

## **Appendix: Federal National Mortgage Association, 1934–1967**

This appendix provides an overview of major legislative and regulatory changes affecting Fannie Mae prior to enactment of the Housing and Urban Development Act of 1968.

### **National Housing Act of 1934 (Pub. L. 73-479)** Enacted: June 27, 1934

The Act established the legal basis for privileged national mortgage associations, and in doing so, for the subsequent chartering of FNMA in 1938. Act also created the Federal Housing Administration (FHA), to be run by the Federal Housing Administrator, as an independent agency, in order to stimulate the construction sector and employment and to improve housing standards. Section 203 of the Act established a system of FHA insurance for qualifying home mortgages deemed socially or economically desirable, and Section 207 authorized a more flexible program for insuring mortgages for low-income housing.

Before the Great Depression, most mortgages were short-term loans of only up to five years, required large down payments, with LTVs not exceeding 60%, and were not self-amortizing (Elliot (2013), pp. 9-10); borrowers would take out a new mortgage to make their final balloon principal repayment, but this financing system imploded when panicked or failing banks stopped making new loans. The new FHA-insured loans initially imposed maximum LTVs, loan maturities, interest rates, and loan values of 80%, 20 years, 5%, and \$16,000, respectively, a considerable deviation from the prevailing industry norm. Congress again loosened these FHA loan requirements in 1938 in order to “*support the housing market during ongoing weakness*” (Elliot (2013), p. 10).

Title III of the Act authorized and empowered the the Administrator “*to provide for the establishment of national mortgage associations*” which would be authorized “(1) *to purchase and sell first mortgages and such other first liens as are commonly given to secure advances on real estate...*” provided the liens had a loan-to-value-ratio of no more than 80% upon their purchase date, and “(2) *to borrow money for such purposes through the issuance of notes, bonds, debentures, or other such obligations as hereinafter provided*” with obligations not to exceed ten times its capital stock or the current value of assets. Investments were to be restricted to mortgage assets, cash and deposits on hand, and Treasury securities. The minimum capital stock subscription for incorporation of a national mortgage association was set at \$5 million.

The Administration and Congress had intended the National Housing Act of 1934 to induce the incorporation of legally privileged private national mortgage associations, subject to federal supervision but distinct from government agencies (Haar (1960), p. 78). The associations were to be granted special privileges to induce their incorporation, including exemption from state taxes (save property taxes) as well as unique regulatory oversight limited to the Administrator. According to Haar (1960), the intended purpose of the associations was to accustom “*the financial and banking communities to what then appeared a radical new financing device—the FHA mortgage, which the act also created.*” (Haar (1960), p. 76).

### **Amendments to Reconstruction Finance Corporation Act (Pub. L. 74-1)** Enacted: January 31, 1935

With the objective of reestablishing a normal mortgage market, the Act amended the Reconstruction Finance Corporation’s (RFC) charter to authorize stock subscriptions and loans for the stock subscriptions of national mortgage associations, or any other similar financial institutions primarily in the business of making residential mortgage loans. RFC lending and stock subscriptions under this authorization was capped at \$100 million.

Under this new authority, the RFC Mortgage Company was incorporated by the RFC on March 14, 1935, intended to support a secondary market for FHA-insured mortgages. The RFC provided an initial capital stock purchase of \$10 million, and purchased an additional \$5 million worth of capital stock in 1936Q3. Between 1935 and 1947, the RFC authorized \$373.4 million worth of loans to the RFC mortgage company, and disbursed \$334.9 million of loans. Loans outstanding to the RFC peaked at \$118.8 million in 1944Q2 (Department of the Treasury (1959), Table MS-2, p. 261).

**Amendments to the National Housing Act (Pub. L. 74-76)** Enacted: May 28, 1935

In a further effort to induce the private incorporation of national mortgage associations, the Act reduced the minimum capital stock required for such associations from \$5 million to \$2 million and increased their permissible leverage ratios from ten to twelve times their capital stock.

