More information on Ferd Kramer.

-- Another candidate to replace Albert Rains.

In response:

-- The FBI checks on Cecil Burney and Larry Blackmon are O.K.

-- Walter Heller will be delighted to serve.

-- Ferd Kramer gives us mid-west representation. He has been in the real estate business for 46 years (he is 65) and President of Draper and Kramer, a Chicago-based real estate and mortgage banking firm. He was past President of the Chicago Mortgage Bankers Association. He served on the President's Committee on Equal Housing Opportunity. McPherson says he is "extremely good." Macy's office" says he is o.k. with MayormDaley (he had been checked out previously for other posts) and is a supporter of the President.

-- As the ninth member, in place of Albert Rains who was initially recommended, you might want to consider William Ross, Deputy Under Secretary of HUD. Ross is a career man, and worked his way up through the Budget Bureau and then was finally promoted, with the President's approval, to his present post at HUD. Ross served as the Executive Secretary of the original Model Cities Task Force, was very helpful on the Hill in moving the rent supplements program forward, helped to draft the President's Housing messages, and has always been accurate and responsive to our requests. He is broad gauge and has a good grasp of housing and fiscal and monetary policy and would make a good addition to the Board. He is recommended by Wood, Zwick and Macy.

As an alternative to Ross, you might consider Robert Turner, now a Professor of Business at Indiana. Turner was one of the Truman appointees to the CEA, and served as Assistant Director of the Budget under Kermit Gordon. Okun and Heller say he is first-rate and recommend him.

In summary, does the President approve these five proposed remaining members of the FNMA Board?

Cecil Burney	Yes________	No________
Larry Blackmon	Yes________	No________
Walter Heller	Yes________	No________

<u>Ferd Kramer</u>	Yes_______ No_______
<u>William Ross</u>	Yes_______ No_______
<u>or</u>	
<u>Robert Turner</u>	Yes_______ No_______

EXECUTIVE

Information Memo
August 30, 1968
CC

HS	FG 216
LE/HU 2	WE 8
HU 2-2	CO 1-9
HS 2	FG 105
FG 170	FO 6-1
FI 5-4	LA
FG 170-4	FG 999-20
FG 170-6	FG 284
FO 6	CO 305
WE 9	WE
WE 9-1	FG 605
HU 4	FG

FG 11-8-1/McPherson, Harry

Box no. 1518 containing the following material sent to Central Files on August 24, 1968 by Mr. McPherson's Office.

Housing - xNational Committee Against Discrimination in Housing

Poverty (1968) - xThomas, Charles F. - xCommittee to Save the Children of Mississippi
xPoor People's March

European Youth and Young Leaders

Council of International Programs - xCouncil of International Programs for Youth Leaders and Social Workers, Inc. - xOllendorff, Henry B.

Labor

Hirshhorn - xHirshhorn, Joseph H.

British Social Services - xDitchley Foundation - xConference on Public Welfare Services

American Revolution Bicentennial

THE SECRETARY OF THE TREASURY
WASHINGTON 25, D.C.

AUG 23 1968

EXECUTIVE
FI5-4
FG170-6

MEMORANDUM FOR MR. JOSEPH A. CALIFANO, JR.

Subject: Federal National Mortgage Association borrowing

1. The Federal National Mortgage Association has secondary market debentures in the amount of $350 million maturing on September 10, 1968.

2. The Treasury has approved the issuance by FNMA of secondary market debentures in the amount of $350 million.

3. Since this borrowing is a rollover it is within the guidelines for agency borrowing approved by the President.

/s/

Frederick L. Deming
Acting Secretary

Copies to: Mr. Lawrence E. Levinson
Mr. Warren L. Smith

BBI

FG170-9
LE/HS
HS
FG170-6

(4)

TITLE VIII—SECONDARY MORTGAGE MARKET

PURPOSES

SEC. 801. The purposes of this title include the partition of the Federal National Mortgage Association as heretofore existing into two separate and distinct corporations, each of which shall have continuity and corporate succession as a separated portion of the previously existing corporation. One of such corporations, to be known as Federal National Mortgage Association, will be a Government-sponsored private corporation, will retain the assets and liabilities of the previously existing corporation accounted for under section 304 of the Federal National Mortgage Association Charter Act, and will continue to operate the secondary market operations authorized by such section 304. The other, to be known as Government National Mortgage Association, will remain in the Government, will retain the assets and liabilities of the previously existing corporation accounted for under sections 305 and 306 of such Act, and will continue to operate the special assistance functions and management and liquidating functions authorized by such sections 305 and 306.

Federal National Mortgage Association.

68 Stat. 615. 12 USC 1719.

Government National Mortgage Association.

12 USC 1720, 1721.

AMENDMENTS TO THE FEDERAL NATIONAL MORTGAGE ASSOCIATION CHARTER ACT

SEC. 802. (a) The heading of title III of the National Housing Act is amended by striking out "FEDERAL NATIONAL MORTGAGE ASSOCIATION" and inserting in lieu thereof "NATIONAL MORTGAGE ASSOCIATIONS".

(b) Section 301 of such Act is amended— 68 Stat. 612. 12 USC 1716.

(1) by striking out "in the Federal Government a";

(2) by striking out "facility for" and inserting in lieu thereof "facilities for";

(3) by striking out "of such facility" and inserting in lieu thereof "thereof";

(4) by striking out "facility to" and inserting in lieu thereof "facilities to"; and

(5) by striking out "the existing mortgage portfolio of the Federal National Mortgage Association" and inserting in lieu thereof "federally owned mortgage portfolios".

(c) Section 302(a) of such Act is amended— 12 USC 1717.

(1) by inserting "(1)" immediately following "(a)";

(2) by striking out "(hereinafter referred to as the 'Association')"; and

(3) by adding at the end thereof the following new paragraph:

"(2) On the effective date established pursuant to section 808 of the Housing and Urban Development Act of 1968, the body corporate described in the foregoing paragraph shall cease to exist in that form and is hereby partitioned into two separate and distinct bodies corporate, each of which shall have continuity and corporate succession as a separated portion of the previously existing body corporate, as follows:

"(A) One of such separated portions shall be a body corporate without capital stock to be known as Government National Mortgage Association (hereinafter referred to as the 'Association'), which shall be in the Department of Housing and Urban Development and which shall retain the assets and liabilities acquired and incurred under sections 305 and 306 prior to such effective date, including any and all liabilities incurred pursuant to section 302(c). The Association shall have succession until dissolved by Act of Congress. It shall maintain its principal office in the District of Columbia and shall be deemed, for purposes of venue in civil actions, to be a resident thereof. Agencies or

12 USC 1717.

BBJ

EXECUTIVE
FG 170-6
FG 11-1

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D.C. 20503

JUL 27 1968

MEMORANDUM FOR MR. CALIFANO

Subject: Creation of a private FNMA

The Housing and Urban Development conference bill provides for converting FNMA to a private corporation, essentially as proposed by the President. If we can accomplish the conversion quickly, we can reduce FNMA's 1969 budget outlays by as much as $600-$700 million. Each month's delay after September would take $200-$300 million off this saving.

The essential act to take FNMA out of the budget is the retirement of all Treasury preferred stock. To do this FNMA must issue a new debt instrument on the private market. It cannot do this until the President and Board of Directors are appointed under the new law. The President of FNMA must be appointed by the President and confirmed by the Senate. The Board of Directors is appointed by the Secretary of HUD. A prompt nomination of the President would be desirable in order to accomplish our aims. Senate confirmation would also be desirable but not essential if an interim appointment is made as soon as Congress adjourns.

Charlie

Charles J. Zwick
Director

RECEIVED
JOE CALIFANO, JR.

1963 JUL 29 PM 2 57

EXECUTIVE

FI5-4

FG170-6

18543 FG170

FG11-1

(3)

LE

THE WHITE HOUSE
WASHINGTON

JUL 22 1968

Dear Mr. Secretary:

In response to your letter of June 24, 1968, I am making additional amounts of the Federal National Mortgage Association special assistance authorization available for commitments, as follows:

(a) For mortgages on housing for low and moderate income families which are insured under Section 221(d)(3) of the National Housing Act and bear interest below the maximum rate under FHA regulations, $350,000,000. This increases the amount of $2,170,000,000 made available on August 29, 1967, to $2,520,000,000. Not more than $40,000,000 of the total amount may be made available for FNMA's commitments to purchase mortgages insured under Section 221(h) of the National Housing Act. This latter amount includes an increase of $20,000,000 over the amount made available on March 4, 1967.

(b) For mortgages on residential properties in Guam, $13,500,000. This increases the amount made available on April 10, 1968, to $25,000,000.

The foregoing amounts are the aggregate amounts of purchases and commitments which may be outstanding at any one time, and are based upon my determination, pursuant to Section 305 of the Federal National Mortgage Association Charter Act, that such action is in the public interest.

Sincerely,

LYNDON B. JOHNSON

Honorable Robert C. Weaver
Secretary of the Department of
Housing and Urban Development
Washington, D. C. 20410

Dispatched - 7/24/68

White House Files

Copy to Budget 7/24/68

EXECUTIVE
FI5-4
~~FG 170-6~~
FG 110

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

July 16, 1968
Tuesday, 8:30 p.m.

FOR THE PRESIDENT

FROM Joe Califano JACjr

Attached are two memoranda from Secretary Fowler recommending approval for the July sale of $1.3 billion in FNMA participation certificates.

These are the last remaining pc's authorized in the fiscal 1968 budget. During the past fiscal year, some $3.2 billion in pc's were sold.

Fowler bases his recommendation on three grounds:

-- the possibility that Congress will block further sales of existing pc's (Senator Williams intimated as much yesterday in a closed session of the Committee on Reductions in Federal Expenditures.)

-- the need for a "cushion" on the debt limit (pc's do not count against the debt limit and this will provide $1.3 billion in cash without an equivalent rise in the debt limit).

-- the need for additional cash to support Treasury refinancing operations in August, giving the Treasury the maximum freedom to design its August package, without overloading the market with short and medium term Treasury paper. This could compete with home mortgage money.

Notified Fowler 7/17/68 9:10 AM

Art Okun is concerned that this issue could impair the recovery now getting underway in the corporate bond market. He feels that Treasury staff could have arranged the timing better and he has told Fowler so. But since the impact is likely to be small, he would go along reluctantly with Fowler's request. Zwick agrees that Fowler's request should be supported, although from a budgetary standpoint he does not have any strong view either way. As you recall, sales of pc's under the new budget do not result in expenditure reductions.

Since your principal fiscal advisers are on board, I recommend your approval of the sale, as proposed by Secretary Fowler.

Approve ✓ Disapprove ____

Attachments

BBl

EXECUTIVE ①
FI5-4
FG170-6
~~FG 110~~

THE UNDER SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

MAY 24 1968

MEMORANDUM FOR MR. JOSEPH A. CALIFANO, JR.

Subject: Federal National Mortgage Association borrowing

1. The Federal National Mortgage Association has secondary market debentures in the amount of $400 million maturing on June 14, 1968.

2. The Treasury has approved the issuance by FNMA of secondary market debentures in the amount of $400 million.

3. Since this borrowing is a rollover it is within the guidelines for agency borrowing approved by the President.

Joe Barr

Joseph W. Barr

Copies to: Mr. James Duesenberry
Mr. Stanford Ross

MEMORANDUM 6-13-68

FI5-4
FI5
FG170-6
FG11-3

THE WHITE HOUSE

WASHINGTON

5:00 p.m., Thursday
May 30, 1968

Put on Pres. desk

FOR THE PRESIDENT

FROM Joe Califano

The attached memorandum from Jim Duesenberry answers the question that you raised about postponing $750 million of FNMA Participation Certificate sales from June until July.

Fred Deming tells me that if you decide to go forward with the PC sales they will have to know before the end of this week-end. Deming strongly recommends against the sale in June.

Do you want Treasury to go forward in June? ? Perhaps

Or wait until July? ________

Attachment

rec'd 6/4/68 C. Files

Original to Mrs Territ.

EXECUTIVE
FI5-4
FG170-6

April 23, 1968

Honorable Manuel F. L. Guerrero
Governor
Territory of Guam
Agana, Guam

The President has personally authorized the Secretary of Housing and Urban Development to make available an additional four million dollars of the FNMA Special Assistance funds for purchase of mortgages on homes in Guam.

This increases the total amount commitments which may be outstanding at one time to $11.5 million. You are to be congratulated for the excellent presentation you made last month in Washington in behalf of this increase in FNMA funds.

Harry C. McPherson, Jr.
Special Counsel to the President

HCM/DAF/crm

BH—

EXECUTIVE (2)
FI 5-4
ST 51-1
FG 170-6
FG 170

APR 10 1968

Dear Mr. Secretary:

In response to your request of April 5, 1968, I am making an additional $4,000,000 of the Federal National Mortgage Association Special Assistance authorization available for commitments by the Association for mortgages on residential properties in Guam. This increases the amount of $7,500,000 made available on April 4, 1958, to $11,500,000.

The foregoing amount is the aggregate amount of purchases and commitments which may be outstanding at any one time, and is based upon my determination, pursuant to Section 305 of the Federal National Mortgage Association Charter Act, that such action is in the public interest.

Sincerely,

LYNDON B. JOHNSON

Honorable Robert C. Weaver
Secretary of Housing and
Urban Development
Washington, D.C. 20410

LBJ:jac:fmb:caw

RECEIVED
APR 16 1968
CENTRAL FILES

By hand To Secretary of HUD: 4/11/68
Copy to Director, Bur. of the Budget: 4/11/68

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

FI5-4
~~FG170-6~~
FG110
FG11-3
FI5

3:00 p.m., Friday
March 8, 1968

Rec'd 5:55p

FOR THE PRESIDENT

FROM Joe Califano

Attached is a memorandum from Fowler recommending the sale of $1 billion in Participation Certificates. Of this amount:

-- about $650-$750 million will be sold to investors.

-- about $250-$350 million will be picked up by the Government trust fund.

We budgeted $5.3 billion in pc's for fiscal 68. So far $2.3 billion have been sold. The current offering will raise the amount to $3.3 billion, leaving $2 billion which can be offered in the next several months, subject to your approval.

Treasury needs the proceeds of the $1 billion sale, and Fowler and Duesenberry recommend your prompt approval.

Approve ✓ Disapprove ______

Attachment

Delighted / Hurry —
up the other 2 Bil + —

rec'd 3/9/68 C. Jiles

Original to Mrs Trent

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

FI 5
FG
FI 11-1
FI 5-4
FI 2
February 23, 1968
FG 230
~~FG 170-6~~
FG 110
FG 11-3

FOR THE PRESIDENT

FROM Joe Califano JJ.

Secretary Fowler, in the attached memorandum, requests your advance approval for the 15 agency borrowings planned for the remainder of this fiscal year.

These proposed issues will mainly serve to meet coming maturities. Secretary Fowler makes it clear that overall there will be no increase in net new money in this fiscal year over 1967. If there is any departure from the guidelines you approve, Treasury will specifically request your approval for the departure.

Treasury is seeking this advance approval so that it will have more flexibility in scheduling the coming sales. It believes this flexibility will help it to cause the least market impact.

Jim Duesenberry analyzes Fowler's proposal and the credit needs of the agencies (in the attached memorandum) and recommends that Treasury's proposal be approved. He points out that if these issues are approved in advance, it should be easier to hold the agencies requests in line -- they will know that any further request for new money will require special action and cannot be tacked on to a routine request for an issue to meet a coming maturity.

Fowler and Duesenberry both point out that present money market conditions are relatively favorable and there should be no difficulty in raising the money required for the agency issues.

If you approve Fowler's request for advance approval for the remaining issues this fiscal year, I will call him and emphasize that if there is any departure from the guidelines in his memorandum, your special approval must be sought. I will also make it clear that your approval only goes to the issues for the remainder of this fiscal year and further approval will be needed for agency issues next year.

Approve: ✓ Disapprove: ______

MEMORANDUM

I

EXECUTIVE (4)

FI5-4

FG11-3

FI3

~~FM170-6~~

FG110

ew

THE WHITE HOUSE

WASHINGTON

February 16, 1968

FOR THE PRESIDENT

FROM Joe Califano Joe Jr.

The Federal National Mortgage Association has secondary-market debentures of $87 million maturing on March 11.

FNMA proposes a sale of $400 million of debentures to:

-- pay off the $87 million of maturing obligations; and

-- raise $313 million of new money.

The new money will be used to purchase mortgages in the secondary market. These purchases are now running at about $45 million per week. FNMA's purchases play a vital role in maintaining the mortgage market.

Fowler and Duesenberry (in the attached memoranda) recommend your approval for the proposed sale. They believe that it is desirable to provide the funds to FNMA. The only alternative to the sale would be borrowing from the Treasury. There is no advantage to this, and it would be undesirable for debt limit reasons. Also, FNMA securities sell well in the market, and it is desirable to allow them to market their debentures at this time.

Treasury would appreciate your decision by Tuesday, February 20, to meet the proposed sales schedule.

Approve: ✓_______ Disapprove: ________

Attachments

notified

Schibb

184-5848

at 2:45

emc

gat/EF

(3)

EXECUTIVE
FG 170-6

THE WHITE HOUSE
WASHINGTON

February 16, 1968

FOR JOE CALIFANO

FROM Larry Levinson

The story about the Homebuilders opposing the spin-off of FNMA as it appeared in the Wall Street Journal is false. The Homebuilders have taken no position on the issue and are inclined to favor it.

Janssen got the story from a "low level" staff man at the Homebuilders. The Homebuilders will write a letter to the Wall Street Journal saying that the story was misguided and erroneous.

jah

① + page

EXECUTIVE

ME 3-3/FG 170-6

FG 170-6

February 6, 1968

The 30th anniversary of the Federal National Mortgage Association is a good time to comment on our recently announced proposal to place your Association's Secondary Market Operations under private ownership. It is a change that will strengthen your ability to acquire the funds needed to help finance America's housing needs. Residential mortgage financing requires that a single organization be available to facilitate the movement of investment funds from the capital centers to areas where housing is needed. This is what FNMA does.

There is no question that in your new form, you will surpass even the record you have set in the last three decades. In this period, FNMA has enabled 1,700,000 of our fellow citizens to buy homes who otherwise might not have been able to do so.

You have clearly proved that Government can cooperate effectively with industry -- and produce beneficial results. So as I commend the FNMA and all who have worked with you, I look forward -- with countless other fellow citizens -- to the continuing unfolding of your promise for America.

Statement sent to: Mr. Raymond H. Lapin, President
National Federal Mortgage Assn.
811 Vermont Avenue, NW.
Washington, D. C.