**National Housing Act Amendments of 1938 (Pub. L. 75-424)** Enacted: February 3, 1938

The 1938 amendments to the National Housing Act of 1934 expanded the struggling FHA mortgage insurance programs to cover certain low principal loans with maturities of up to 25 years and LTVs of up to 90 percent. In doing so, the Act set in motion the creation of a federal mortgage association, as it was understood that assistance would be needed to launch such foreign mortgage contracts (Haar (1960), p. 80). The Act also amended Title III of the National Housing Act to increase federal national mortgage associations' permissible leverage ratios from twelve to twenty times their capital and surplus, and reduced the \$2 million stock subscription requirement from being fully paid in to only 25% paid in upfront. And in a last attempt to encourage private incorporation, the Act exempted national mortgage associations from all federal taxation in addition to state taxes (again save property tax). After enactment, a last effort by the FHA again proved unsuccessfully in luring private capital into a secondary market for FHA mortgages.

The RFC had been trying to incentivize the incorporation of private mortgage associations, and had been authorized to subscribe to common stock, but "*RFC policy had been to offer to buy preferred, leaving to the private investor both profit and risk. This same stock purchase plan had proved successful in the commercial banking area, but no one appeared willing to accept the risks and profits entailed in mortgage banking.*" (Haar (1960), p. 80). At the president's request, the National Mortgage Association of Washington was chartered by the RFC on February 10, 1938, as a wholly owned RFC subsidiary. The Association was re-designated the Federal National Mortgage Association in April 1938. According to Haar (1960), the original purpose of FNMA was twofold: "*First, it rendered the new FHA mortgages more desirable by offering an assured market to institutions concerned with liquidity. The psychological factor was important here: that FNMA was available was sufficient to lure into the mortgage market many institutions that actually made little or no use of FNMA. Second, as anticipated, FNMA facilitated the geographical spreading of mortgage capital*" (Haar (1960), p. 83).

Pursuant to the amendments, the RFC provided \$10 million in paid-in capital and \$1 million in surplus; Fannie was authorized to borrow up to twenty times that cumulative amount, so RFC's capitalization of Fannie could support a mortgage portfolio of \$231 million (Haar (1960), p. 82 and Klamann (1961), p. 218). Purchases were limited to FHA mortgages and were first made on May 5, 1938. The mortgage portfolio grew rapidly, rising to \$80 million by the end of 1938 and \$144 million by the end of 1939, before subsequently slowing due to war restrictions on building activity (Klamann (1961), p. 220, Bartke (1971)).

FNMA was chartered and initially capitalized by the US government in the midst of the recession that lasted from May 1937 through June 1938. The accompanying Senate Committee on Banking and Currency report characterized the

Act's objective as *"to encourage the private construction and financing of housing on a large scale... in wrestling with the inseparable problems of unemployment relief, economic recovery, and Budget balancing"* and *"to utilize the best available means for achieving a sustained long-term residential construction program with a minimum expenditure of Federal funds and a maximum reliance upon private business enterprise"* (Senate Committee on Banking and Currency (1937), pp. 1, 4). Similarly, Klamon (1961) noted that FNMA was originally chartered *"against a background of federal efforts to stimulate housing construction, building materials production, and mortgage investments following the unprecedented decline during the Great Depression,"* (Klamon (1961), p. 217).

### **National Housing Act Amendments of 1941 (Pub. L. 77-24)** Enacted: March 28, 1941

The amendments to the National Housing Act added Title VI—Defense Housing Insurance, which authorized FHA insurance on more generous terms in critical defense areas. The amendments also authorized Fannie to purchase FHA mortgages insured under Title VI. Fannie's overall purchase authorization did not change.

### **1948 Amendments to the National Housing Act and Servicemen's Readjustment Act (Pub. L. 80-864)**

Enacted: July 1, 1948

Shortly after the GI Bill of 1944 authorized a VA mortgage guarantee program, the RFC Mortgage Company was tasked with supporting a secondary market for those loans (Pub. L. 696-79, enacted August 7, 1946). Congress, however, disbanded the RFC Mortgage Company the following year, and, along with it, all secondary mortgage market support for VA-guaranteed loans (Pub. L. 132-80, enacted June 30, 1947). The need for a secondary market was quickly made apparent, and strongly influenced the drafting of the housing amendments of 1948 (Haar (1960), pp. 88-90). VA loans had been declining, aggravated by a widening spread between their fixed 4% rate and market interest rates, so Congress amended Fannie's charter in a manner intended to stimulate their flows (Klamon (1961), p. 54).