LBJ:WRS:EH:HUD:sar
CC: Juanita Roberts, Will Sparks, Eliska Hasek, Loyd Hackler, Sent
Mary Hooper, CF
DUE: ASAP
EVENT: FEB 10, 1968
REQ'D BY: HUD
PRIOR APPROVAL: HUD

ET

EXECUTIVE
FG785
FG170-6

NATIONAL ASSOCIATION OF REAL ESTATE BOARDS

1300 CONNECTICUT AVENUE
WASHINGTON, D. C. 20036

AREA CODE 202
ADAMS 4-6133

DEPARTMENT OF GOVERNMENTAL RELATIONS
JOHN C. WILLIAMSON
Director
LOUIS H. NEVINS
Assistant Director

Affiliated Institutes
AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS
AMERICAN SOCIETY OF REAL ESTATE COUNSELORS
INSTITUTE OF REAL ESTATE MANAGEMENT
NATIONAL INSTITUTE OF FARM AND LAND BROKERS
NATIONAL INSTITUTE OF REAL ESTATE BROKERS
SOCIETY OF INDUSTRIAL REALTORS

RECEIVED
JAN 8 1968
NAT'L ASSN. OF HOME BUILDERS

January 5, 1968

Honorable Charles L. Schultz, Director
Bureau of the Budget
Executive Office Building
Washington, D.C. 20503

Dear Mr. Schultz:

This Association has had an opportunity to study the Report of the President's Commission on Budget Concepts, recently approved by the President. The purpose of this letter is to present our views on the effect on the Federal National Mortgage Association of implementing certain of these approved concepts, and to urge a course of action which would neutralize or at least minimize the effects of these new concepts on the secondary market functions of FNMA.

One of the recommendations of the Commission would exclude from budget receipts and expenditures the Federal land banks and the Federal home loan banks because they "no longer have any Federal government ownership." Also, the Commission recommended that "at such time as all of the banks for cooperatives and the Federal intermediate credit banks are completely privately owned, they too should be excluded from the budget receipts and expenditures."

The Commission concluded: "The criterion recommended by the Commission therefore is basically that government-owned enterprises be omitted from the budget when such enterprises are completely privately owned." The Commission then goes on to assure that notwithstanding the above, the transactions of such enterprises would not be sheltered from public scrutiny because of the requirement for "annexed budgets".

This new concept leads us to the conclusion that the secondary market operations of FNMA, because of the Treasury-held preferred stock, would not be exempt and that its expenditures would have to be included in the budget. Thus, if this concept had been in effect in 1966, the budget for fiscal year 1967 would have included approximately $2 billion as an estimated expenditure for purchase of FHA-insured and VA-guaranteed mortgages pursuant to its secondary market operations. I do not need to dwell on the implications of such a procedure. FNMA, notwithstanding the fact that the money used to purchase mortgages is raised in the private market, would be presenting an undeserved target for the perennial

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JAN 22 1968
CENTRAL FILES

CF

EXECUTIVE
FI5-4
FG170-6
FG110

1-2-67
Hold Joe Calif

VZCZCEEA819
PP WTE10
DE WTE 54

Received: Washington CommCen
7:48 PM Tuesday 02 Jan 1968

Received: LBJ RANCH CommCen
8:36 PM Tuesday 02 Jan 1968

FROM JOE CALIFANO
TO THE PRESIDENT
CITE CAP80049

~~CONFIDENTIAL~~

C O N F I D E N T I A L

JANUARY 2, 1968

FOR THE PRESIDENT

FROM JOE CALIFANO

FOWLER -- IN THE MEMORANDUM SET OUT BELOW -- RECOMMENDS YOUR APPROVAL OF THE SALE OF $1.25 BILLION OF FNMA PARTICIPATION CERTIFICATES.

OF THIS AMOUNT:

-- $450 MILLION WOULD BE SOLD TO GOVERNMENT INVESTMENT ACCOUNTS.

-- $800 MILLION WOULD BE SOLD TO THE PUBLIC.

MATURITIES WOULD BE SIMILAR TO THE LAST SALE:

-- 20 YEARS FOR A LITTLE LESS THAN HALF THE TOTAL.

-- 2-7 YEARS FOR THE REMAINDER.

THE FISCAL 1968 BUDGET AUTHORIZES THE SALE OF $5 BILLION IN PC'S. SO FAR, $1 BILLION HAVE BEEN SOLD.

FOWLER BELIEVES THE TIME IS RIGHT TO MOVE NOW WITH AN ADDITIONAL $1.25 BILLION BECAUSE:

-- INVESTORS ARE NOW SEEKING LONG-TERM PAPER.

-- THE COMPETITION FROM CORPORATE ISSUES IS LIGHT THIS TIME OF THE YEAR.

FOWLER BELIEVES THAT WE SHOULD NOT GO ABOVE $1.25 BILLION IN THIS SALE BECAUSE ANY ADDITIONAL AMOUNT MIGHT UNSETTLE THE MARKET.

THE LAST OFFER OF PC'S IN NOVEMBER (THE $1 BILLION ISSUE) DID NOT DISTURB THE MARKET. THIS PAPER IS NOW SELLING AT

BB/

EXECUTIVE
FG600/Task Force/Ц*
FG170-6
FI5-4
FG11-3

November 28, 1967

MEMORANDUM FOR Honorable James S. Duesenberry
Council of Economic Advisers

In accord with our earlier discussions concerning the recommendations of the Task Force on Mortgage Financing, it is our understanding that you will:

- Develop further details on the proposal that FNMA institute an auction procedure for selling forward commitments. This should include:
  -- Arrangements for a transition period during which FNMA would institute the auction procedure, but would not use this procedure as an exclusive mechanism.
  -- Determination of an appropriate amount of FNMA commitments to be made by auction during the transition period and thereafter.
- Prepare a short summary of the legislative and administrative actions which were agreed upon as appropriate steps. This summary should include a discussion of the pros and cons and the cost and benefits of implementation.

It would be helpful if you would submit your report on the above by the close of business Friday, December 1.

/S/
Joseph A. Califano, Jr.
Special Assistant to the President

SGRoss:pdf:11/27/67

RECEIVED
NOV 29 1967
CENTRAL FILES

Nothing else sent to Central Files as of 12/2/67 LB. Report of T.F. Mortgage Financing filed C.F. same

EI

(6)

MEMORANDUM

EXECUTIVE

FI5-4

FG170-6

FG170

FG11-3

FG11-1

LE/FI11-4

FI8

THE WHITE HOUSE

WASHINGTON

Tell him yes & say there will be more of the same unless we get a tax bill. Get Deming, Weaver, JG or Brownstein on this. LBJ/JAJ 11-23-67

November 22, 1967
8:30 p.m., Wednesday

11-23-67 Jim Told Califano

FOR THE PRESIDENT

FROM Joe Califano JAJ Jr.

The FNMA Board (Weaver, Wood, Brownstein and Deming) will meet early Friday. It proposes reducing its buying price for FHA-VA insured mortgages by one point -- from 94-1/2 to 93-1/2. This means that FNMA will pay $9,350 rather than $9,450 for a $10,000 mortgage in its secondary market operations. The discount is needed to make the yields on FHA-VA mortgages, whose interest rates are fixed by law at 6%, competitive with the yields of conventional mortgages which now sell at higher interest rates.

The FNMA price -- ordinarily a little above the private market -- is now about two points higher. As a result of this large spread, the flow of home mortgages to FNMA has gone up to about $80 million a week from earlier lows of $30 million last spring.

FNMA must reduce its price to avoid this large flow of mortgages. To raise the capital to buy these additional mortgages, FNMA would have to sell more debentures at higher interest rates. This new paper would compete with PC's and other government paper.

Reduction of the FNMA price should divert some mortgages to the private market. But the FNMA price reduction may only temporarily relieve the pressure because private market prices may be driven down and again open up a large spread below the FNMA price.

The homebuilders will protest the drop in the FNMA purchase price, as they did last spring. But last year's reduction did not hurt the homebuilders that much. Further, the answer to them, as well as the problem of higher interest rates, is to get the tax increase.

Treasury, CEA, and Budget have cleared Weaver's recommendation to reduce the FNMA price by one point. If you approve, I will tell Weaver that it is alright for FNMA to take the action on Friday, but that in doing so the Board should come out strongly for prompt Congressional action on the tax surcharge.

Approve ✓__________ Disapprove__________

BB/ —

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

FI 5
FG 170-6
FG 110
FG 11-3

8:15 p.m., Wednesday
November 8, 1967

FOR THE PRESIDENT

FROM Joe Califano

Attached are memoranda from Fowler and Duesenberry recommending that you approve the sale of $1 billion of FNMA-PC's in the next two weeks.

The target for sales of PC's in fiscal 1968 is $5 billion. None have been sold yet this year because of legislative delay in authorizations. The proposed $1 billion sale leaves out $500 million of Ex-Im PC's that were scheduled for sale by year-end. Fowler now says the $5 billion target will be difficult to meet, but does not fix a new target for the year.

Fowler and Duesenberry feel that PC's are difficult to sell and the attempt to sell too large an amount now under current conditions could be disruptive of the market.

I think they are also worried that if interest rates go still higher, our action on PC's could be seen as the cause and the Federal Reserve Board would be seen as relatively free of responsibility.

Fowler and Duesenberry both agree that

-- the trust funds cannot buy too much of the PC's; they recommend $250 million of the proposed $1 billion sale.

-- agency sales cannot be reduced significantly below present levels.

If you approve, I would hold a meeting tomorrow with Fowler, Duesenberry, and Schultze to see what is the realistic goal for PC sales in fiscal 1968, what the alternatives presently are, and whether we can put more in the trust funds (you will recall that we have always been able to increase the amounts they wanted initially to sell to the trust funds). We could then make a recommendation to you on the most appropriate action to take.

Do this

Approve ✓ Disapprove ______

Original to Mrs Dennis

rec'd 11/11/67 C. Giles

BB/—

EXECUTIVE (4)
FI5
FG 230
FG 220
~~FG 170-6~~
FG 110

THE SECRETARY OF THE TREASURY
WASHINGTON

OCT 6 1967

MEMORANDUM FOR THE PRESIDENT

Subject: Participation Sales and Agency Issues

In our meeting on Wednesday, October 4, regarding proposed sales of agency securities and participation sales you made 3 points:

1. It would be desirable to schedule some p/c sales prior to the proposed agency sales for the Federal Home Loan Banks and the Federal Land Banks.

2. It might be desirable to defer any FHLB issue at this time. (They requested approval for a $600 million issue to replace a maturity of $700 million on October 26).

3. It would be desirable for the Land Banks to confine any borrowing at this time to refunding needs while deferring new money borrowing. (They requested an issue of about $407 million to repay $324 million of maturing bonds and raise $83 million of new money).

Under Secretary Barr and I have discussed these points thoroughly with Director Schultze and Mr. Duesenberry and we agree on the following analysis and recommendations:

1. We recommend that a p/c sale, either for FNMA or for the Export-Import Bank, be announced on or about November 6, shortly after the books close on the forthcoming quarterly Treasury financing. In the meantime, we should proceed as developed below with needed agency financing. For the following reasons we do not believe it would be feasible to arrange a p/c sale before the proposed agency sales or the upcoming Treasury refunding:

- The Federal Land Banks and Federal Home Loan Banks issues are needed primarily to rollover scheduled maturities -- October 23 for the Land Banks and October 26 for the Home Loan Banks. Thus, the timing of new issues to replace the maturing issues is relatively inflexible. The new issues must be announced

EXECUTIVE

PR 6-1/L*
FG 170-6

October 4, 1967

Dear Ray:

The President asked me to give you this autographed picture.

Best wishes,

Irvine H. Sprague
Aide for C ngressional R elations

Mr. Ray Lapin
Chairman
Federal National Mortgage Association
811 Vermont Avenue, NW.
Washington, D. C. 20414

Enclosure: Colored 8x10 photo.

Matted inscribed, To Ray Lapin
With best wishes
Lyndon B Johnson

wah

THE WHITE HOUSE
WASHINGTON

EXECUTIVE
PR 6-1/L
AUTOGRAPH FILE/L
FG 170-6

Dear Mr. Lapin,
It was the President's pleasure to autograph the enclosed photograph for you.

With best wishes,

Juanita D. Roberts
Personal Secretary
to the President

Sep 22, 1967
Mailed 9-23

FROM
THE WHITE HOUSE
WASHINGTON, D.C.

X
JERRY POSTON

Mr. Ray Lapin
President, FNMA
Room 919, Lafayette Building
811 Vermont Avenue
Washington, D. C.

3

To Ray Lapin
With best wishes,
Lyndon B. Johnson

9 MY 67 C -5343-20

Gary/

EXECUTIVE (4)
7I 5
7I 3
7G 110
7G 170-6
7G 220

Q. What is a participation certificate?

A. A participation certificate represents a beneficial interest in the future principal and interest payments on a pool of loans. A trustee receives from the various agencies holding the loan, timely transfers of loan repayments which are accumulated by the trustee for payment of principal and interest on the participation certificates.

The Federal National Mortgage Association acts as trustee for the following agencies:

The Farmers Home Administration of the Department of Agriculture

The Office of Education in the Department of Health, Education and Welfare

The Department of Housing and Urban Development

The Veterans Administration

The Small Business Administration

The Federal National Mortgage Association in its Special Assistance function and its Management and Liquidating function.

The Export-Import Bank acts as its own trustee.

U. S. TREASURY DEPARTMENT

DATE 9/18/67

TO Mike Manatos

Per our conversation this morning.
Joseph M. Bowman

Room 3414 Ext. 2038

BB/

EXECUTIVE
FI5-4
FG170-6
FG110

THE SECRETARY OF THE TREASURY
WASHINGTON

AUG 3 1 1967

MEMORANDUM FOR THE PRESIDENT Mills, Wilbur

Subject: Jump in Mortgage Offerings to FNMA -- A Sign of Credit Market Pressures

The attached news releases from FNMA call attention to the sharp increase in recent months in the volume of mortgages offered to FNMA and to the downward adjustment in FNMA buying prices.

Offerings to FNMA in the second quarter amounted to 25,485 mortgages, or just about triple the 8,582 mortgages offered during the first quarter of this year. The rate has continued to grow during the current quarter. Offerings during July and August have come in at about 4,000 per week. If they continue at that rate, offerings in the third quarter will be about 50,000 mortgages -- amounting to $650 million, since the average mortgage purchased is about $13,000.

Offerings in the first three months of this year had been unusually light. This partly reflected the slowdown in housing starts in the latter part of 1966, in the wake of tight money. But it also reflected the fact that investors, especially mutual savings banks, were eagerly buying whatever mortgages were available at that time.

By spring the situation began to change sharply. Housing starts were recovering to more normal levels, so that new mortgages were being created in greater volume. More important, the sharp increase in the volume of corporate bond offerings was pushing up the yields on those bonds to the point where investors such as mutual savings banks and insurance companies found them highly attractive as compared with mortgages.

In turn, that meant that more mortgages were offered to FNMA. Yields on mortgages also rose, but not as sharply as on corporate bonds. If it were not for FNMA's commitments to purchase, the rise in mortgage yields would undoubtedly have been sharper. The decline in FNMA purchase prices, announced in the attached release of August 26, brings FNMA's prices closer to prevailing secondary market prices.

EXECUTIVE
FI 5-4
~~FG~~ 170-6

THE WHITE HOUSE
WASHINGTON

AUG 29 1967

Dear Mr. Secretary:

In response to your letter of July 28, 1967, I am making an additional $300,000,000 of the Federal National Mortgage Association special assistance authorization available for commitments by the Association for mortgages on housing for low and moderate income families which are insured under Section 221(d)(3) of the National Housing Act and bear interest below the maximum rate under FHA regulations. This increases the amount of $1,870,000,000 made available on October 1, 1966, to $2,170,000,000. Not more than $20,000,000 of such amount may be made available for FNMA's commitments to purchase mortgages insured under Section 221(h) of the National Housing Act.

The foregoing amount is the aggregate amount of purchases and commitments which may be outstanding at any one time, and is based upon my determination, pursuant to Section 305 of the Federal National Mortgage Association Charter Act, that such action is in the public interest.

The amount I am making available for mortgages on housing for low and moderate income families is intended to be sufficient, together with available balances of previous authorizations, probable cancellations of projects, and authority recovered as a result of portfolio liquidation, to allow new allocations of insurance authority in fiscal year 1968 to equal the $500,000,000 included in the January budget for below-market interest rate mortgages.

Sincerely,

LYNDON B. JOHNSON

Honorable Robert C. Weaver
Secretary of the Department of
Housing and Urban Development
Washington, D. C. 20410

V

EXECUTIVE
FI 5-4
FG 170-6

August 15, 1967
Tuesday, 11:55 p.m.

FOR THE PRESIDENT

FROM Joe Califano

Attached is a memo from Bob Weaver urging that the FNMA special assistance funds for home builders not be cut off. Among their fears, is that the home builders will come out against the tax increase.

This is one of many appeals of cuts you are going to receive. What I would suggest on this one is that we see how much money would be lost if we delay a month in cutting off funds until we get the tax bill out of the Ways and Means Committee.

If you approve, I will discuss this with Schultze and we will get back to you.

Approve ✓ Disapprove ____

Attachment

EXECUTIVE (4)
PL/ST5
ND 19/CO 1-6
TR 115
FG 170
FG 170-6
LG/San Francisco

June 22, 1967

Dear Bob:

I have your letter and appreciate your writing as you have.

The visit was my pleasure. I look forward to seeing you again soon.

Best regards,

Sincerely,

W. Marvin Watson
Special Assistant
to the President

Mr. Robert L. Coate
315 Montgomery Street
Suite 1210
San Francisco, California

WMW:MJC:mlr

RECEIVED
JUN 23 1967
CENTRAL FILES

EXECUTIVE
FI 5 (2)
FG 110
FG 170-8
FG 170-7
FG 291
FG 170-6

June 13, 1967

MEMORANDUM FOR

HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY

The President has approved the recommendation in your June 10 memorandum that the Presidential review procedure be discontinued for short-term issues by the Housing Assistance Administration, the Renewal Assistance Administration, the TVA, and FNMA secondary market short-term notes.

/s/
Joseph A. Califano, Jr.
Special Assistant to the President

JUN 13 1967
CENTRAL FILES

EXECUTIVE 3
FI5
FI3
FG110
FG170-6

EF

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

May 27, 1967
3:30 pm., Saturday

FOR THE PRESIDENT

FROM: Joe Califano

Attached are memoranda from Fowler and Duesenberry recommending your approval for the sale by FNMA in June of about $900 million of participation certificates.

The January Budget called for sale of $2,880 million participation certificates through FNMA in fiscal 1967. $1,100 million was sold in January and $900 million in March. The proposed sale would complete the 1967 budget program.

The maturities and amounts would be approximately as follows:

Maturity	To the market	To trust Funds	Total
	(in millions)		
2 yrs. 3 months	$350	$100	$450
5 years	300	150	450
	$650	$250	$900

In order to avoid pressure on the long-term market, the proposed issue is confined to relatively short-term securities.

Treasury requests your decision by Monday, May 29, to meet the proposed schedule for the sale. This schedule must be met if the sale is to be completed in fiscal year 1967.