The Act reorganized Fannie Mae under a new charter and prohibited the formation of private mortgage associations envisioned in the National Housing Act of 1934. It authorized secondary market purchases of VA-guaranteed mortgages with restrictions, although none were purchased until fiscal year (FY) 1950 (Bartke (1971), p. 21). The principle balance for an eligible mortgage was restricted to \$10,000, which was lower than the FHA insurance limit of \$16,000 (FNMA (1969), p. A38). The amended charter, however, only permitted FNMA to purchase up to one-quarter of the FHA or VA loan value originated by the lender.

In anticipation of Fannie's expansion into the VA market, the Act also increased FNMA's capitalization by \$10 million to \$21 million (again provided by the RFC) and raised its borrowing capacity from 20 to 40 times its capital and earned surplus.

The accompanying committee report emphasized the need for a permanent secondary market for VA mortgages, the principal reason for the passage of the 1948 Amendments (Haar (1960), p. 90). Between FNMA's first reorganization by the Act and a second reorganization under the National Housing Act of 1954 (Pub. L. 83-560), FNMA principally served as *"special support for government sponsored housing and mortgage programs, which were not acceptable in private financial markets,"* and VA mortgages accounted for the bulk of purchases (Klamon (1961), p. 220).

### **Housing Act of 1948 (Pub. L. 80-901)** Enacted: August 10, 1948

The Act loosened a restrictive provision in FNMA's recently amended charter to allow Fannie to purchase up to half of the FHA or VA loan value originated by the lender, which had been capped at one-quarter of the loan by the July 1948

housing amendments (Pub. L. 80-864). According to Klamann (1961), “*the intended stimulus [to VA loans] was largely nullified*” by the purchase limitation of only up to one-fourth of VA and FHA loans, hence the subsequent loosening shortly after enactment of the 1948 amendments (Klamann (1961) p. 54). The restriction would be fully repealed just over a year later.

**Public Law 81-176** Enacted July 19, 1949

On July 6, 1949, FNMA approached so close to reaching its borrowing limit that it was forced to suspend further commitments to purchase mortgages. This was a blow to the VA-guaranteed mortgage market, and Congress promptly increased FNMA’s authorization (Haar (1960), p. 92). The bill replaced Fannie’s standing leverage restrictions with a flat limit of \$1.5 billion on the total volume of assets and commitments outstanding (FNMA (1969), p. C2), to the effect of increasing Fannie’s purchase capacity by roughly \$500 million.

Private mortgage finance was particularly weak in 1949, and VA loans bore the brunt of reduced lending (Klamann (1961), p. 113). The increase in FNMA’s portfolio limit was made amidst the recession that lasted from November 1948 through October 1949. The January 1950 Economic Report of the President argued that further stimulus was needed to stabilize housing production, viewing the “*maintenance of a high and growing level of private investment in housing as perhaps the most important issue in connection with the maintenance of a total level of investment high enough to support maximum employment and production over the next few years*” (Economic Report of the President (1950), p. 93). The bill was intended as a stopgap measure, as the Senate Banking and Currency Committee stated that it intended to consider more permanent legislation (Haar (1960), p. 93).

**National Housing Act Amendments of 1949 (Pub. L. 81-211)** Enacted: August 8, 1949

The amendments to the National Housing Act added Title VIII–Military Housing Insurance, meant to encourage construction of rental housing for military and defense areas. The FHA’s Title VI program for critical defense areas had been repealed one year earlier. The Act also authorized Fannie to purchase FHA mortgages insured under Title VIII, while Fannie’s overall purchase authorization was unchanged.

**Public Law 81-387** Enacted: October 25, 1949

By September 30, 1949, the remaining capacity from July’s increased purchase authorization of \$500 million had dwindled to \$149 million (Haar (1960), p. 93). Market interest rates were rising, and the 4% interest rate ceiling on VA loans was preventing the attraction of adequate private capital. Congress’s answer was to continue to pump money into Fannie. Public Law 81-387 increased FNMA’s authorization by \$1 billion to a total of up to \$2.5 billion, and removed some restrictions on the purchase of VA loans, including the 50% limitation on purchases of mortgagees’ holdings. RFC funding was correspondingly increased by \$1 billion. In practice, Fannie fast again neared its statutory limits and stopped issuing commitments in March 1950.

The increase in FNMA’s portfolio limit was made at the tail end of the recession that lasted from November 1948 through October 1949. The January 1950 Economic Report of the President framed housing policy and the desire to increase residential investment as important stimulus for supporting full employment (see above).

**Housing Act of 1950 (Pub. L. 81-475)** Enacted: April 20, 1950

Lending through Fannie and the RFC could not continue to expand indefinitely. In the 1951 Budget, President Truman

stated: *“The continuing need for a stand-by secondary market does not mean that Government purchases should be regarded as a permanent substitute for private financing. Accordingly, the administration of this program will be directed toward encouraging private lenders to hold a larger portion of these mortgages as well as to repurchase the mortgages previously sold to the Federal Government”* (Budget for Fiscal Year 1951, p. M-51). But it was projected that Fannie’s standing \$2.5 billion authorization would be exhausted by July 1950, and the President recommended an additional \$500 million in public debt authorizations for FY1950 and \$250 million for FY1951, to carry through on the large volume of commitments already outstanding.

The Housing Act of 1950 eventually increased FNMA’s portfolio authorization by \$250 million to \$2.75 billion, short of the increase proposed by the President. The Act also expanded eligibility for Fannie’s purchases to include FHA mortgages insured under Section 8 (low cost housing) and Section 213 (cooperative housing) of the National Housing Act. Lastly, FNMA was authorized to charge mortgagees a fee of 1% of the amount of a mortgage purchased.

In order to stop Fannie’s uncontrolled growth, the Act simultaneously limited purchases to mortgages guaranteed or insured at the time of the contract, with the effect of revoking authority to issue advance commitments to purchase mortgages. This ban on advanced commitments, however, was short lived. Public Law 81-243, enacted October 30, 1950, allowed \$30 million of advance commitments outstanding at any time for the specific relief of veterans who had obtained FHA commitments but could not get mortgages following the ban (Haar (1960), p. 67). The Defense Housing and Community Facilities and Services Act (Public Law 82-139), enacted September 1, 1951, restored advance commitments authorization to \$200 million outstanding for purchase of mortgages backed by “emergency” housing in critical defense areas, disaster areas, and for military use housing under Title VIII of the National Housing Act. Public Law 82-309, enacted April 9, 1952, increased advance commitments authorization by \$52 million to \$252 million outstanding at any given time.

### **Reorganization Plan No. 22 of 1950.** Approved: June 20, 1950

This presidential reorganization plan moved authority over Fannie Mae from the RFC to the Housing and Home Finance Agency, the overseer of the FHA at the time, effective September 7, 1950 (Bartke (1971), p. 21). The objective was to improve coordination of federal housing programs (Hagerty (2012), p. 29). There was no change in Fannie’s purchase authorization.

### **Suspension of Non-Emergency Mortgage Purchases** Announced: April 1952

Having exhausted its funding authorization for non-defense mortgage purchases, FNMA announced in April 1952 that it was suspending all purchases of mortgages unrelated to emergency types of housing (Haar (1960), p. 99).

### **Housing Act of 1952 (Pub. L. 82-531)** Enacted: July 14, 1952

The Act was designed to aid military housing and increased FNMA’s purchase authorization by \$900 million to \$3.65 billion. The increased authority could only be used to purchases related to critical defense, disaster, and military housing. Purchases of other types of mortgages, in practice mostly VA mortgages, remained limited to \$2.75 billion, and were thus notionally restricted to funds available from sales, repayments, foreclosure sales, and funds held for purchases under previously issued commitment contracts. In practice, however, \$600 million of former authority had been set aside for defense purposes, such that the effect was to free this amount for non-defense mortgages (Haar (1960), p. 99). According to Klamon (1961), the Act had the effect of freeing \$362 million previously reserved

for defense, military, and disaster housing for the purchase of other mortgages (Klaman (1961), p. 65). The Act also further expanded Fannie's advance commitment authority from \$252 million to \$1.152 billion. Purchases of non-emergency mortgages were resumed in September 1952.