I recommend that you approve the sale.

Approve ✓ Disapprove ______

Treasury notified.

Attachments

Orig to Mrs. Perrito

EXECUTIVE
FI 5
FG 170-6
FG 110
FG 11-3

CF

BD

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

3:15 p.m. Saturday
May 20, 1967

FOR THE PRESIDENT

FROM Joe Califano Jof.

Attached are memoranda from Fowler and Duesenberry recommending your approval for the June sale of about $400 million in FNMA debentures.

All the proceeds will be used to pay off a maturing issue. No new money is involved. Government accounts will take a small part of the issue.

If FNMA does not sell these debentures, it would have to borrow from the Treasury.

Fowler would like your approval by Monday to meet his sale schedule.

I recommend your approval.

Approve ✓ __________ Disapprove ________

Attachments

5/23 Treasury notified

EXECUTIVE (4)
FI 3
FI 5
FI 8
FI 10
FG 170-6
FG 110

Mo
Gah

THE UNDER SECRETARY OF THE TREASURY
WASHINGTON 25, D.C.

APR 10 1967

MEMORANDUM FOR THE PRESIDENT

file

Subject: Remaining Participation Sales in Fiscal Year 1967

I would like to correct a figure that I left with you at the April 4 meeting with Under Secretaries in our discussion of the remaining participation sales in this fiscal year. I told you that we still had $1.1 billion to go. I was in error by $220 million. We have $880 million still to do.

The January budget provided for participation sales through the Federal National Mortgage Association of $2,880 million. Of this, $2 billion has already been done ($1.1 billion in January and $900 million in April). This leaves $880 million still to be done -- probably in May or June.

The budget also provided for $700 million of Export-Import Bank participations. Of this, $500 million was done in February. Another $400 million was just announced on April 5. This will provide a margin of excess against the likelihood that some of the outstanding older Ex-Im participations may be "put" by investors in May -- prior to their scheduled maturity.

Joe Barr

Joseph W. Barr

BB/ —

18095

EXECUTIVE +
FI 5-4 (3)
HS 3
FG 170
FG 170-6
FG 11-1

THE WHITE HOUSE
WASHINGTON

MAR 14 1967

Dear Mr. Secretary:

not in file 3/15/66

In response to your letter of December 23, 1966, my letter of October 1, 1966, making $1,870,000,000 of Federal National Mortgage Association special assistance authorization available for commitments by the Association to purchase mortgages on housing for low and moderate income families which are insured under section 221(d)(3) of the National Housing Act and bear interest below the maximum rate under FHA regulations, is hereby amended to provide that not more than $20,000,000 of such amount may be made available for FNMA's commitments to purchase mortgages insured under section 221(h) of the National Housing Act.

The foregoing $1,870,000,000 shall be further increased by amounts made available for purchase of mortgages by sales, made after October 1, 1966, but prior to July 1, 1967, under section 302(c) of the FNMA Charter Act, of beneficial interests or participations in mortgages purchased under other Presidential authorizations, and amounts under such Presidential authorizations shall be correspondingly reduced. The increases when added to amounts made available for purchase of mortgages within this authorization by sales of beneficial interests or participations in such mortgages shall not exceed $300,000,000.

The foregoing amounts are the aggregate amount of purchases and commitments which may be outstanding at any one time, and are based upon my determination, pursuant to section 305 of the Federal National Mortgage Association Charter Act, that such action is in the public interest.

Sincerely,

LYNDON B. JOHNSON

Honorable Robert C. Weaver
Secretary of the Department of Housing
and Urban Development
Washington, D. C. 20410

FOR WHITE HOUSE FILES

cf

EXECUTIVE
FI 3
FG 170-6
FG 11-3

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

February 24, 1967

MEMORANDUM FOR THE PRESIDENT

Subject: FNMA Sale of Participation Certificates in March

1. Treasury proposes an issue of $750-900 million of FNMA participation certificates. However, their present thinking is to restrict it to $750 million.

   - They would sell $350-400 million in a 3-year maturity with the balance in maturities over 5 years.

   - None of the issue would go to trust funds.

   - This would leave $1,030 million to be sold later to meet the budget target.

2. In the last three weeks, bond yields have risen and the market no longer expects a rapid decline in rates.

   - We expect rates to go down again, but we should avoid any action which disturbs the market.

   - Bond buyers expect some long-term P.C. issues but the amount of long-terms should be minimized.

3. In spite of the political objections, it would be desirable to schedule some trust fund purchases.

   - The issue could consist of

     -- $400 million public sale of 3-year maturity,

     -- $150 million public sale of longer term securities, and

     -- $150 million trust fund purchase at the longer end.

   - That would reduce the burden on the longer term market. It would also indicate that the market will not have to absorb all the remaining P.C.'s.

Nothing else sent to
Central Files as of 3-25-67
WR

ET

EXECUTIVE

FI3

~~FG170-6~~

FG11-3

(2)

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

GARDNER ACKLEY, CHAIRMAN
JAMES S. DUESENBERRY
ARTHUR M. OKUN

February 13, 1967

MEMORANDUM FOR HONORABLE JOSEPH A. CALIFANO, JR.

Subject: Sale of FNMA Participation Certificates

1. Treasury proposes an offering of $900 million of FNMA participation certificates with

    -- up to $300 million going to trust funds and

    -- the balance to the public.

   - Treasury plans one more issue of this size to complete sale of $1.8 billion of FNMA certificates called for in the budget.

   - Sale to trust funds would be held to the minimum permitted by market conditions.

2. Money market conditions continue favorable.

   - The proposed sale should not have an adverse effect on credit flows.

   - I recommend that this issue be approved.

James S. Duesenberry

James S. Duesenberry

CECIL R. KING
SEVENTEENTH DISTRICT
CALIFORNIA

WASHINGTON ADDRESS:
2309 RAYBURN BUILDING

ERWIN L. (BUD) PUMMER
ADMINISTRATIVE ASSISTANT

Fo
cc

Congress of the United States
House of Representatives
Washington, D.C.

COMMITTEE ON
WAYS AND MEANS

JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION

JOINT COMMITTEE ON
REDUCTION OF NONESSENTIAL
FEDERAL EXPENDITURES

3

EXECUTIVE
FG170-6

January 24, 1967

The Honorable
Lyndon B. Johnson
President of the United States
Washington, D. C.

Dear Mr. President:

The California Democratic Congressional Delegation has endorsed Mr. Raymond H. Lapin for appointment as the President of the Federal National Mortgage Association.

The Delegation is hopeful that your favorable consideration may be given to his endorsement.

COPY

Sincerely,

Cecil R. King, Chairman
California Democratic
Congressional Delegation

cc: Mr. Henry Wilson
Mr. John Bailey
Mr. Robert Coate
Mr. Charles Warren

0

Mr 1

EXECUTIVE

FG170-6

FG295

ROGG, Nathaniel H.

January 11, 1967

MEMORANDUM FOR

JOHN MACY

I don't know this man but he has been highly recommended as Chairman for the Federal National Mortgage Association.

Jake

Jake Jacobsen

Encl. - Resume of Raymond H. Lapin

fs
3

Memo To Jake Jacobson

As per our conversation earlier today I am attaching a brief version of Ray Lapin's background.

We think he is innovative and an able person who has made his mark in the private enterprise system as a very successful businessman and at the same time is a dedicated civic and community worker.

He has been active in California politics and California civic affairs.

Those of us who have had contact with him have been impressed with his qualities and think his appointment would be a most useful one for the American people and American housing.

I can get you more information if you need it.

Nat

from

Date January 6, 1967

NATHANIEL H. ROGG
Executive Vice President

RAYMOND H. LAPIN

Education:

B. S. Degree in 1942, University of California, College of Business Administration.

Master Business Administration Degree in Finance in 1953, University of Chicago.

Additional graduate work, Rutgers University, Graduate School of Banking of the American Bankers Association.

Employment Record:

1966 Commissioner Economic Development Agency, State of California and Chairman of Governor's Economic Task Force. Also consultant to Transamerica Corporation.

1956 - 1966 Founded, organized and developed Bankers Mortgage Company of California. Started as one-man firm and expanded to a mortgage banking firm with a portfolio of seven hundred million dollars.

In 1964 this company was merged with Transamerica and Mr. Lapin retained the presidency until he joined Governor Brown. Company was a pioneer in developing mortgage lending practices particularly for low income families in California. Mr. Lapin also pioneered in bringing pension funds into the mortgage market.

1947 - 1956 (approximately)

Employed by Federal Reserve Bank of Chicago in the Research Division. Last assignment: Administrative Head of the Research Division.

Military Record:

Entered U. S. Army as private and rose to the rank of Captain.

Community and Civic Record:

Member, Public Utilities Commission of the City and County of San Francisco
Member, Art Commission of the City and County of San Francisco
Member of the board of numerous civic enterprises including: Mount Zion Hospital, San Francisco Foundation for Spanish Speaking People, San Francisco Council for Civic Unity, etc.

Political Affiliation: Strongly democratic. Served on Finance Committee for California, Johnson-Humphrey Campaign of 1964.

extra copy

EXECUTIVE

FI2
FI5
FG230
FG190-6

1/23/67.

The Situation:

On April 30, 1966, the Federal Home Loan Bank Board imposed a rule that they would not bail out S&Ls who had made commitments to builders which were in excess of what could be considered commensurate with the four months' average inflow of savings prior to the commitment date. In view of the very low net inflow in recent months, this makes the typical S&L hard-put to enter into any commitments. The rule is still in effect.

Recommendation:

Eliminate the four months' moving average rule and return to the prior regulation that, with a good balance sheet, S&Ls can commit a specified portion of their savings.

N.B. If this rule could be adopted, there is still another which

ts

r

ess

Memo To Mr. Jake Jacobson

Dear Jake:

Here is the suggestion about S&Ls which I mentioned to you yesterday.

JJ talked to Rogg 1/31/67

Nat

from
NATHANIEL H. ROGG
Executive Vice President

Date January 23, 1967

Mo

BROUGHT FORWARD

Memorandum for: John Macy
From: Jake Jacobsen
NAME re: Raymond H. Lapin

ORGANIZATION ____________________

EXECUTIVE
FG170-6 Jan. 11, 1967
Previously filed Date

EXECUTIVE
FG170-6 Jan. 11, 1967
New File Symbol Date

FINAL ACTION Copy of letter to the President from: Cecil R. King re: Raymond H. Lapin

EXECUTIVE

FI 3

FI 8

FG 170-6

FG 110

EX

THE SECRETARY OF THE TREASURY
WASHINGTON

JAN 4 1967

MEMORANDUM FOR THE PRESIDENT

Subject: Interest Rate on FNMA Participation Certificates

The current sale of FNMA participation certificates will carry a rate of 5.20%. Agreement between FNMA and the underwriting syndicate was reached today, with our approval, and will be officially announced tomorrow, January 5.

We regard these terms as quite satisfactory. The 5.20% rate on the current $1.1 billion sale compares with rates on the last participation sale (June 1966) which ranged from 5.375% to 5.75%, depending on maturity. The lower rate reflects both the improvement in general market conditions and the redesign of the participation certificate to make it more attractive to the market.

Henry H. Fowler

Henry H. Fowler

EXECUTIVE

FG170-6 (6)
FG230
FG233
FI3
FG11-3
FG11-1
FG110

EE, ...1-4-67 1-9 40a

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 3, 1967

MEMORANDUM FOR THE PRESIDENT

Subject: Purchase of Housing Agency Securities by the Federal Reserve

I did not carry out your request, conveyed to me yesterday by Charlie Schultze, that I urge each member of the Federal Reserve Board that the Fed purchase FNMA or FHLBB securities. There were three reasons why I did not want to do it, at least until I had a chance to give you my views.

1. I had already discussed the subject with most of the Board. All but two members -- as well as the staff -- are violently opposed.

2. The analysis that we and the Treasury have done convinces us that it would have so insignificant effect on housing finance that it is not worth a fight with the Board. At most it could be of symbolic, not real, importance.

3. An effort to persuade them to do it could easily spoil the cooperation that we are getting, and hope to get, on the really major issue. If the Board will continue to move vigorously toward easier money, this will do more for housing than any piddling purchase of Agency securities. They are touchy enough on our suggesting the general direction of their policies (even when they agree with us). They resent much more our getting into the details of their business.

As you know, the Board has already made some small repurchase agreements involving housing securities, because it fitted in with their open market requirements. They may do some more. But it won't make any difference.

Incidentally, they point out that release of the remaining FNMA special assistance funds is the most powerful weapon now available to give housing an immediate shot in the arm. If we're so interested in helping housing------

Gardner Ackley

EF

EXECUTIVE
FG170-6
Lapin, Raymond H.
Blackmon, Larry

December 16, 1966

MEMORANDUM FOR

JOHN MACY

This man has been highly recommended as the new FNMA replacement for Baughman.

Jake Jacobsen

fs
4

Memo To **Jake Jacobson**

In accordance with my conversations with you. Ambassador Lloyd Hand is getting additional information on this for me, and of course this will be available to you. Will be in touch.

Larry

from

LARRY BLACKMON
President

Date

STATE OF CALIFORNIA EDMUND G. BROWN, Governor

DEPARTMENT OF FINANCE
ECONOMIC DEVELOPMENT AGENCY
ROOM 523, 926 J BUILDING
SACRAMENTO, CALIFORNIA 95814

RAYMOND H. LAPIN

Commissioner
Economic Development Agency
State of California

Raymond H. Lapin was appointed Commissioner of the California State Economic Development Agency, and principal economic advisor to the Governor, by Governor Brown in late September, 1966. In assuming this post, Mr. Lapin also became Chairman of the Governor's Economic Task Force, as well as California State liason officer to the Small Business Administration and the Economic Development Administration of the Federal government.

Prior to his appointment, Mr. Lapin enjoyed a unique career in business, financial, political and community life:

Business and Financial

In accepting his assignment with the State of California, Mr. Lapin resigned his position as President of Bankers Mortgage Company of California, the fastest growing mortgage banking firm in the United States since its inception, and one of the dozen largest in the nation. Mr. Lapin founded Bankers Mortgage Company in 1956 as a one-man firm and in ten years expanded the company's portfolio of California mortgage loans to approximately $700,000,000. In 1964 he merged his company into Transamerica Corporation, retaining the presidency until his recent appointment.

Among the fifty-five mortgage investors of Bankers Mortgage Company are: Chase Manhattan, First National City of New York, Morgan-Guaranty, Manufacturers-Hanover, Bankers Trust, First National Bank of Chicago, Old Colony Trust of Boston, Mellon Bank of Pittsburgh (commercial banks); American, Bowery, Central, Dry Dock, Franklin, Greenwich, Kings Highway, Lincoln, Brooklyn, South Brooklyn, Manhattan, New York Bank for Savings, Union Dime, Williamsburgh (savings banks); AFL-CIO Pension Funds, Washington, D.C.; and in California, the State Employment Retirement System, the Board of Regents of the University of California, and the Northern California Council of Carpenters.

Indicating the unusual confidence placed in Mr. Lapin by banks, prior to his company's merger into Transamerica Corporation, Bankers Mortgage Company's commercial bank credit lines exceeded $80,000,000, despite the company's relatively low capital of approximately $500,000. These lines were with the Bank of America, Wells Fargo Bank, Chase Manhattan, and several others.

Under Mr. Lapin's guidance, Bankers Mortgage Company helped to pioneer a number of forward-looking mortgage banking policies and practices which advanced the interests of the housing industry and the community generally, including facilitating the flow of institutional funds to California in large volume and early pioneering in the financing of low-income and open-occupancy housing. Recently, during the present mortgage money shortage, Mr. Lapin was primarily instrumental in conceiving and organizing Governor Brown's successful effort to channel several hundred million dollars of pension fund money into mortgage finance for housing.

Following World War II, in which he rose from private to captain in the Army, Mr. Lapin was in 1950 named administrative head of the research department of the Federal Reserve Bank of Chicago, where he directed the activities of a sizeable economic research staff. He left this position to return to San Francisco to enter the mortgage banking business.

For a number of years Mr. Lapin has been active as a board member, committee chairman and member of business and trade associations, including local and national home building and mortgage banking associations and organizations such as local and state Chambers of Commerce in California and the San Francisco Bay Area Council.

Political

Mr. Lapin has been a registered Democrat since reaching voting age. In 1946 and 1947 he helped organize the San Francisco Young Democrats and was that organization's first vice chairman.

For a number of years Mr. Lapin has been a principal fund raiser and contributor to the Democratic Party in California. He has served on finance committees for U. S. Senator Clare Engle, Governor Brown, San Francisco Mayor John F. Shelley, Congressman Clem Miller, Pierre Salinger and Alan Cranston. He was a member of the Johnson-Humphrey California Finance Committee in 1964.

Mr. Lapin has been a member of The President's Club since its inception, and has brought a number of other members into that organization. He is also a member of the Golden Bear Club in California, an organization similar to The President's Club on the state level.

A member of the Chairman's Advisory Committee of the California Democratic State Central Committee, Mr. Lapin was an alternate delegate to the 1964 Democratic National Convention.

Community

Mr. Lapin has served as a member of the Public Utilities Commission of the City and County of San Francisco, which administers the public transportation and water systems of that city and the San Francisco International Airport. He has also served as a member of the Art Commission of the City and County of San Francisco.

Interested for many years in urban renewal and low and middle income housing, Mr. Lapin and his company have organized and financed a number of redevelopment projects in the San Francisco Bay Area. He personally was the financial backer of the Acorn Project in Oakland. Mr. Lapin is also vice-chairman of the San Francisco Development Fund, which stimulates low-income demonstration projects.

Mr. Lapin's other community activities include:

Member of the Board of Directors, Mount Zion Hospital, San Francisco.

Member of the Board of Directors, San Francisco Council for Civic Unity.

Chairman, San Francisco Business and Professional Division, 1966-1967 Jewish Welfare Fund.

Member of the Advisory Board, San Francisco Foundation for Spanish Speaking People.

President's Fund, National Steering Committee Campaign, University of Chicago.

Member of the National Committee, National Conference of Christians and Jews.

Personal

Legal address: 20 San Buenaventura Way, San Francisco, California.

Born on February 13, 1919, at Inglewood, California. Age, 47.

Married to Mary Elizabeth Woodcock at St. Brigid's Church, San Francisco, 1950. No previous marriage.

One child, a son, John Grattan Lapin, who was 15 on October 17, 1966.

Religious affiliation: Temple Emanu-El, San Francisco.

Clubs: Concordia-Argonaut, San Francisco Commerical Club, World Trade Club of San Francisco.

Education

Graduated from Galileo High School, San Francisco, 1937.

University of California, College of Business Administration, B. S. Degree in 1942.

University of Chicago, M. B. A. Degree in Finance in 1953 (at night).

Rutgers University, Graduate School of Banking of the American Bankers Association, Investments Course, 1954.

U. S. Army, Officers Candidate School of the Adjutant General's Department and Advanced Officers' Course, Adjutant General's Department.

- December 9, 1966

EXECUTIVE
FI 3
FG 11-3
FG 110
FE 170-6

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

3:00 p.m., Wednesday
December 7, 1966

FOR THE PRESIDENT

FROM Joe Califano

Attached are memoranda from Joe Barr and Gardner Ackley recommending the sale of $1.1 billion in participation certificates ($600 million to the public and $500 million to the trust funds).

At your suggestion, Barr has double-checked the matter with Bill Martin and Ackley and looked into the possibilities of increasing the sale.

Martin has said he would not object to the sale and recommends that Treasury proceed.

Ackley feels that the sale will disturb the market a little and annoy some financial people, but recommends that the issue be approved in view of the debt problem and the difficult job of finding another suitable sales date.

Barr, Schultze and Deming recommend against raising the total amount of the sale. Their judgment is that the market could not take more than $600 million and that there would be too much political flak if the trust funds were to buy up more than $500 million.

Wilbur Mills told Barr that we should sell participation certificates before Congress reconvenes to help shield the program against Republican attacks that the Administration no longer needs the sales authority. In addition, Barr reports that unless the issue is offered soon, the next sale could not take place at least until March -- and this would mean a larger debt limit increase in January.

EXECUTIVE
FG170-6 (2)
FG170
FG405
FI

December 5, 1966

Dear Mr. Comptroller General:

This is in acknowledgment of your letter of November 30th to the President, enclosing a copy of your report to the Congress on the examination of the financial statements of the Federal National Mortgage Association, Department of Housing and Urban Development, for fiscal year 1965.

Sincerely,

Paul M. Popple
Assistant to the President

Honorable Elmer B. Staats
Comptroller General
of the United States
Washington, D. C.

rah

EXECUTIVE

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

ackd.
12-5-66
RCH

B-114828

November 30, 1966

Dear Mr. President:

Herewith is a copy of our report to the Congress on the examination of the financial statements of the Federal National Mortgage Association, Department of Housing and Urban Development, for fiscal year 1965.

The report is being sent to you pursuant to section 106 of the Government Corporation Control Act (31 U.S.C. 851).

Respectfully yours,

Elmer B. Staats

Comptroller General
of the United States

Enclosure

The President
The White House

THE WHITE HOUSE
RECEIVED

1966 DEC 1 PM 4 34

REPORT TO
THE CONGRESS OF THE UNITED STATES

EXAMINATION OF
FINANCIAL STATEMENTS
FISCAL YEAR 1965

FEDERAL NATIONAL MORTGAGE ASSOCIATION
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

UNITED STATES GENERAL ACCOUNTING OFFICE

BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES

NOVEMBER 1966

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

NOV 30 1966

B-114828

To the President of the Senate and the
Speaker of the House of Representatives

The General Accounting Office has examined the financial statements of the Federal National Mortgage Association, Department of Housing and Urban Development, for the fiscal year ended June 30, 1965, which include a statement of accountability of the Government Mortgage Liquidation Trust, Federal National Mortgage Association, trustee. Our examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841) which requires that an annual audit report be made by the Comptroller General to the Congress.

The report contains our opinion that, except for certain items relating to the Government Mortgage Liquidation Trust as explained in our "Comments on Financial Statements," the agency's accompanying financial statements (schedules 1 through 9) present fairly the financial position of the Federal National Mortgage Association at June 30, 1965, and the results of its operations for the year then ended.

Our report points out that the Association published a statement of accountability and a related statement for the Government Mortgage Liquidation Trust (schedule 10) but did not publish statements of financial position, income and expense, and sources and application of funds for the Trust. In our opinion, the latter statements would more clearly show the financial position of the Trust and the results of its operations.

Our "Comments on Financial Statements" deal primarily with the presentation of the accounts arising from the sale of participation certificates which affect certain financial statements of the Association and the Trust. Our comments do not relate to the secondary market activities of the Association in which the public has an investment.

The comments of the President of the Association and the action to be taken by him on the basis of our comments are recognized in the report. We were advised that the Association would adopt, or consider adopting, for future published financial statements, the suggestions made in our "Comments on Financial Statements."

Copies of this report are being sent to the President of the United States; the Secretary of Housing and Urban Development; and the President, Federal National Mortgage Association.

Elmer B. Staats

Comptroller General
of the United States

Contents

REPORT ON EXAMINATION
OF
FINANCIAL STATEMENTS
OF THE
FEDERAL NATIONAL MORTGAGE ASSOCIATION
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FISCAL YEAR 1965

INTRODUCTION

The General Accounting Office has made an examination of the financial statements of the Federal National Mortgage Association (FNMA), Department of Housing and Urban Development, for the fiscal year ended June 30, 1965, pursuant to the Government Corporation Control Act (31 U.S.C. 841). The scope of our examination is described on page 11 of this report.

FNMA was created as a wholly owned Government corporation in 1938 and was rechartered by the Congress as a mixed-ownership corporation in 1954. FNMA is a corporate instrumentality of the United States in the Department of Housing and Urban Development. FNMA's general policies are determined by a 5-member board of directors. The Secretary of Housing and Urban Development, the Honorable Robert C. Weaver, is the Chairman of the Board of Directors and appoints the other four members.

The President of FNMA, Mr. J. Stanley Baughman, is responsible for the general supervision of the FNMA's business affairs in accordance with the general policies determined from time to time by the Board of Directors.

FNMA is engaged in (1) the purchase of residential mortgages insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA) and of certain other

Government-held mortgages resulting from Federal housing programs, (2) the administration of the portfolios of these mortgages, and (3) the sale of these mortgages to the public at such times as there is a market demand. The FNMA Charter Act (12 U.S.C. 1717) segregates FNMA's activities into (1) secondary market operations, (2) special assistance functions, and (3) management and liquidating functions. The act requires FNMA to maintain separate accountability for each activity.

Funds required to finance FNMA operations were obtained principally through (1) the sale of debentures, short-term discount notes, and common stock to private investors, (2) the issuance of notes and preferred stock to the Secretary of the Treasury, and (3) the net proceeds from the operations of FNMA. An additional source of funds was made available with the enactment of the Housing Act of 1964 (12 U.S.C. 1717). By this act, FNMA, together with VA, was authorized to create a trust to sell participation certificates to private investors. Under this law, a trust, known as the Government Mortgage Liquidation Trust (GMLT), was created on October 1, 1964, with FNMA as trustee.

The Housing Act of 1964, in effect, provided a means for substituting private investors' funds for the United States Treasury's funds invested in first mortgages owned by FNMA. FNMA administers its fiduciary functions as trustee for GMLT under the management and liquidating functions of FNMA. On October 19, 1964, FNMA, as trustee, sold, for delivery on November 2, 1964, $300 million worth of serial participation certificates involving the portfolio of FNMA's special assistance functions mortgages to the extent of $200 million and the portfolio of VA's first mortgages to the extent of $100 million. The certificates, which were issued in registered form, are payable in annual installments of $30 million and will be retired in 10 years. The certificates cover principal and interest payments to be derived from $204.6 million worth of first mortgages owned by VA and from $428.1 million worth of FNMA's special assistance functions mortgages which were specifically set aside for that purpose.

In addition, under the provisions of the first supplement to the above-described trust indenture, dated June 1, 1965, on June 15, 1965, FNMA as trustee, sold, for delivery on July 1, 1965, $525 million of participation certificates. This sale involved VA to the extent of $275 million and FNMA to the extent of $250 million. These certificates are payable in annual installments of $35 million and will be retired in 15 years.

The proceeds from the above-described sales of participation certificates were applied by FNMA to reduce amounts it had borrowed from the United States Treasury. Interest and principal payments to be derived from the mortgages will be used by the trustee to pay the interest on the certificates and to provide for their redemption at maturity.

COMMENTS ON FINANCIAL STATEMENTS

CERTIFICATE LIQUIDATION DEPOSITS HELD BY FNMA NOT RECORDED UNTIL TRANSFERRED TO TRUST

The certificate liquidation deposits with the GMLT trustee (FNMA) shown on the combined balance sheet (schedule 1) do not include \$7.8 million collected by FNMA in June 1965 on mortgages subject to GMLT. These collections were remitted by FNMA to GMLT in July 1965.

The GMLT indenture provides that all collections by FNMA of principal and interest on the mortgages designated for GMLT, exclusive of an agreed-upon amount for servicing compensation, are the property of GMLT. There is a further provision that such collections are to be remitted by FNMA to GMLT within the period of time established by GMLT, but in any event not later than 60 days after receipt. We believe, therefore, that collections made by FNMA which belong to, but have not yet been remitted to, GMLT should be recorded on FNMA's books as a liability until such time as the collections are remitted by FNMA to GMLT.

Accordingly the combined balance sheet (schedule 1) and the balance sheets of the special assistance functions (schedule 5) and the management and liquidating functions (schedule 7) should have shown liabilities to GMLT at June 30, 1965, for the collections made by FNMA in June but not remitted to GMLT, in the amounts of \$7.8 million, \$5.8 million, and \$2 million, respectively.

We were advised that FNMA concurred in our view and that the collections made by FNMA on mortgages designated for GMLT but not yet remitted to GMLT would be recorded as a liability in future published financial statements.

MORTGAGES SUBJECT TO TRUST AND FNMA EQUITY IN TRUST NOT CLEARLY DISCLOSED IN FINANCIAL STATEMENTS

The total mortgages of $4.2 billion shown on the combined balance sheet (schedule 1) include $421 million worth of FHA-insured and $315 million worth of VA-guaranteed mortgages, a total of $736 million, that are subject to GMLT. FNMA shows the mortgages subject to GMLT, along with other data pertaining to its mortgages, in a general footnote to the combined balance sheet. Further, on the combined balance sheet the certificate liquidation deposits of $15 million have been deducted from the $200 million worth of GMLT participation certificates and the result has been deducted from the total mortgages. We believe that, to more clearly show the mortgages subject to GMLT, they should be shown separately, adequately identified, under the mortgages and related receivables in the assets section of the combined balance sheet. We believe also that FNMA's equity in GMLT should be clearly shown in the same section of the combined balance sheet.

Provisions of the trust indenture establishing GMLT call for the sale of participations in the principal and interest payments due from designated mortgages made subject to GMLT. All the collections received by FNMA on the designated mortgages are to be turned over to the trustee and used for payment of interest, when due, on the participation certificates and for their redemption at maturity. In order that the funds so transferred may be sufficient to meet the obligations of GMLT, mortgages of FNMA with face amounts greater than the amount of FNMA's share in the participation certificates have been made subject to GMLT.

Although the mortgages subject to GMLT were not actually sold to the investors in the participation certificates, FNMA considered the sale of the participation certificates to be, in effect, a sale of its mortgages and accordingly treated the outstanding certificates on its financial statements as a reduction in its assets. FNMA's position that the participation certificates represent a sale of its mortgages is supported by the Participation Sales Act of 1966 (12 U.S.C. 1717) which states, in part, that the:

> "effect of both past and future sales of any issue of *** participations shall be the same, to the extent of the principal of such issue, as the direct sale *** of the obligations subject to the trust."

We believe that, to more clearly show the mortgages subject to GMLT and the equity of FNMA in GMLT, the $736 million worth of mortgages subject to GMLT should be shown separately from the remaining $3.5 billion worth of mortgages held by FNMA in the assets section of the combined balance sheet. Further, the assets section should clearly show FNMA's equity of $551 million in GMLT--the difference between the $735 million worth of mortgages and the $185 million now shown as a deduction from mortgages on FNMA's balance sheets. The equity includes FNMA's $536 million equity in the mortgages subject to GMLT and its $15 million equity in other items. In our opinion, the analysis of the $551 million equity may be shown in the assets section of, or as a footnote to, the combined balance sheet. This presentation also applies to the special assistance functions balance sheet and the management and liquidating functions balance sheet.

We have been informed that FNMA will consider our comments on this matter when preparing future financial statements.

CLASSIFICATION OF INCOME AND EXPENSE ATTRIBUTABLE TO USE OF PARTICIPATION-CERTIFICATE FINANCING

FNMA has combined with its regular income and expense those items of income and expense allocated to it by GMLT that are attributable to the use of participation-certificate financing. During fiscal year 1965 income of about $282,000 and expenses of about $155,000 were related to GMLT financing.

We believe that it would be more appropriate for FNMA to show those items of income and expense directly attributable to the use of GMLT financing separately in its financial statements, as this means of financing is relatively new and the Congress should be fully informed as to the costs involved. FNMA has informed us that it will set forth those items of income and expense allocated to it by GMLT separately in future financial statements.

Also, FNMA shows on its financial statements, as a deduction from its regular interest income, the amount of interest paid and accrued on participation certificates. This interest expense is deducted from income because FNMA considers the sale of participation certificates to be a sale of its mortgages and does not consider the income on the sold mortgages to be earned income to FNMA. FNMA stated its position as follows:

> "We submit that FNMA merely divides the interest income collections, and forwards the appropriate share to the Trustee; consequently, it is proper to deduct it from the total interest income collections. We contemplate changing the terminology on future financial statements, as, for example: 'Less interest of Trustee in interest income on mortgages set aside under the Government Mortgage Liquidation Trust.'"

The Participation Sales Act of 1966 states, in part, that:

> "The head of each such department or agency *** is authorized to set aside a part or all of any obligations

> held by him and subject them to a trust. *** The Association shall *** act as trustee of any such trusts, and, for the purposes thereof, the title to such obligations shall be deemed to have passed to the Association in trust. *** The effect of both past and future sales of any issue of *** participations shall be the same, to the extent of the principal of such issue, as the direct sale *** of the obligations subject to the trust."

In view of the language cited above, we do not disagree with the principle adopted by FNMA. It should be noted, however, that FNMA deducted from its regular interest income the interest paid and accrued on the participation certificates rather than the interest income earned on the mortgages considered to have been sold. We believe that FNMA should determine the amount of interest income earned on the mortgages subject to GMLT, as shown on its balance sheets, and deduct that amount from its regular interest income rather than deduct the interest paid and accrued on the participation certificates. Any difference between the amount of interest income on such mortgages and the interest paid and accrued on the participation certificates should be shown under an appropriate description.

LIABILITY FOR OUTSTANDING PARTICIPATION CERTIFICATES

Although FNMA's financial statements set forth, as a deduction from its mortgages, the amount of the outstanding participation certificates from which it benefited, the statements do not disclose the contingent liability of FNMA as guarantor of all the participation certificates outstanding.

As payment of all certificates issued by GMLT, whether FNMA or VA benefits therefrom, is guaranteed by FNMA in its corporate capacity and as the Secretary of the Treasury has rendered an opinion that FNMA may borrow from the Treasury to fulfill its guarantee, we believe that FNMA's financial statements should disclose its contingent liability for this payment in a footnote to its combined and other appropriate balance sheets.

FNMA has informed us that, in the future, a notation concerning its contingent liability will be shown on the balance sheet of the management and liquidation functions. We are of the opinion that, if FNMA's combined balance sheet also will show this notation, adequate disclosure of its contingent liability will result.

STATEMENT OF SOURCES AND APPLICATION OF FUNDS

The amount of $152,548,198 shown on the statement of sources and application of funds (schedule 9) as redemptions of obligations of the United States Treasury and Federal agencies as a source of funds and also as investment in obligations of the United States Treasury and Federal agencies as an application of funds, was inadvertently overstated by $2,572,700. This overstatement did not affect any other financial statement of FNMA.

STATEMENT OF ACCOUNTABILITY, GOVERNMENT MORTGAGE LIQUIDATION TRUST

GMLT was created as, and is being administered as, an authorized activity of FNMA, pursuant to provisions of section 302(c) of its Charter Act. As FNMA's activities are subject to the Government Corporation Control Act, we are of the view that FNMA'S actions as trustee of GMLT fall within the scope of the Government Corporation Control Act and that financial statements fully disclosing the status and results of GMLT activities are required.

A statement of accountability and a related statement for GMLT, as published by FNMA, are shown as schedule 10. FNMA did not publish statements of financial position, income and expense, or sources and application of funds. In our opinion, such statements would more clearly show the status of GMLT at June 30, 1965, and the results of its operations for the year then ended.

FNMA has advised us that it will show the activities of GMLT in future financial reports in a manner which will present the position of GMLT and the results of its operations in a more acceptable form.

SCOPE OF EXAMINATION

Our examination of the financial statements of FNMA for fiscal year 1965 included an examination of the balance sheets as of June 30, 1965, and the statements of earnings and the statement of sources and application of funds for the year then ended. These statements are presented in this report on a combined basis and separately for each of the three functions of FNMA. We also examined the GMLT statement of accountability for the period October 1, 1964, through June 30, 1965. Our review was conducted at the Washington headquarters of FNMA and at two of the five agency offices. The agency offices we visited were those located at Dallas, Texas, and at Los Angeles, California.

Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered to be necessary in the circumstances.

OPINION OF FINANCIAL STATEMENTS

The financial statements, schedules 1 through 9, presented in this report are the statements of FNMA. As explained in the section "Comments on Financial Statements," we do not agree with FNMA's presentation in its financial statements of certain accounts relating to GMLT.

In our opinion, except as noted in the preceding comments, the accompanying financial statements of FNMA (schedules 1 through 9) present fairly the financial position of FNMA at June 30, 1965, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

Schedule 10 contains the statements prepared by FNMA as trustee for GMLT. As explained in the "Comments on Financial Statements," it is our opinion that statements of financial position, income and expense, and sources and application of funds would show the financial position of GMLT and the results of its operations more clearly than do the statements that FNMA prepared.