The January 1952 Economic Report of the President indicated that government policy for 1952 would aim to *decrease* housing starts to 850,000 or less, down from 1.1 million in 1951 and 1.4 million in 1950, in order to prioritize resources for the defense industry and the escalation of the Korean conflict (January Economic Report of the President (1952), pp. 8-11). The administration was fully supportive of selective credit controls being administered by the Federal Reserve Board, pursuant to the Defense Production Act, to limit credit for housing and consumer durables. But the report also noted that "*A serious need has already appeared for additional housing and community facilities and services in defense areas,*" recommending additional aid to critical defense areas beyond those recently provided (January Economic Report of the President (1952), p. 17).

The Senate Committee on Banking and Currency report accompanying the Act stated that the bill was principally intended to carry out the objectives of the Defense Housing and Community Facilities and Services Act of 1951, which was designed to assist the provision of housing for military personal and defense workers in critical areas for the war effort. It was also reported that private mortgage lenders perceived elevated marketability risk with these defense-related mortgages, and private loans would not be originated without FNMA advance commitments.

### **Housing Amendments of 1953 (Pub. L. 83-94)** Enacted: June 30, 1953

After effectively exhausting the increase in purchase authority from the Housing Act of 1952, FNMA again announced on April 10, 1953 that it was suspending purchases of non-emergency FHA/VA mortgages (Haar (1960), p. 100). The Act extended FNMA's advance commitment authorization for defense and disaster mortgages through July 1, 1954, but left overall purchase authority unchanged. But the bill repealed the restriction that no more than \$2.75 billion of purchase authority be used related to mortgages other than for defense, disaster, and military housing, in effect freeing the remaining \$900 million in additional authorization for purchases of non-emergency mortgages. The accompanying Senate Committee on Banking and Currency report estimated that \$200 million of the \$900 million authorization would probably not be needed for such purchases, and would thus be freed for over-the-counter purchases of FHA/VA mortgages when FNMA resumed such purchases (Senate Committee on Banking and Currency (1953), p. 10). FNMA quickly resumed over-the-counter purchases of non-emergency FHA/VA mortgages.

The Senate Committee on Banking and Currency Report accompanying the Act stated that the bill was principally concerned with "*amendments to the housing acts which are urgently needed and which will aid and facilitate in the maintenance of a high level of residential construction.*" (Senate Committee on Banking and Currency (1953), p. 1). But the urgency of the legislative action derived from prior legislative sunsets, not economic conditions: Federal authority to make mortgage purchases and enter new commitments would have expired on June 30, the day of enactment, if the bill had not been signed into law (CQ (1954)). The report also emphasized the objective of improving housing as "*a basic factor in our ability to maintain a healthy and expanding economy.*" The August 1953 Federal Reserve Bulletin's report on residential real estate developments noted strong housing demand, record construction activity, and record real estate credit flows in the first half of the year (FRB August 1953, pp. 810-812).

### **Federal National Mortgage Association Charter Act (Pub. L. 83-560)** Enacted: August 2, 1954

Title II of the National Housing Act of 1954, designated the Federal National Mortgage Association Charter Act,

rechartered a nearly bankrupted Fannie Mae into a three-part corporation, separating a special assistance function, management and liquidations of Fannie's existing portfolio, and secondary market operations. Fannie was separately accountable for each of these. The special assistance function was to be entirely supported by loans from the Treasury, and amounted to a direct government lending program—at the President's discretion—for certain FHA loans that were not generally acceptable to investors, primarily because of their low interest rates. Management and liquidations operations were set up to dispose of Fannie Mae's previously amassed mortgage portfolio in an orderly fashion, although related mortgage purchases continued for many months because of prior outstanding commitments. Lastly, secondary market operations were to continue supporting the market for FHA/VA guaranteed mortgages and also serve to stabilize the mortgage market. The 1956 Budget stated that the purpose of the secondary market activities was to ensure that mortgage funds were available at market interest rates to meet normal needs in all parts of the country (Budget for Fiscal Year 1956, p. M-75). Purchases and sales were to be made only at such prices as would prevent excessive use of Fannie's secondary market facilities and permit Fannie to operate on a fully self-supporting basis.