FINANCIAL STATEMENTS

Federal National Mortgage Association

COMBINED BALANCE SHEET

		June 30, 1965	June 30, 1964
ASSETS			
Mortgages and related receivables:			
FHA-insured and VA-guaranteed mortgages at cost:			
Insured by Federal Housing Administration		$ 2,959,159,611	$ 2,994,000,255
Guaranteed by Veterans Administration		1,281,942,947	1,481,712,882
		4,241,102,558	4,475,713,137
Less Government Mortgage Liquidation Trust participation certificates outstanding	$ 200,000,000		
Certificate liquidation deposits with GMLT Trustee	15,330,449	184,669,551	
		4,056,433,007	4,475,713,137
Direct mortgage loans transferred from HHFA:			
Unpaid principal	62,133,951		
Less allowance for losses	6,199,466	55,934,485	69,173,856
DHC purchase money notes transferred from RFC:			
Unpaid principal	24,741,468		
Less unrealized equity	14,410,226	10,331,242	13,880,784
Total mortgages		4,122,698,734	4,558,767,777
Accrued interest receivable		17,657,854	18,558,911
Other receivables arising from mortgages		4,992,420	4,550,011
		4,145,349,008	4,581,876,699
Assets acquired through foreclosure and claims in process:			
Property held pending transfer to:			
Federal Housing Administration		9,110,720	13,387,590
Veterans Administration		342,081	398,837
Claims in process against:			
Federal Housing Administration		21,958,578	10,760,448
Veterans Administration		4,137,815	7,649,424
		35,549,194	32,196,299
Less allowance for losses		1,318,692	1,092,650
		34,230,502	31,103,649
Property held for sale		512,497	2,995,039
FHA debentures		13,811,900	36,302,000
Accrued interest on FHA debentures and debenture portion of claims		358,065	852,741
		48,912,964	71,253,429
Other assets:			
Cash on hand and on deposit with the U. S. Treasury a/		16,560,017	9,476,966
Investment in obligations of U. S. Government Agencies			
Accrued interest, receivable on investment in obligations of U. S. Government Agencies		1,290	
Deferred charges		10,144,776	5,403,191
Miscellaneous		14,161	17,897
Furniture and equipment, less accumulated depreciation		268,368	300,984
		26,988,612	15,199,038
		4,221,250,584	4,668,329,166
LIABILITIES			
Liabilities:			
Accrued interest payable on notes to the U. S. Treasury		33,537,568	42,953,868
Accrued interest payable on notes and debentures held by the public a/		14,679,493	17,012,299
Dividends on preferred stock		930,000	1,620,297
Dividends on common stock		286,908	272,018
Accounts payable and accrued liabilities		3,140,648	2,870,526
Trust and deposit liabilities b/		56,040,900	57,033,559
Notes payable to the U. S. Treasury - Secondary Market Operations			4,460,000
Notes and debentures held by the public a/		1,796,920,000	1,698,470,000
Accrued Federal income tax equivalent		11,482,942	12,988,756
Deferred income		778,345	785,830
Employees' accrued annual leave		793,639	801,411
		1,918,590,443	1,839,268,564
Investment of the United States Government:			
Preferred stock authorized - Secondary Market Operations		207,820,305	207,820,305
Less unissued		49,000,000	49,000,000
Preferred stock issued		158,820,305	158,820,305
Less FNMA treasury stock		108,820,305	70,820,305
Preferred stock held by the Secretary of the Treasury		50,000,000	88,000,000
Notes payable to the U. S. Treasury - Special Assistance and Management and Liquidating Functions		1,899,092,000	2,388,210,000
Retained earnings:			
Reserved for losses and contingencies		186,228,802	179,589,307
Reserved for payment to the U. S. Treasury			15,000,000
Undistributed		44,818,252	41,465,212
		2,180,139,054	2,712,264,519
Investment of the public - Secondary Market Operations:			
Common stock issued		92,551,000	90,672,600
Common stock subscribed but not yet issued		333,220	89,382
Capital surplus paid in by subscribers to common stock		507,548	91,215
Retained earnings - undistributed		29,129,319	25,942,886
		122,521,087	116,796,083
		4,221,250,584	4,668,329,166

a/ Excludes $1,713,861 ($1,094,861 interest and $619,000 principal) at June 30, 1965 as reported by the U.S. Treasury on Aug. 17, 1965, and $2,823,110 ($2,391,110 interest and $432,000 principal) at June 30, 1964 as reported by the U.S. Treasury on July 28, 1964 on deposit with the U.S. Treasury for payment of matured interest and principal on notes and debentures held by the public.

b/ Includes only that portion of such deposits held in the general funds of the Association. In addition, the Association is responsible for the payment by servicing institutions of taxes, insurance, etc., (out of funds received from mortgagors and held in escrow by servicers for that purpose) in the amount of $25,805,307 at June 30, 1965 and $25,894,581 at June 30, 1964. All such funds are on deposit with commercial banks which are members of the Federal Deposit Insurance Corporation.

Note: On June 30, 1965, the unpaid principal balance of FHA mortgages was $2,992,505,857 and VA, $1,310,526,802 and on that date, under contracts previously executed, the Association was committed to purchase FHA-insured and VA-guaranteed mortgages aggregating $359,871,219 upon delivery of eligible mortgages. Included in the unpaid principal balances are $420,726,709 in FHA mortgages and $315,396,158 in VA mortgages which are subject to the Government Mortgage Liquidation Trust.

This statement does not show the Association's accountability as Trustee under the Government Mortgage Liquidation Trust. This information appears in Schedule 10.

Federal National Mortgage Association

COMBINED STATEMENT OF EARNINGS

	Fiscal Year Ended	
INCOME	June 30, 1965	June 30, 1964
Interest	$ 219,699,818	$ 234,542,632
Less interest on Government Mortgage Liquidation Trust participation certificates	5,676,250	
	214,023,568	234,542,632
Commitment and other fees	1,303,999	1,067,212
Acquisition and service fees		
Purchase and marketing fees	1,441,402	402,975
Option contract fees	3,328	1,736
Purchase discounts realized	5,550,783	5,998,275
Net gains on sales	(9,162,100)	364,342
Service fees	188,997	305,598
Other	340,832	1,493,067
	213,690,809	244,175,837
EXPENSE		
Interest on notes to the U. S. Treasury	78,716,246	92,995,168
Interest on notes and debentures held by the public	73,662,334	77,374,596
Issuing and servicing securities	652,840	889,410
Administrative	8,152,981	8,294,862
Fees for servicing mortgages	18,788,644	19,663,305
Provision for losses	3,289,376	3,528,383
Other	344,470	1,134,093
	183,606,891	203,879,817
Earnings prior to provision for tax equivalent	30,083,918	40,296,020
Provision for Federal income tax equivalent	11,482,942	12,988,756
Net earnings	18,600,976	27,307,264

CUMULATIVE NET EARNINGS AND ANALYSIS OF DISPOSITION

Cumulative net earnings--July 1, 1964	$552,456,978
Net earnings for fiscal year ended June 30, 1965	18,600,976
	$571,057,954
Dividends paid to the Reconstruction Finance Corporation	$ 30,500,000
Dividends paid to the U.S. Treasury	132,320,305
Dividends to reimburse HHFA for interest expense on borrowings used to purchase FNMA stock from RFC	1,580,992
Dividends on preferred stock	25,525,360
Dividends on common stock	17,983,394
Earnings paid to the U.S. Treasury	97,633,561
Liability for accrued annual leave for employees transferred from RFC	418,926
Adjustments of reserves covering certificates of claim	4,919,043
Retained earnings:	
Reserved for losses and contingencies	186,228,802
Undistributed	73,947,571
	$571,057,954

Federal National Mortgage Association
Secondary Market Operations
BALANCE SHEET

	June 30, 1965	June 30, 1964
ASSETS		
Mortgages and related receivables:		
FHA-insured and VA-guaranteed mortgages at cost:		
Insured by Federal Housing Administration	$ 1,449,174,118	$ 1,350,701,780
Guaranteed by Veterans Administration	564,527,296	611,535,924
Total mortgages	2,013,701,414	1,962,237,704
Accrued interest receivable	9,115,848	8,804,471
Other receivables arising from mortgages	1,620,537	2,076,091
	2,024,437,799	1,973,118,266
Assets acquired through foreclosure and claims in process:		
Property held pending transfer to:		
Federal Housing Administration	4,927,661	7,274,935
Veterans Administration	257,666	219,148
Claims in process against:		
Federal Housing Administration	6,611,207	4,737,461
Veterans Administration	2,269,244	4,296,685
	14,065,778	16,528,229
Less allowance for losses	508,991	616,182
	13,556,787	15,912,047
Property held for sale	2,482	9,045
FHA debentures	5,992,650	5,529,100
Accrued interest on FHA debentures and debenture portion of claims	212,648	91,216
	19,764,567	21,541,408
Other assets:		
Cash on hand and on deposit with the U. S. Treasury a/	12,628,600	5,355,432
Investment in obligations of U. S. Government Agencies		
Accrued interest receivable on investment in obligations of U. S. Government Agencies	1,290	
Deferred charges	9,578,285	5,400,052
Miscellaneous	8,386	365
	22,216,561	10,755,849
	2,066,418,927	2,005,415,523
LIABILITIES		
Liabilities:		
Accrued interest payable on notes to the U. S. Treasury		475
Accrued interest payable on debentures held by the public a/	14,679,493	17,012,299
Dividends on preferred stock	930,000	1,620,297
Dividends on common stock	286,908	272,018
Accounts payable and accrued liabilities	1,735,427	1,315,927
Trust and deposit liabilities	22,399,540	22,228,626
Notes payable to the U. S. Treasury		4,460,000
Debentures held by the public a/	1,339,900,000	1,698,470,000
Short-term discount notes held by the public	457,020,000	
Accrued Federal income tax equivalent	11,482,942	12,988,756
Deferred income-premiums on debentures	645,278	785,830
	1,849,079,588	1,759,154,228
Investment of the United States Government:		
Preferred stock authorized	207,820,305	207,820,305
Less unissued	49,000,000	49,000,000
Preferred stock issued	158,820,305	158,820,305
Less FNMA treasury stock	108,820,305	70,820,305
Preferred stock held by the Secretary of the Treasury	50,000,000	88,000,000
Retained earnings-undistributed	44,818,252	41,465,212
	94,818,252	129,465,212
Investment of the public:		
Common stock issued	92,551,000	90,672,600
Common stock subscribed but not yet issued	333,220	89,382
Capital surplus paid in by subscribers to common stock	507,548	91,215
Retained earnings-undistributed	29,129,319	25,942,886
	122,521,087	116,796,083
	2,066,418,927	2,005,415,523

a/ Excludes $1,713,269 ($1,094,269 interest and $619,000 principal) at June 30, 1965 as reported by the U.S. Treasury on Aug. 17, 1965 and $2,822,518 ($2,390,518 interest and $432,000 principal) at June 30, 1964 as reported by the U.S. Treasury on July 28, 1964 on deposit with the U.S. Treasury for payment of matured interest and principal on debentures held by the public.

Note: On June 30, 1965, the unpaid principal balance of FHA mortgages was $1,477,044, 164 and VA, $592,381,668 and on that date, under contracts previously executed, the Association was commited to purchase FHA-insured and VA-guaranteed mortgages aggregating $54,087,274 upon delivery of eligible mortgages.

Federal National Mortgage Association
Secondary Market Operations

STATEMENT OF EARNINGS

	Fiscal Year Ended	
INCOME	June 30, 1965	June 30, 1964
Interest	$ 105,898,157	$ 109,576,608
Commitment and other fees	11,272	14,035
Purchase and marketing fees	1,266,417	263,229
Option contract fees	3,328	1,736
Purchase discounts realized	5,185,837	5,591,625
Net gains on sales	1,684,667	2,977,310
Service fees	67,828	105,181
Other	12,819	1,473,919
	114,130,325	120,003,643
EXPENSE		
Interest on notes to the U. S. Treasury	1,260,182	91,109
Interest on debentures held by the public	65,421,463	77,304,060
Interest on short-term discount notes held by the public	8,240,871	70,536
Issuing and servicing securities	652,840	889,366
Administrative	3,909,404	3,993,990
Fees for servicing mortgages	9,796,584	10,077,468
Provision for losses	1,385,564	2,047,126
Other	18,994	52,321
	90,685,902	94,525,976
Earnings prior to provision for tax equivalent	23,444,423	25,477,667
Provision for Federal income tax equivalent	11,482,942	12,988,756
Net earnings	11,961,481	12,488,911

CUMULATIVE NET EARNINGS AND ANALYSIS OF DISPOSITION

Cumulative net earnings--July 1, 1964	$105,494,844
Net earnings for fiscal year ended June 30, 1965	11,961,481
	$117,456,325
Dividends on preferred stock	$ 25,525,360
Dividends on common stock	17,983,394
Retained earnings--undistributed	73,947,571
	$117,456,325

Federal National Mortgage Association
Special Assistance Functions
BALANCE SHEET

		June 30, 1965	June 30, 1964
ASSETS			
Mortgages and related receivables:			
FHA-insured and VA-guaranteed mortgages at cost:			
Insured by Federal Housing Administration		$ 973,862,673	$ 1,145,997,652
Guaranteed by Veterans Administration		322,858,033	348,640,881
		1,296,720,706	1,494,638,533
Less Government Mortgage Liquidation Trust participation certificates outstanding	$200,000,000		
Certificate liquidation deposits with GMLT Trustee	15,330,449	184,669,551	
Total mortgages		1,112,051,155	1,494,638,533
Accrued interest receivable		5,022,531	5,900,477
Other receivables arising from mortgages		677,631	937,756
		1,117,751,317	1,501,476,766
Assets acquired through foreclosure and claims in process:			
Property held pending transfer to:			
Federal Housing Administration		2,873,317	4,312,061
Veterans Administration		43,789	142,712
Claims in process against:			
Federal Housing Administration		12,266,646	3,854,554
Veterans Administration		1,486,300	2,647,169
		16,670,052	10,956,496
Less allowance for losses		410,120	224,909
		16,259,932	10,731,587
FHA debentures		5,967,000	7,183,150
Accrued interest on FHA debentures and debenture portion of claims		118,134	170,828
		22,345,066	18,085,565
Other assets:			
Cash on hand and on deposit with the U. S. Treasury		2,486,083	2,483,646
Deferred charges		548,708	
Miscellaneous			10,282
		3,034,791	2,493,928
		1,143,131,174	1,522,056,259
LIABILITIES			
Liabilities:			
Accrued interest payable on notes to the U. S. Treasury		18,075,745	25,233,942
Accounts payable and accrued liabilities		571,627	654,749
Trust and deposit liabilities		15,769,613	14,929,995
Deferred income		133,067	
		34,550,052	40,818,686
Investment of the United States Government:			
Notes payable to the U. S. Treasury		1,017,932,000	1,394,740,000
Retained earnings:			
Reserved for losses and contingencies		90,649,122	86,497,573
Undistributed			
		1,108,581,122	1,481,237,573
		1,143,131,174	1,522,056,259

Note: On June 30, 1965, the unpaid principal balance of FHA mortgages was $977,719,601 and VA, $323,587,516 and on that date, under contracts previously executed, the Association was committed to purchase FHA-insured and VA-guaranteed mortgages aggregating $305,783,945 upon delivery of eligible mortgages. Included in the unpaid principal balances are $246,162,937 in FHA mortgages and $315,396,158 in VA mortgages which are subject to the Government Mortgage Liquidation Trust.

Federal National Mortgage Association
Special Assistance Functions

STATEMENT OF EARNINGS

	Fiscal Year Ended June 30, 1965	Fiscal Year Ended June 30, 1964
INCOME		
Interest	$ 65,964,278	$ 73,446,359
Less interest on Government Mortgage Liquidation Trust participation certificates	5,676,250	
	60,288,028	73,446,359
Commitment and other fees	1,291,632	1,051,420
Purchase and marketing fees	174,985	139,746
Purchase discounts realized	315,059	406,650
Service fees	68,176	113,261
Other	294,195	(1,396)
	62,432,075	75,156,040
EXPENSE		
Interest on notes to the U. S. Treasury	42,875,515	53,972,044
Administrative	1,613,173	1,836,335
Fees for servicing mortgages	4,336,704	4,691,569
Net losses on sales	7,997,288	1,058,978
Provision for losses	1,182,439	1,077,520
Other	275,407	1,058,855
	58,280,526	63,695,301
Net earnings	4,151,549	11,460,739

CUMULATIVE NET EARNINGS AND ANALYSIS OF DISPOSITION

Cumulative net earnings--July 1, 1964	$89,131,134
Net earnings for the fiscal year ended June 30, 1965	4,151,549
	$93,282,683
Earnings paid to U.S. Treasury	$ 2,633,561
Retained earnings--reserved for losses and contingencies	90,649,122
	$93,282,683

Federal National Mortgage Association
Management and Liquidating Functions

BALANCE SHEET

		June 30, 1965	June 30, 1964
ASSETS			
Mortgages and related receivables:			
FHA-insured and VA-guaranteed mortgages at cost:			
Insured by Federal Housing Administration		$ 536,122,820	$ 497,300,823
Guaranteed by Veterans Administration		394,557,618	521,536,077
		930,680,438	1,018,836,900
Direct mortgage loans transferred from HHFA:			
Unpaid principal	$62,133,951		
Less allowance for losses	6,199,466	55,934,485	69,173,856
DHC purchase money notes transferred from RFC:			
Unpaid principal	24,741,468		
Less unrealized equity	14,410,226	10,331,242	13,880,784
Total mortgages		996,946,165	1,101,891,540
Accrued interest receivable		3,519,475	3,853,963
Other receivables arising from mortgages		2,694,252	1,536,164
		1,003,159,892	1,107,281,667
Assets acquired through foreclosure and claims in process:			
Property held pending transfer to:			
Federal Housing Administration		1,309,742	1,800,594
Veterans Administration		40,626	36,977
Claims in process against:			
Federal Housing Administration		3,080,725	2,168,433
Veterans Administration		382,271	705,570
		4,813,364	4,711,574
Less allowance for losses		399,581	251,559
		4,413,783	4,460,015
Property held for sale		510,015	2,985,994
FHA debentures		1,852,250	23,589,750
Accrued interest on FHA debentures and debenture portion of claims		27,283	590,697
		6,803,331	31,626,456
Other assets:			
Cash on hand and on deposit with the U. S. Treasury a/		1,445,334	1,637,888
Deferred charges		17,783	3,139
Miscellaneous		5,775	7,250
Furniture and equipment, less accumulated depreciation		268,368	300,984
		1,737,260	1,949,261
		1,011,700,483	1,140,857,384
LIABILITIES			
Liabilities:			
Accrued interest payable on notes to the U. S. Treasury		15,461,823	17,719,451
Accounts payable and accrued liabilities		833,594	899,850
Trust and deposit liabilities		17,871,747	19,874,938
Employees' accrued annual leave		793,639	801,411
		34,960,803	39,295,650
Investment of the United States Government:			
Notes payable to the U. S. Treasury		881,160,000	993,470,000
Retained earnings:			
Reserved for losses and contingencies		95,579,680	93,091,734
Reserved for payment to the U. S. Treasury			15,000,000
Undistributed			
		976,739,680	1,101,561,734
		1,011,700,483	1,140,857,384

a/ Excludes $592 interest at June 30, 1965, and June 30, 1964 on deposit with the U.S. Treasury for payment of matured interest on notes payable to the public.

Note: On June 30, 1965, the unpaid principal balance of FHA mortgages was $537,742,092 and VA $394,557,618. Included in the FHA principal balance is $174,563,772 subject to the Government Mortgage Liquidation Trust.

Federal National Mortgage Association
Management and Liquidating Functions

STATEMENT OF EARNINGS

	Fiscal Year Ended June 30, 1965	Fiscal Year Ended June 30, 1964
INCOME		
Interest	$ 47,837,383	$ 51,519,665
Commitment and other fees	1,095	1,757
Acquisition and service fees		
Purchase discounts realized	49,887	
Service fees	52,993	87,156
Other	33,818	20,544
	47,975,176	51,629,122
EXPENSE		
Interest on notes to the U. S. Treasury	34,580,549	38,932,015
Interest on notes held by the public		
Issuing and servicing securities		44
Administrative	2,630,404	2,464,537
Fees for servicing mortgages	4,655,356	4,894,268
Net losses on sales	2,849,479	1,553,990
Provision for losses	721,373	403,737
Other	50,069	22,917
	45,487,230	48,271,508
Net earnings	2,487,946	3,357,614

CUMULATIVE NET EARNINGS AND ANALYSIS OF DISPOSITION

Cumulative net earnings--July 1, 1964	$357,831,000
Net earnings for the fiscal year ended June 30, 1965	2,487,946
	$360,318,946
Dividends paid to Reconstruction Finance Corporation	$ 30,500,000
Dividends paid to U.S. Treasury	132,320,305
Dividends to reimburse HHFA for interest expense on borrowings used to purchase FNMA stock from RFC	1,580,992
Earnings paid to U.S. Treasury	95,000,000
Liability for accrued annual leave for employees transferred from RFC	418,926
Adjustments of reserves covering certificates of claim	4,919,043
Retained earnings--reserved for losses and contingencies	95,579,680
	$360,318,946

Federal National Mortgage Association

STATEMENT OF SOURCES AND APPLICATION OF FUNDS

Fiscal Year 1965

	Combined	Secondary Market Operations	Special Assistance Functions	Management and Liquidating Functions
RECEIPTS FROM OPERATIONS (funds provided)				
Sales, repayments and other disposals of mortgages	$ 754,036,330	$ 248,356,557	$ 297,537,466	$ 208,142,307
Common stock subscriptions received from the public	2,538,570	2,538,570		
Proceeds from the sale of furniture and equipment	3,956			3,956
Income:				
Interest	214,023,568	105,898,157	60,288,028	47,837,383
Commitment, purchase and marketing and other fees	2,937,726	1,348,845	1,534,793	54,088
Purchase discounts realized	5,550,783	5,185,837	315,059	49,887
Net gains on sales	(9,162,100)	1,684,667	(7,997,288)	(2,849,479)
Other	338,143	12,819	294,195	31,129
Borrowings:				
From the U. S. Treasury	955,129,913	562,360,000	138,612,000	254,157,913
Short-term discount notes	1,041,250,000	1,041,250,000		
Sale of participation certificates - Government Mortgage Liquidation Trust	200,000,000		200,000,000	
Redemptions of obligations of the U. S. Treasury and Federal Agencies	152,548,198	152,548,198		
Total receipts from operations	3,319,195,087	2,121,183,650	690,584,253	507,427,184
GROSS EXPENDITURES (funds applied)				
Purchase of FHA-insured and VA-guaranteed mortgages (net of discount)	348,491,184	248,871,546	99,619,638	
Purchase of HHFA mortgages (Public Law 86-372) (net of discount)	108,157			108,157
FHA-insured mortgages acquired from FHA in exchange for FNMA-held FHA debentures	90,454,718	50,948,720		39,505,998
FHA-insured mortgages acquired from FHA for cash (net of discount)	63,582,776			63,582,776
Purchase of furniture and equipment	36,023			36,023
Expense:				
Interest on notes and debentures	152,378,580	74,922,516	42,875,515	34,580,549
Fees for servicing mortgages	18,788,644	9,796,584	4,336,704	4,655,356
Administrative	8,085,704	3,909,404	1,613,173	2,563,127
Issuing and servicing securities	652,840	652,840		
Federal income tax equivalent	11,482,942	11,482,942		
Other	3,633,752	1,404,558	1,457,846	771,348
Dividends:				
On preferred stock held by the U. S. Treasury	2,022,548	2,022,548		
On common stock held by the public	3,399,460	3,399,460		
Repayment of borrowings:				
To the U. S. Treasury	1,448,707,913	566,820,000	515,420,000	366,467,913
Debentures held by the public	358,383,000	358,383,000		
Short-term discount notes	584,230,000	584,230,000		
Purchase of preferred stock	38,000,000	38,000,000		
Investment in obligations of the U. S. Treasury and Federal Agencies	152,548,198	152,548,198		
Earnings paid to the U. S. Treasury	15,000,000			15,000,000
Net changes in other assets and liabilities	19,208,648	13,791,334	25,261,377	(19,844,063)
Total gross expenditures	3,319,195,087	2,121,183,650	690,584,253	507,427,184

Note: This statement does not show the Association's activity as Trustee under the Government Mortgage Liquidation Trust. This information appears in Schedule 10.

Federal National Mortgage Association

GOVERNMENT MORTGAGE LIQUIDATION TRUST

STATEMENT OF ACCOUNTABILITY

	Period October 1, 1964 Through June 30, 1965
Accountability at beginning of period	$
Increases:	
Sale of participation certificates:	
Face	300,000,000
Premiums	240,600
Discounts	(78,600)
Commission	(900,000)
Net	299,262,000
Collections received from:	
Federal National Mortgage Association	31,182,220
Veterans Administration	15,651,927
	46,834,147
Investments:	
Principal purchased	30,949,508
Accrued interest purchased	169,680
Interest earned	273,021
Discounts earned	109,642
	31,501,851
Total increases	377,597,998

	Period October 1, 1964 Through June 30, 1965
Decreases:	$
Distribution of certificate sale proceeds to:	
Federal National Mortgage Association	199,508,000
Veterans Administration	99,754,000
	299,262,000
Excess collections returned to:	
Federal National Mortgage Association	10,382,220
Veterans Administration	5,251,927
	15,634,147
Purchase of investments	31,119,188
Certificate interest paid at maturity	6,376,875
Expense of trust	80,696
Total decreases	352,472,906
Accountability at June 30, 1965 to:	
Federal National Mortgage Association - SAF	16,755,449
Federal National Mortgage Association - M&L	(3,501)
Veterans Administration	8,373,144
	25,125,092

ANALYSIS OF ACCOUNTABILITY AT JUNE 30, 1965

Cash on deposit with the U. S. Treasury	$ 10,517,780
Underwriters security deposit	(10,500,000)
	17,780
Investments at cost	24,719,509
Interest and discounts on investments	399,856
Accounts payable	(12,053)
	25,125,092

ANALYSIS OF MORTGAGES SUBJECT TO TRUST AND RELATED PARTICIPATION CERTIFICATES

	October 1, 1964 through June 30, 1965			
	Trustor FNMA		Trustor VA	Total
	SAF	M&L		
FHA-insured and VA-guaranteed mortgages:				
Unpaid principal at beginning of period	$ 428,115,729	$	$ 204,646,817	$ 632,762,546
Additions	156,010,753	175,856,021	353,049,320	684,916,094 b/
Repayments a/	13,805,529	860,863	13,327,739	27,994,131
Other credits a/	8,761,858	431,386	1,773,312	10,966,556
Unpaid principal June 30, 1965	561,559,095	174,563,772	542,595,086	1,278,717,953
Participation certificates:				
Principal at face value:				
Issued November 2, 1964	200,000,000		100,000,000	300,000,000
Paid or retired during period				
Outstanding June 30, 1965	200,000,000		100,000,000	300,000,000
Interest payable:				
Outstanding at beginning of period				
Accrued during period	5,676,250		2,838,125	8,514,375
Liquidated during period	4,251,250		2,125,625	6,376,875
Outstanding June 30, 1965	1,425,000		712,500	2,137,500

Issues:	Maturity	Int. Rate	Face Amount	Maturity	Int. Rate	Face Amount	Maturity	Int. Rate	Face Amount
Series A - issued November 2, 1964	11-1-65	4-1/8%	$30,000,000	11-1-68	4-1/4%	$30,000,000	11-1-71	4-3/8%	$30,000,000
	11-1-66	4-1/8	30,000,000	11-1-69	4-1/4	30,000,000	11-1-72	4-3/8	30,000,000
	11-1-67	4-1/4	30,000,000	11-1-70	4-1/4	30,000,000	11-1-73	4-3/8	30,000,000
							11-1-74	4-3/8	30,000,000

a/ June collections remitted to Trustee during July 1965.

b/ Includes mortgages applicable to Series B certificates issued July 1, 1965.

U.S. GAO, Wash., D.C.

EXECUTIVE

FI 5-4

FH 11-1

FG 170-6

11/21/66

Background for discussion of $1 billion FNMA special assistance reserve ($350 million proposed for release)

A. Funds placed in reserve September 10, 1966 pending evaluation of other actions taken by Administration about the same time. These were:

1. Increased FNMA secondary market purchase authority. ($1.4 billion increase over budget level of $900 million.)
2. Restraint on Federal Agency borrowings from public.
3. Interest rate ceilings on savings accounts which gave preference to S & L institutions.
4. Investment credit suspension.
5. FY 1967 (current year) program reductions at your

...was placed in reserve because ... the fact that market premium ... for these mortgages, with ... relatively few builders. ...ut $350 dollars a house. ...d 25,000 houses) is now pro-...

...were at lowest annual rate

...es Act, resolved against

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET

DATE 11/21/66

TO: Situation Room

FROM: Phillip S. Hughes

REMARKS:

Would you be so kind as to put this on the ticker to the Ranch right away, for Mr. Jacobsen.

Thanks.

SPECIAL SERVICE

EXECUTIVE

HS
BE4/Housing
FG170
FG170-6
Blackmon, Larry

Should I acknowledge and thank Larry for sending you this copy? ______

OR, just FILE ✓

X

November 21, 1966

The Honorable Robert C. Weaver
Secretary
Department of Housing and Urban Development
Washington, D. C.

Dear Bob:

I am sure that you are familiar with the October housing starts figures and their grave implications to the housing industry. I am sure that I need not explain to you what this means to the industry both short term and long term.

I believe it is now clear that the release of the special assistance funds authorized by the Congress last August is imperative. The release of these funds is certainly not the total answer to this problem but it will to some extent help soften the blow to the home building industry and would produce some much needed lower-priced housing.

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CENTRAL FILES

When the announcement was made that the funds were being withheld it was explained that the Administration wanted to analyze the effect of the increased FNMA secondary market authorization, the impact of new legislation aimed at stabilizing interest rates and competition for savings, and steps taken by the executive branch in its efforts to reduce inflationary pressures. The increased secondary market authorization has had limited effect because of the heavy discounts. The interest rate bill, while of great importance, has not to any measurable degree reversed the flow of funds into mortgage investments; and the Secretary of the Treasury has said publically that Administration measures to reduce inflationary pressures are having effect.

I believe that in light of these facts and the state of the home building industry that there is no valid reason for withholding the special assistance funds another day.

We share the concern of the Administration about budgetary impact. But I must point out that in light of the normal cycle of submissions of applications; preliminary negotiations with subcontractors, local officials, and others; building time; and marketing time that the budgetary impact in

Orig to

Nothing else sent to

EXECUTIVE (2)

FI4/FG170
FI5-4
FG170-6
FG11-1

Recd. 11-21-66 11:45am

(3)

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON 25, D.C.

OFFICE OF
THE DIRECTOR

November 19, 1966

MEMORANDUM FOR THE PRESIDENT

Subject: Release of Federal National Mortgage Association Special Assistance Funds

Because of the continued decline of housing starts, I recommend that you release immediately $350 million of the $1 billion of special assistance funds for FNMA.

This release would increase FY 1967 NOA totals by the full $350 million and FY 1967 expenditures by approximately $100 million.

We had counted on holding back the entire $1 billion "special assistance" in the budget cutback exercise. This action would reduce the cutback by $350 million NOA.

As you know, the latest figures on housing starts show a further decline during October to an annual rate of 848,000 units -- the first time since 1946 that the homebuilding level has fallen below the million-a-year level. An early announcement of Government action to release special assistance funds should provide a shot in the arm to the industry.

Obviously this amount of funds can't, by itself, turn the whole housing situation around. But it will help. Moreover, if we hold all of these funds idle while construction is falling sharply, we will be subject to very strong criticism.

Secretaries Fowler, Weaver and Chairman Ackley concur in this recommendation.

Charles L. Schultze

Charles L. Schultze
Director

Approve __________

Disapprove _______

BB ... 11-16-66 1500p

~~Federal National~~ Fam

EXECUTIVE
FI5-4
FG170-6
FG11-3

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

November 16, 1966

MEMORANDUM FOR THE PRESIDENT

Subject: Proposed Sale of FNMA Debentures

Fanny Mae

1. Treasury proposed that FNMA sell a debenture issue of $550 million.

- Of this issue

  -- $300 million would be sold in the market and

  -- $250 million to the trust funds.

- The proceeds would be divided as follows:

  -- $93 million to repay a maturing issue

  -- $457 million to repay FNMA's earlier borrowing from the Treasury.

2. This sale would reduce budget expenditures by $457 million because Treasury loans to FNMA are budget expenditures but security purchases by trust funds are not.

- The sale would also reduce Treasury debt by an equal amount.

- This is ~~important because Treasury is so close to the debt ceiling~~.

3. This sale is consistent with our promise not to raise new money in the aggregate through agency securities because the public holdings of agency securities have been reduced $448 million since September.

4. We recommend that this issue be approved.

OK

L

Arthur M. Okun

Arthur M. Okun
Acting Chairman

Orig to Mrs Zerrils

—331

EXECUTIVE (2)
FI 5-4
FG 110
FG 170-6

THE SECRETARY OF THE TREASURY
WASHINGTON

NOV 15 1966

MEMORANDUM FOR THE PRESIDENT

Subject: Proposed Sale of FNMA Debentures

The Federal National Mortgage Association has a December 12 maturity of $93 million of debentures. It is proposed that the Association borrow $550 million through a new debenture issue to provide the funds to pay off the maturing debentures and to pay off $457 million of its borrowings from the Treasury. These borrowings are in support of FNMA's secondary market purchases of mortgages.

It should be noted that we are counting on these repayments by FNMA to the Treasury in our current debt limit planning. We run very close to the statutory debt ceiling even after allowing for the repayment, and without the repayment we could not stay under the ceiling.

It is proposed that $250 million of the $550 million issue be sold to the Government investment accounts and $300 million in the market. The market will thus be providing $207 million of new money.

You will recall that our September 10 announcement said that it was planned that Federal agencies would raise required new money, in the aggregate, through the sale of agency securities to the Government investment accounts. Under this criterion there is ample room for the sale proposed here because Government investment account purchases in earlier sales were larger than new money requirements. As a result, market holdings of major agency issues have been reduced by $448 million since the current program began on September 10. The proposed sale of FNMA debentures will still leave a substantial reduction in market holdings of agency issues.

BB/—

EXECUTIVE (5)
FI4/FG170
FA
TN2
LG
HS3
FG170
FG170-6

THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

October 22, 1966

MEMORANDUM TO: Honorable Joseph A. Califano, Jr.
Special Assistant to the President
The White House

FROM: Robert C. Wood

SUBJECT: Items of Possible Interest to the President

The following items may be of interest to the President during his Asian tour: re: 10/18 memo

House and Senate conferees reached agreement late Friday on HR 18381, the pending supplemental appropriations bill for 1967. Final amounts agreed to for HUD items are as follows:

1. Urban Mass Transportation Grants (FY 1968), $70 million.
2. Urban Mass Transportation (Administrative expenses), $80 thousand.
3. Urban Renewal Grants (FY 1968), $750 million.
4. Demonstration Cities Planning Grants and Administrative Expenses, $11 million.
5. Metropolitan Planning Incentive Grants, nothing.
6. FNMA (Administrative Expenses), $850 thousand.

The Senate receded from its amendment which would have provided $12,180,000 for grants under Title II of the Demonstration Cities and Metropolitan Development Act of 1966. Therefore, this program will be without funds until an appropriation can be sought at the next session.

EF

EXECUTIVE

LE/LG

LG

FI4

FG170

FG170-6

(4)

THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, D.C. 20410

October 19, 1966

MEMORANDUM TO: Honorable Joseph A. Califano, Jr.
Special Assistant to the President
The White House

FROM: Robert C. Weaver

SUBJECT: Items of Possible Interest to the President

Per request memo filed EX LE FG 10/18/66

The following items may be of interest to the President during his Asian tour:

1. Demonstration Cities and Metropolitan Development Bill of 1966. The Senate agreed yesterday (October 18) by a vote of 38 to 22 to the conference report on the Demonstration Cities and Metropolitan Development bill of 1966. The House is expected to take up the conference report today. The bill as agreed upon by the conferees contains the Administration's proposals without any major changes other than those that have previously been accepted by the Administration.

2. Supplemental Appropriation Bill, 1967. The House passed yesterday (October 18) the Supplemental Appropriation bill, 1967, with the appropriations requested to implement the Demonstration Cities and Metropolitan Development bill of 1966. The Senate Committee on Appropriations will report today, and tomorrow the Senate will consider the Supplemental Appropriations Bill which carries funds for several departmental programs.

3. The FNMA Board of Directors at their meeting today amended the secondary market requirements to eliminate the requirement for standby commitments. FNMA will accept mortgages not in excess of $25,000 on mortgages endorsed by FHA

EXECUTIVE

FE 4/, FI 1-1
FG 11-1
ED
FG 170-6

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D.C. 20503

OFFICE OF
THE DIRECTOR

October 19, 1966

MEMORANDUM FOR MR. CALIFANO

Subject: Items for the President

1. Two major budgetary threats disappeared. Both House and Senate versions of the House Supplemental Appropriation carry no funds in excess of budget for elementary, secondary, and higher education. The authorization bills had previously added substantial amounts to budget.

2. Larry Blackmon, President of Home Builders, called news conference to urge Administration to release the $1 billion in FNMA special assistance funds for housing which we are holding back.

Charlie

Charles L. Schultze
Director

filed [illegible]

EXECUTIVE

FI5-4

BE4/Construction

STATE OF CALIFORNIA—REVENUE AND MANAGEMENT AGENCY

EDMUND G. BROWN, Governor

DEPARTMENT OF FINANCE

1725 K ST., N.W.
WASHINGTON, D.C.

375

FD170-6

JAC talked to Secy Weaver who will work w/ Irv Sprague. 10/19

October 17, 1966

Mr. Joseph Califano
Special Assistant to the President
The White House
Washington, D. C.

Sprague, Irvine H.

Dear Joe:

As you may know, the sharp curtailment of new housing construction and existing home re-sale activity in California because of the tight money market has developed into one of the major issues of the campaign.

On October 3, FNMA announced new regulations which increased mortgage ceilings from $15,000 across the board to $17,500 on existing homes and $25,000 on new homes. The ceiling was $30,000 across the board prior to April 1. (See attached HUD release "A" for details.)

Unfortunately and apparently inadvertently, the detailed accompanying regulations in effect made the ceilings above $17,500 of little value in California while heavily favoring areas of the country where construction costs are low.

A meeting of presidents of all effected segments of the industry from California met this morning with Phil Brownstein and Stanley Baughman (in response to the Governor's request for a meeting with Secretary Weaver). (See attached "B" for list of those participating).

We are not asking any action that would bust your inflation guidelines, just a re-shuffling of the available money on a more equitable basis.

The proposals we made this morning which appear to be best received, are as follows:

1. To narrow the difference between mortgage ceilings for new construction and old homes, i.e., raise the $17,500 limit, or else establish varied ceilings on a geographic basis. (This is important to real estate industry.)

2. To eliminate the requirements for a mandatory standby commitment prior to start of construction for loans over $17,500, a new regulation which adds more than 1 percent to the builders' cost. (This is important to construction industry.) (See attached memo "C" for more detailed comment on the above.)

BU/

EXECUTIVE ⑥

FI 10
FI 5
FG 110
FG 170-6
FG 170-8
FG 170-7
FG 291
FG 150-5

LIMITED OFFICIAL USE

THE SECRETARY OF THE TREASURY
WASHINGTON

OCT 13 1966

MEMORANDUM FOR THE PRESIDENT

Subject: The Debt Limit and Certain Federal Agency Borrowings

Our latest projections show us coming extremely close to the debt limit of $330 billion in November, December, and January.

(Even with a tax increase, we probably will run over the limit in February, March, and April, 1967, simply because of the timing of any tax action and revenue receipts.)

The current debt limit is $330 billion. Present debt subject to limit is about $324 billion. By next Tuesday, October 18, it will be above $327 billion -- as payment for the new tax anticipation bills is made.

We will need to borrow some additional cash in November and early December to meet our seasonal requirements. This will push us within a very few hundred millions of the legal ceiling. But there always is some uncertainty about revenues and expenditures, and we have very little margin for error.

Our current best estimate is that we can "get by" under the ceiling through January, but it is a very close thing.

We can and will take certain technical actions -- if necessary -- to protect against some margin of error on the upside. These have their limitations -- both in amount and length of time they can apply. Used reasonably and for limited times, they are appropriate -- overuse could bring partisan criticism.

We do not believe it would be wise to request an increase in the debt limit now -- although we probably will have to in January or February.

The main point is that we have only a very narrow cushion of operating flexibility and must take great care that no unnecessary debt increases add to our problem.

There are five kinds of agency borrowings that can add unnecessarily to our outstanding debt - if the borrowing is directly from the Treasury rather than from the market.

BB/

MEMORANDUM

Q

EXECUTIVE
FI5-4
~~FG 170-6~~
FG11-3
FG110

THE WHITE HOUSE

WASHINGTON

3:30 p.m., Saturday
October 8, 1966

FOR THE PRESIDENT

FROM Joe Califano

Rtn to Joe Califano

Attached are memoranda from Barr and Duesenberry recommending your approval for the market sale of $750 million in FNMA short-term notes.

The sales would be made between now and December 31 to refund an equivalent amount of maturing notes. No new money is involved. FNMA obtains the funds for its "secondary market" operations (the purchase from lenders of FHA-VA insured home mortgages) in one of two ways.

(1) by direct borrowing from the Treasury, or

(2) by selling its paper on the market.

Barr and the Council believe that Treasury borrowings to cover the expiring $750 million are highly undesirable for two important reasons:

-- It would add $750 million to the administrative budget, and

-- Combined with other activities, it could push us over the $330 billion debt ceiling.

As a result, Barr recommends that the issues be put out on the market.

Barr will space the offerings out to take advantage of any favorable market trends. In the event any of the sales would have a disruptive effect on the market (which Barr considers unlikely), he is prepared to resort to Treasury borrowing.

We recommend your approval of the market sale of the FNMA notes.

Approve ✓ Disapprove ________

EXECUTIVE
FG170
~~FG170-6~~
FI8
FG300
FG170-4
HS2

lw

October 1, 1966

MEMORANDUM FOR

Honorable Robert C. Weaver
Secretary, Department of Housing
and Urban Development

As I indicated on the phone this morning, you have approval to move along the following lines:

1. Raise FHA and VA interest rates to 6%.

2. Move out on the FNMA secondary market operation and buy up to $3.75 billion in mortgages for new and old homes ranging up to $25,000.

3. The use of special assistance for rent supplements and low interest rate mortgages as you recommended.

4. Deferral of the use of the FNMA special assistance program. The question and the answer I mentioned on the telephone are attached.

Joseph A. Califano, Jr.
Special Assistant to the President

Nothing else sent to
Central Files as of 5/10/67

gaj

EXECUTIVE
FI 5-4
FG 170-6
FG 170
FA 4
FG 170-4
FI 8
FG 110
FG 11-3
FF 4/ FG 170-6
FG 11-1

THE WHITE HOUSE
WASHINGTON

October 1, 1966

Dear Mr. Secretary:

In response to your letters of May 25, June 15, and August 30, 1966, I am making the following revisions in the amounts of the Federal National Mortgage Association special assistance authorization available for commitments by the Association as follows:

a. For mortgages on housing for low and moderate income families which are insured under Section 221(d)(3) of the National Housing Act and bear interest below the maximum rate under FHA regulations, an additional $32,500,000. This increases the amount of $1,837,500,000 made available on October 5, 1965, to $1,870,000,000. The foregoing amount shall be further increased by amounts made available for purchase of mortgages by sales, made prior to July 1, 1967, under Section 302(c) of the FNMA Charter Act, of beneficial interests or participations in mortgages purchased under other Presidential authorizations, and amounts under such other Presidential authorizations shall be correspondingly reduced. The increases when added to amounts made available for purchase of mortgages within this authorization by sales of beneficial interests or participations in such mortgages shall not exceed $300,000,000.

b. For 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, $200,000,000.

c. For mortgages covering residential property intended to be made available primarily for families who are the victims of a catastrophe which, pursuant to the Act entitled "An Act to authorize Federal assistance to States and local governments in major disasters, and for other purposes" (Public Law 81-875), as amended, the President determines to be a major disaster, a reduction of $5,000,000. This decreases the amount of $10,000,000 made available on April 4, 1958, to $5,000,000.

d. For mortgages on housing in urban renewal areas and for displaced families, and home improvement loans insured under Section 220(h) of the National Housing Act on properties in urban renewal areas, a reduction of $502,500,000. This decreases the amount of $762,500,000 made available on June 14, 1965, to $260,000,000.

Orig to Secy Weaver 10/1/66
Copy to Budget 10/1/66

MEMORANDUM

EXECUTIVE

FI5-4
FG300
FG170-4
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FG11-1
FG170
FG110
FG11-3

ew

THE WHITE HOUSE

WASHINGTON

September 30, 1966
1:35 p.m.

MEMORANDUM TO JOE CALIFANO

SUBJECT: FHA-VA interest rates; Fannie Mae special assistance.

These are our comments on the materials you sent us on Fannie Mae special assistance, and such other materials as we have worked with in connection with FHA, VA and Fannie Mae generally:

1. It would be possible, and actuarilly feasible, to reduce the FHA insurance plan by a quarter percent as an offset to the FHA interest rate increase from 5 3/4% to 6%. This would enable us to say that we are trying to (a) increase the flow of funds into the mortgage market and at the same time (b) prevent increased cost to the consumer.

2. The $1 billion special assistance recently authorized should not be completely shut off. The entire $1 billion does not have to be released at once; but unless some token portion is released, we may be very severely criticized by congressional and industry sources. A small amount of this money is good leverage in helping to hold down rates.

3. The special assistance requested by Secretary Weaver in his letter of September 16 for rent supplements and moderate income housing should be approved, but this is not a substitute or alternative for the $1 billion special assistance in the recent enactment.

The President is committed to two objectives: (a) economic relief for homebuilding and (b) housing for poor people, and all the tools given to us ought to be used at least in some small measure. In any event, especially if the answers to 1 and 2 above are negative, the handling of this whole question should be moved out of the White House and into the departments and agencies.

Jake
Jake Jacobsen

MPS
Milton P. Semer

EXECUTIVE
FI 5-4
~~FH 170-6~~ 170-6
FH 170
FH 11-1
LG
FH 170-4
FH 300

(7)

8:00 p.m., Tuesday
September 27, 1966

FOR THE PRESIDENT

FROM Joe Califano

Bob Weaver has an appointment to see you tomorrow morning on the new FNMA special assistance program (this authorizes FNMA to purchase new home mortgages of up to $15,000 generally, and $17,500 in special "high cost" areas designated by Weaver). You have a memo from Schultze on this subject.

At the time Weaver talks to you about the special assistance program, he will have a draft press release which HUD will put out announcing the new FNMA secondary market purchase operation and the new 6% FHA-VA interest rate (a copy of the release is attached). Deming, Duesenberry, and Zwick have cleared the press release.

The release of this higher interest rate should not be made from the White House. Weaver can make it from HUD.

For press purposes, Weaver could indicate that he discussed with you the Demonstration Cities Program in the House and personnel matters.

Weaver might also raise the appointment of Richard Adams as General Counsel of HUD.

Do you want Schultze at the meeting with Weaver?

Yes______ No______

Do you want me at the meeting?

Yes______ No______

Attachment

BB:ew

EXECUTIVE
LE/FI 5-4
FI 5-4
FG 170-6
~~BE 4/Construction~~

September 9, 1966

The President cordially invites you to attend the signing of S.3688, The FNMA Bill on Saturday, September 10, 1966. Please present this telegram at the NW Gate of the White House at 11:00 AM. RSVP by return telegram.

Milton P. Semer,
Counsel to the President

LAPIN, Raymond J., Bankers Mortgage Company of California., SFran. Calif.
OKEEFE, Raymond T., Chase Manhattan Bank, NYC.
MORGAN, Robert M., Boston Five Cents Savings Bank, Boston, Mass.
BERGMANN, Harry P., Riggs National Bank, Washington, D.C.
MATTSON, Everett, T J Bettes Company, Houston, Tex.
MITNICK, Carl T., Ventnor, City, N. J.
COOGAN, Thomas P., The Mayfair House, NYC
BUCHANAN, W. Evans, Kensington, Md.
HUGHES, Richard G., Fort Worth, Tex.
WILLITS, Perry E., Charleston, S. Car.
BARBA, Louis R., Short Hills, N. J.
HIGGINS, Richard, Saddle River, N. J.
STASTNY, John, Hinsdale, Ill.
BOGATIN, Henry D., Sr., Palm Beach, Fla.
DUNCAN, C. A., U.S. Savings & Loan League, Farm & Home Savings and Loan Assn. Nevada, Missouri.
FEINBERG, Alexander, Haddonfield, N. J.
DECKER, Don, Omaha, Nebr.
RICHARDSON, J. J., Helena, Mont.
LINDY, Alan M., Phila, Pa.
CATARINELLA, Roland S., Pgh. Pa.
BICKFORD, Paul R., Hampton, Va.
SMITH, Raleigh A., Houston, Tex.
EARNEST, Morgan G., Nrlns
JOHNSON, Carl W., Kinston, N. Car.
STRUNK, Norman, U. S. Savings & Loan League, Chicago, Ill.
ENSLEY, Grover W., National Assn. of Mutual Savings Banks, NYC.
KLAMAN, Saul B., National Assn. of Mutual Savings Banks, NYC.

EXECUTIVE

LE/FI 5-4
FG 170-6

September 8, 1966
Thursday, 3:00 p. m.

MEMORANDUM FOR THE PRESIDENT

Subject: FNMA bill

Secretary Fowler and Secretary Weaver recommend that you have a public signing of the FNMA bill. The last day for action is Saturday, September 10.

They favor this approach, notwithstanding Dick Janssen's lead article in the Wall Street Journal this morning, which speculates that the FNMA bill could, under certain circumstances, drive mortgage interest rates up.

It is certainly true that bad handling of the new FNMA authority could lead to bad results, for we are dealing with a disorderly market, involving risk and uncertainty.

You will recall that Jake Jacobsen and I recently, in anticipation of the FNMA bill, suggested that with good management, the FNMA bill could give you some leverage to (1) provide downward pressure on long-term rates, and (2) establish a favorable Presidential image of being effective in the money market.

If you make a signing statement, it should include the following points:

(1) the purpose of the bill is to help home building, which has fallen off sharply because it is entirely dependent on long-term credit, which is in short supply.

(2) supplying this credit through FNMA has been done a number of times before, with good results, and usually at a profit to FNMA.

(3) the FNMA bill will not displace private capital, which is the main source of most of the mortgage money needed.

(4) the federal government has a legitimate role in helping to correct distortions in the money market, especially if the objective to be served is good housing for American families.

Milton P. Semer

EX

EXECUTIVE ③
LE/FI5-4
FI5-4
FG170-6
BE4/Construction

THE WHITE HOUSE
WASHINGTON

F

September 7, 1966

MEMORANDUM FOR MARVIN WATSON

I think it would be a political plus for the President to have a signing ceremony for S. 3688, the Federal National Mortgage Association (FNMA) bill.

The last day for action is Saturday, Sept. 10.

I suggest a Friday a.m. signing. This would probably be after the debate on the interest rate bill in the House, which is likely to be completed by Thursday night.

MPS
Milton P. Semer

BB

EXECUTIVE (4)
FI 5
FG 110
FG 230
FG 291
FG 170-C

THE SECRETARY OF THE TREASURY
WASHINGTON

September 6, 1966

MEMORANDUM FOR MR. CALIFANO

Subject: Alternatives for Financing Agency Issues and Participation Sales

Attached you will find a short two-page summary entitled "Alternatives for Financing Agency Issues and Participation Sales in the Remainder of 1966." These set forth the three alternatives you posed and the consequences.

This analysis lumps agency issues and participation certificates together. I believe a sharper analysis of the problem can be obtained from keeping the handling of these two forms (agency issues and PC's) separate.

So that you can see for yourself, I am attaching a copy of a memorandum sent today to the President entitled "Program for Cutting Down the Market Impact of Federal Agency Financing and Participation Sales." No difficulty really arises from selling the agency issues to trust funds intoto except that the Treasury would have to do additional cash borrowing in the market on a dollar for dollar basis.

The problem with reference to the participation certificates presents more difficulty if we made an outright public commitment now not to offer any PC's on the market between now and the first of the year. This and the other alternatives are discussed on pages 4 and 5 of the attached longer memorandum.

Henry H. Fowler
Henry H. Fowler

Attachments

EXECUTIVE (6)

LE/FI5-4
FI5-4
FG170-6
FG170
FG11-3
BE4/Construction
FG11-1

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

September 2, 1966

MEMORANDUM FOR THE PRESIDENT

Subject: New Funds for FNMA

1. The FNMA bill provides a total of $4.76 billion new funds for FNMA by

   -- authorizing an additional purchase of $110 million of FNMA capital stock by the Treasury;

   -- raising the ratio of FNMA borrowing to capital from the present 10 to 1 to 15 to 1;

   -- authorizing a $1 billion special assistance program financed with Treasury funds.

2. The program will have some adverse effect on non-mortgage interest rates. Any diversion of funds into mortgages adds to the total demand for credit.

   . But the impact will not be significant. On the average, FNMA has been borrowing about $160 million a month this year. But their borrowing authority is nearly exhausted. This bill permits them to keep on borrowing. They plan

September 3, 1966
Saturday, 6:35 p.m.

for the next four

FOR THE PRESIDENT

fter.

FROM Joe Califano

ant.

the impact on credit

Here is the report from Ackley and Weaver which you wanted on the FNMA bill.

would more than

The Bureau of the Budget is now preparing formal comments on the bill and it should be over here in the next day or so.

Attachment

The Postmaster General
Washington, D.C. 20260

Harry McPherson — Why don't you talk to Larry O'B. directly
Joe

August 20, 1966

EXECUTIVE
FI 5-4
~~FG 170-6~~
FG 140

TO: Joe Califano

FROM: Larry O'Brien

Past experience has indicated that matters of this nature just can't be handled "quietly".

It would seem it would not cause undue hardship or serious difficulty to hold up this action for another couple of weeks.

August 25, 1966

FOR **Harry McPherson**

FROM **Joe Califano**

Why don't you talk to Larry O'Brien directly.

Attachment

(4)

EXECUTIVE
LE/FI5-4
FI5-4
~~FM170-6~~
FG400
FI8

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

August 23, 1966
Tuesday, 7:40 p.m.

MEMORANDUM FOR THE PRESIDENT

See me

Subject: FNMA bill -- interest rates

The Senate-House conference on the FNMA bill this morning agreed to the following:

(1) adds $3.76 billion to FNMA secondary market purchasing power.

(2) adds $1 billion to FNMA special assistance; this has budget impact when and if used, but pooling of these mortgages is permitted under the new sale of assets law.

As a result, you will soon have before you a bill that could have a $4.76 billion impact in the long-term money market. With proper management, this could make a difference in two ways:

(1) it can provide downward pressure on long-term rates, and

(2) it can establish a favorable Presidential image of being effective in the money market.

We are up against a unique situation in the mortgage field. No single department or agency has over-all authority or responsibility. Uncoordinated actions of these various agencies, poor timing, lack of knowledge, and even protection of special interests, have given us a 10-year record of violent ups and downs in mortgage credit and, in turn, home building (see attached).

This is compounded by the fact that few economists, particularly among the Federal policy advisers, have a grasp of the practical realities of mortgage finance.

Congress, over the years, has shown a better understanding and responsiveness to these matters than the Executive Branch. You will

Orig to Mrs Zerrite

EXECUTIVE

FI8
FI2
FG 170-6
FG110

THE WHITE HOUSE
WASHINGTON

August 16, 1966
4:30 p.m. Tuesday

MR. PRESIDENT:

Secretary Fowler comments concerning the high rates being paid by the Government on FNMA debentures, as marked.

file
K

K

Robert E. Kintner

BM/

EXECUTIVE (5)
FI 4/FG 170-6
FG 170-6
FG 170
FI 5-4
FG 11-1

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D.C. 20503

OFFICE OF
THE DIRECTOR

August 10, 1966

Patman, Wright
Widnall, Wm. B.

MEMORANDUM FOR THE PRESIDENT

Subject: Assistance for home building; current legislative strategy

On July 28 I sent you a memo (copy attached) on the Senate Housing Subcommittee's action to add $1 billion to the FNMA "special assistance" budget to pump more funds into the housing market.

The Senate Committee bill would be particularly troublesome because

- it transfers some funds from other -- more desirable -- housing programs;
- it authorizes HUD to buy regular housing mortgages at low interest rates -- this would be horrible to administer. HUD would be giving out "cheap money" to some home buyers while others would have to pay high interest rates;
- the bill is so written (a $15,000 limit on size of mortgages) that most of the funds would be spent in the Southeast, with much smaller benefits to the rest of the country.

It was clear that this amendment could not be defeated in the Senate. We have worked out an alternative arrangement with the House which both Patman and Widnall like and have accepted.

Orig. +
Nothing else sent to Central Files as of 8/16/66 Bill

EF/

EXECUTIVE ②

FI8

FG170-6

FG110

THE SECRETARY OF THE TREASURY
WASHINGTON

AUG 6 1966

MEMORANDUM FOR THE PRESIDENT

Subject: Current Offering of FNMA Debentures at 5-7/8 Percent

The Federal National Mortgage Association announced on August 5 a $300 million offering to the public of 2-year 19-day debentures carrying a 5-7/8 percent coupon. Final pricing will be set on Tuesday, August 9. The current expectation is that the bonds will be offered at par.

In addition to the $300 million sale to the public, FNMA will place $50 million of the bonds directly with certain government investment accounts such as the Social Security Trust Fund. This is the first such direct placement with the trust funds.

While the FNMA interest rate is high, it is not breaking new ground. In July the Banks for Cooperatives sold $266 million of 6-month debentures at 5.90 percent. A few days later the Federal Intermediate Credit Banks sold $297 million of 9-month debentures at 5-7/8 percent. Both of these issues are now quoted in the market at small premiums, but not at sufficient premiums to suggest that FNMA could have gotten by with a lower rate.

At 5-7/8 percent, the FNMA issue carries a rate 5/8 percent over the 5-1/4 percent certificates and notes just offered by the Treasury. This actually represents a slight narrowing of the spread over Treasury issues from the 3/4 percent level reached in July. The spread is still much wider than the 1/4 percent level at the beginning of this year -- prior to the sharp acceleration in agency issue sales in the second quarter.

EF

Talk to Home Builders + Sparkman get judgment for Pres - He reserves judgment for moment

18

EXECUTIVE

FI4/FG170
FG431/H*
FG11-1
FG170-6

(3)

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D.C. 20503

JUL 28 1966

MEMORANDUM FOR THE PRESIDENT

Subject: Senate *Housing Committee action to increase budget

Yesterday, the Senate housing subcommittee agreed to include in the housing bill a provision authorizing the Federal National Mortgage Association to buy $1 billion of mortgages on new homes if the mortgage is $15,000 or less.

The proposal has the following implications:

1. $500 million of 1967 NOA would be added to the budget.

2. Transfer by the bill of the remaining $500 million from other programs may slow down housing for urban renewal and relocation of displacees, for low and moderate income families, and for rent supplements.

3. 1967 expenditures would increase; the exact amount would depend on how fast the program got going. $250 million is a possibility.

4. Special assistance mortgages are purchased at higher than market prices. Those able to get commitments under this proposed authority would therefore get a financial windfall not accorded others.

5. To the extent that money for new construction would actually be provided by the provision, inflationary pressures in the construction industry would be increased.

6. Most of the new authority, however, would probably replace existing funds being made available in FNMA's secondary market operations or elsewhere. This replaced money may or may not stay in the mortgage market.

Orig +
Nothing else sent to
Central Files as of 8/15/66
LB

31

EF file

(W) EXECUTIVE
FI7 (4)
FI3
FG110
FG230
FG170-6

THE SECRETARY OF THE TREASURY
WASHINGTON

JUL 23 1966

MEMORANDUM FOR THE PRESIDENT

Subject: Acquisition of Agency Issues by Trust Funds

K

For the past several weeks we have been exploring the pros and cons of purchasing of government agency issues by the Trust Funds -- policy issues, legality, etc. While the legal questions can be definitively answered, policy and political aspects are somewhat more blurred at the present, particularly as it has to do with the new participation certificates. However, the same relief to the market and rising interest rates can be achieved by Trust Fund purchases of such agency issues as FNMA debentures and Home Loan Bank Board issues.

I approve of the conclusions and recommendations in Mr. Barr's attached memorandum, as well as the reasoning in Mr. Sternlight's more detailed technical discussion.

Henry H. Fowler
Henry H. Fowler

Attachments

RB/ ——

EXECUTIVE
FI 5-4
FI 2
FG 11-3
FG 230
FG 170-6

(4)

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

GARDNER ACKLEY, CHAIRMAN
JAMES S. DUESENBERRY
ARTHUR M. OKUN

June 27, 1966

MEMORANDUM FOR MR. CALIFANO

Subject: Housing Finance and Rate Regulations for Financial Institutions

1. The following problems relating to home financing and the regulation of rates paid by banks and savings and loan associations need to be considered.

- Should FHLBB give up its rule of refusing advances for expansion to savings and loan associations paying more than 5% in California (and similar rules for other areas)?

- Should we back some form of legislation limiting rates paid on personal or small time deposits at commercial banks?

- Does FHLBB have sufficient resources to provide adequate advances to S&L's to meet July withdrawals?

- Should we support legislation to increase FNMA borrowing power?

- Does FHLBB have enough resources to give adequate support to homebuilding?

- Will other special assistance to housing be required?

2. It is desirable to check the progressive increase in rates paid by commercial banks for thrift deposits

   -- to help hold the line on the ceiling rate for large CD's;

   -- to force banks to restrict loans instead of competing for funds;

Nothing else sent to
Central Files as of 1/11/67
CIR Jr.

EXECUTIVE (4)
FI5-4
FG170-6
FG11-3
HS
BE5

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 8, 1966

GARDNER ACKLEY, CHAIRMAN
JAMES S. DUESENBERRY
ARTHUR M. OKUN

MEMORANDUM FOR JOSEPH CALIFANO, JR.

Subject: The Prognosis and Prescription for Housing

You asked two further questions on my memo of June 2 about housing:

1. How does our forecast for housing compare with that of the homebuilders?

2. What can we do for the industry besides supporting legislation to curb interest rate competition?

1. Housing Forecasts. The letter from Larry Blackmon and the material sent by Jim Rowe did not make a quantative forecast for housing. But both used lurid terms such as "crisis proportions," "Appalachia of the American economy," "disastrous consequences," etc. Other spokesmen for the builders and the mortgage lenders (for example, Norman Strunk of the U.S. Savings and Loan League) have estimated that starts will fall as low as 1.0 million (annual rate) by the end of the year. I assume that your correspondents share these views.

   Housing starts have been around 1.5 million units for the past two years; in our view, they may drop to perhaps a 1.3 million rate by year end, a decline of 10 or 15%. But the average for the full year should be 1.4 or better and the dollar volume of housing activity should show a decline of 2 or 3% at most from 1965. Such a situation would be uncomfortable for the builders. But it is hardly a crisis by any objective standard.

2. Prescriptions. In addition to trying to curb interest rate competition, we have taken some steps which help to cushion the blow -- we have pushed our housing programs on the Hill; FNMA has bought a record volume of mortgages; and the Secretary of Defense has ordered a careful control over procurement to avoid a repetition of the lumber incident (fulfilling Blackmon's proposal 8 on page 2).

B/3/68

EXECUTIVE (2)

FG 170-6

FI 5-4

FG 170

THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

MAY 25 1966

MEMORANDUM FOR: Joseph A. Califano
Special Assistant to the President
The White House

Subject: Revision of FNMA Secondary Market Prices

I am enclosing a copy of a May 16, 1966 statement that was presented to the Federal National Mortgage Association Board of Directors on May 16, 1966 recommending an immediate reduction of 2 points in the prices the Association is paying for mortgages purchased under its Secondary Market Operations.

As pointed out in the statement, the Association's Secondary Market Operations purchase prices are 2 points or more above those being paid by private investors for similar types of mortgages in the general secondary market. As a consequence in part of the Association's higher prices, the corporation is receiving a large volume of offerings which is seriously taxing the Association's ability to continue as a secondary market facility. The Association believes, and the Board concurred, that a 2 point price reduction is in order at this time.

I am sending a similar letter to Secretary of the Treasury Fowler, Gardner Ackley, and Charles Schultze.

It would be my thought that the price reduction should be put into effect immediately.

Robert C. Weaver

Robert C. Weaver
Secretary

Enclosure

Nothing else sent to
Central Files as of 7/8/66
C. files

May 16, 1966

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Secondary Market Operations

Revision of Immediate Purchase Prices

The prices which FNMA pays for mortgages purchased on an over-the-counter or immediate purchase basis under its Secondary Market Operations are required by Section 304(a)(1) of the FNMA Charter Act to be

(1) established, from time to time, within the range of market prices for the particular class of mortgages involved, as determined by the Association, and

(2) determined, from time to time, consistent with the objectives that purchases . . . should be effected only at such prices and on such terms as will reasonably prevent excessive use of the Association's facilities and that the operations will be fully self-supporting.

FNMA's current purchase prices for 5-1/4, 5-1/2 and 5-3/4 percent mortgages meet none of the foregoing statutory pricing criteria, i.e., its purchase prices are generally higher than those that are being paid by private mortgage institutional investors for the types of mortgages which are normally offered to FNMA for purchase, and net yields from mortgages purchased at the corporation's current prices are insufficient to permit it to operate within the income derived from such mortgages.

FNMA's mortgage market surveys and other sources of information show that the private market for FHA and VA 5-3/4 percent mortgages ranges generally between 95-1/2 - 94-1/2, subject to servicing at 3/8 percent, and 1 point less with servicing at 1/2 percent. At those prices, the yield to an investor, after servicing, ranges from about 5.95 to 6.11 with some transactions occurring at prices slightly above or below this range. The preponderant volume of private 5-3/4 percent mortgage sales is believed to be at about the 95 - 94 level from which the 12-year prepayment yield on a 30-year mortgage, after servicing, is approximately 6.02.

By way of contrast, FNMA's current prices for 5-3/4 percent mortgages range from 98-1/2 - 97; its average price for these mortgages is currently 97.25 from which the gross yield is approximately 6.10 and is about 5.59, after servicing, as compared with an average of approximately 6.02 in the private market sector. From the foregoing, it is evident that FNMA's prices are above the range of the general secondary market by not less than 2 - 2-1/2 points. This conclusion is supported by the volume of mortgages that continues to be offered to FNMA for purchase under its Secondary Market Operations notwithstanding the corporation's price decreases of 1 point each on December 10, 1965, January 18 and March 4, 1966, its 2 point decrease on April 12 and adoption of a $15,000 purchase amount ceiling on April 2.

In our opinion, FNMA should be in the market at all times to continue as an effective secondary market for FHA and VA mortgages. Under these circumstances, FNMA should, from time to time, effect such price changes as may be necessary to keep its purchase prices in line with market conditions; and should impose such additional deterrents as are necessary to further control the flow of mortgages to FNMA in order to achieve that objective, including consideration of such marketability factors as are customarily recognized by investors in the general secondary market.

In consonance with the foregoing, it is our considered judgment that FNMA's purchase prices for 5-3/4, 5-1/2 and 5-1/4 percent mortgages should be reduced at least by 2 full points at this time. Should these prices prove to be ineffective, consideration might then be given to establishment of a full 1 point spread, as compared with the current 1/2 point difference, between the price being paid when the mortgagor's equity in the related property is ten percent or more of the cost or value of the property and when it is less than that percentage. Such an adjustment would affect approximately seventy-five percent of the corporation's purchases under its Secondary Market Operations.

A price adjustment at this time is essential also from the viewpoint of the Association's financial operations. If FNMA's purchase prices were to be reduced by 2 points at this time, our average price would be about 95.25 for 5-3/4 percent mortgages from which the yield on a 30-year mortgage will average approximately 6.36 but only 5.65 when servicing and overhead are deducted (12-year prepayment yield of 6.36 less servicing of 0.51 and overhead of 0.20). If these purchases were to be financed with one year debentures, we estimate that such borrowings, including selling expenses, would cost about 5.60 or at about a break even point, i.e., there would be no operating margin between the net return on the mortgages and the cost of borrowing funds with which to purchase them. FNMA's present 30 - 270 day short-term discount borrowing costs (including selling expenses) are averaging about 5.28 percent on a bond equivalent basis and it would appear the rates will need to be increased in order to attract a more adequate supply of private funds. The corporation's operating margin, based on today's short-term borrowing costs and an immediate reduction of 2 points in its purchase price,will be approximately 38 basis points. Prudent debt management requires, however, that a proper balance be maintained between short, intermediate and long-term indebtedness and, in our judgment, restriction of FNMA financing to the short-term area over an extended period would be financially infeasible.

EXECUTIVE
LE/FI 5
FI 5
FI 3
FI 7
FG 135
FG 110
JL 4
FG 170-6

May 2, 1966
Monday, 11:30 p.m.

FOR THE PRESIDENT

FROM Joe Califano

I have checked with Katzenbach and Frank Wozencraft on the Treasury opinion that we have authority to sell participation pool paper to U.S. trust funds under current law. They both agree that we have such authority now and therefore, there is no need to amend the bill currently before the Congress.

orig not sent &
file as of 10/10/66

filed
9/30/66

317

EXECUTIVE
LE/FI5
FI5
FI3
FI8
FI10
FG440
FG412
FG170-6
FG2/Eisenhower, Dwight
FG2/Kennedy, John F.

THE WHITE HOUSE

WASHINGTON

April 20, 1966

Dear Mr. President:

I have the honor to transmit "The Participation Sales Act of 1966." This important legislation is designed to forward our objective of substituting private for public credit.

For many years the Federal Government has carried on lending programs to finance essential activities which would not otherwise receive adequate financial support. Under these programs direct loans are made to help the farmer, the businessman, the home buyer, the veteran, the student, our colleges, and our schools. As of June 30, 1965, the volume of these Federal loans exceeded $33 billion.

Desirable as these activities are, Federal lending neither can, nor should, shoulder the entire job.

Under our system of free enterprise it is far better for the Government to mobilize private capital to these ends.

And it is far better for the Government to stimulate and supplement private lending rather than to substitute for it.

To do this, we sell Federal loans directly, or in some cases, sell "participations" in pools of loans, to private investors. The Government acts as both middleman and underwriter for the loans, assuring adequate and economical financing for desirable projects while at the same time attracting the maximum participation of private investors.

This substitution of private for public credit provides sound financing for worthwhile projects with a minimum of Federal participation.

See Track ltr to Speaker of the House (3 attachments: Bill, Memo + Summary)

Both ltrs delivered by hand (TMS): 4/20/66

Recd Ranch 4-8-66 2:35p

Lv/

MEMORANDUM

EXECUTIVE
FI 5
FI 3
FG 110
LE/FI 5
FG 220
FG 283
FG 300
FG 170-4
HS 4
FI 5-4
FI 8
FG 170-6

THE WHITE HOUSE

WASHINGTON

7:25 p.m., Thursday
April 7, 1966

FOR THE PRESIDENT

FROM Joe Califano

The attached memorandum from Fowler reflects agreement reached at a meeting yesterday of Fowler, Weaver, Ackley, Schultze, Barr, Semer and myself. Here is a summary:

We have a \$3.3 billion goal of financial asset sales for fiscal 1966. We have already sold about \$1.9 billion. Of the remaining \$1.4 billion, these are the maximum sales we believe we can make:

✓1. $400 million of export import bank paper.

✓2. $300 million in new participation sales. (This would be made up of \$180 million for the eleventh to the fifteenth year of FHA (\$120 million) and VA (\$60 million) mortgages already in the pool, and \$120 million for the first to the fifteenth year on new VA mortgages not yet in the pool.)

✓3. $350 million of SBA paper if we get the legislation through the Senate by early May, or

✓$200 million in SBA paper that can be placed in the participation pool under existing legislation.

This would give us either \$1.05 billion or \$900 million of the \$1.4 billion we need to reach our goal. 250

No one at the meeting believes that there is anyway to sell additional paper without endangering the market situation and without taking such substantial "discounts" on the paper that we would jeopardize, if not kill, the big asset sales legislation which we need to finance great society programs in fiscal year 1967 and for several years thereafter.

We request approval to move out with these sales.

Approve ✓ Disapprove ______

f. used to JC
4-9-66 - JJ
9:15a

Filed 9/30/66

RW/

Subject: Int. Rates

FI 8
FG 110
FG 110
FG 11-3
FG 2-?
FG 170-6
PR 11 / FG 170

February 3, 1966

TO: JOE CALIFANO

This should be handled no later than tomorrow, I would think, so that Secretary Weaver can get his release ready to go Monday, February 7.

You will note that:

1. Secretaries Fowler and Deming and Gardner Ackley recommend a 1/4% increase,

2. Mr. Martin of Federal Reserve System makes no specific recommendation, and

3. Secretary Weaver recommends 1/2% increase.

Please advise me of final disposition.

W. Marvin Watson

WMW:MJC:rgm

EX File

PATMAN

EXECUTIVE

17 ①

FI8
FI5-4
FG170-5
FG170-6
~~FG11-3~~
FG170-4
Patman, Wright
Barrett, William A.

THE WHITE HOUSE
WASHINGTON

January 11, 1966

TO: Marvin Watson

FROM: Harry McPherson HM

2 Attachments

1 from Ackley, 1 from Weaver.

ITE HOUSE

INGTON

January 10, 1966
Monday - 8:05 pm

HA interest rise is inevitable,
off until after the Patman-Barrett
aver some problems, for Patman
to commit himself against a rise
en done Weaver felt he could defend
it as fait accompli.

Gardner's memo is concise and very much worth reading. If you agree with its recommendations on page 3, I will tell Weaver

1) you will not make a decision on this prior to the hearings,

2) we feel FNMA should reduce its buying prices as soon as possible, thereby relieving the Budget situation.

I don't know who is best able to "soften up" Patman on this question. Maybe it is Joe Fowler ~~or perhaps~~ and Gardner himself.

Harry

Harry C. McPherson, Jr.

Attachment

Let both go see Patman with Marvin L

EXECUTIVE

LG
FG 170
FG 170-4
FG 170-5
FG 170-6
FG 11-15

Rec'd 12-9-65 2:15p

LBJ Ranch 12-10-65 12:00N

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

December 9, 1965
Thursday - 9:45 a.m.

FOR THE PRESIDENT

The cities group is coming down to the wire. Its two most important recommendations will concern HUD organization and the Reuther-inspired demonstration program.

Organization: Attached is the final version of the organizational charts, the first for Washington, the second for the regional offices. The report will provide clear and concise reasons for this arrangement. I will mention only two aspects of it.

a) The Secretary and Under Secretary are to run the operation in fact as in name. Regional administrators will come to them for instructions. The Assistant Secretary for Financial Assistance -- the FHA and FNMA man -- will therefore serve as staff to the Secretary, not as the un-guided operator of FHA in the field. The purpose of this is to make HUD a coordinated agency with a social as well as a brick-and-mortar purpose. Although most people in the present HHFA work for FHA, the task force is determined to prevent an FHA take-over. So the FHA man is only one of four assistant secretaries. The home builders and some members of Congress may grumble at this; but it will have strong support on the Hill. McNamara likes it.

b) Community Action would be taken out of Poverty and placed in HUD. This move was sponsored by Walter Reuther and Ben Heineman, ~~for~~ two reasons: to give HUD an active social agency that would challenge the rest of the department, and to give Community Action a strong base of organizational support. Kermit Gordon dissents, and so, at last reading, did Whitney Young, although not so vigorously as Kermit. Kermit feels this is putting too much under the wing of a new department; Whitney fears for the safety of Community Action if it is absorbed by bankers and mortgage men. Obviously there are considerable political consequences to this question, either way it is answered.

Nothing else sent to Central Files as of 3/12/66 BB