The Act turned Fannie Mae into a mixed-ownership corporation by requiring authorized mortgagees to purchase Association common stock, while the federal government retained its preferred stock, with ownership transferred from the RFC to Treasury. Prior to this rechartering, funding for Fannie's activities came almost exclusively from the Treasury or RFC.<sup>1</sup> The Act also authorized Fannie to issue debt in capital markets in order to fund secondary market and management and liquidity operations. The secondary market function was granted standby powers to borrow up to \$500 million from the Treasury plus the sum of repayments of principal and cancelation of commitments from the management and liquidation functions, but not to collectively exceed \$1 billion. The new financing provisions envisaged an eventual full privatization of Fannie Mae, but provided neither a deadline nor mechanism for the transition (Hagerty (2012), p. 32; Haar (1960), pp. 101–125; Bartke (1971), pp. 22–29).

The Act left the total authorization for outstanding assets and commitments under previously authorized programs unchanged at \$3.65 billion, but apportioned this authority across the newly separated functions. The Act limited total authorized investments, loans, purchases, and commitments under the special assistance program at \$300 million.<sup>2</sup> Management and liquidations function were authorized up to the remaining \$3.35 billion. Fannie's outstanding \$3.0 billion mortgage portfolio was to be gradually liquidated and replaced with the new secondary market operations (Haar (1960), p. 110), although prior commitments forced continued purchases instead of an immediate net drawdown.

The dollar limitation on the amount of the mortgage that could be purchased under the special assistance and secondary market functions was set at \$15,000 (FNMA (1969), p. A38), up from the previous \$10,000 limit. Purchases were also limited to a maximum of one-half of mortgagees' VA originations and one-fourth of their FHA originations (Klaman (1961), p. 221).

To fund the new secondary market facility, \$93 million in preferred stock was issued to the Treasury—equal to the sum of the initial \$21 million capitalization plus accumulated earned surpluses. Authorized mortgagees were required to purchase common stock of at least 3% of the unpaid principal of mortgages sold (Klaman (1961), p. 221). The secondary market facility was authorized to issue unguaranteed debt in private capital markets up to ten times the sum of Fannie's capital, surpluses, reserves, and undistributed earnings. As purchases under the secondary market

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<sup>1</sup>Between 1938 and 1950, only two relatively small series of obligations were issued to the public (FNMA (1969) p. A-13).

<sup>2</sup>Eligible mortgages for purchase under special assistance programs included those financing housing in Alaska and Guam, housing in defense or military programs, and for victims of major disasters, cooperative housing projects, or urban renewal program housing.

function were not subject to the prior portfolio limitations apportioned between special assistance and management and liquidations functions, obligations for secondary mortgage market could support a mortgage portfolio of up to \$1.02 billion ( $\$93 \text{ million} \times (10+1) = \$1.02 \text{ billion}$ ). However, activity was not expected to approach this level very quickly, as only mortgages insured or guaranteed on or after August 2, 1954 were initially eligible for purchase.

Following this rechartering, FNMA took to issuing one-year standby commitments to purchase mortgages. Mortgagees would pay a fee for such a commitment, and mortgages would be purchased at a slight haircut relative to the going market rate. But mortgagees had the option not to call in standby commitments.

The Federal National Mortgage Association Charter Act completely overhauled Title III of the National Housing Act, and in doing so, newly established a statutory purpose for Fannie. Three subsequent landmark reforms of US federal housing credit policy would later revise Fannie's statutory purposes, and all four offer considerable insight to congressional intent and the evolution of policy priorities.<sup>3</sup> The FNMA Charter Act of 1954 set the following statutory purpose for Fannie (emphasis added):

*“SEC. 301. The Congress hereby declares that the purposes of this title are to establish in the Federal Government a secondary market facility for home mortgages, to provide that the operations of such facility shall be financed by private capital to the maximum extent feasible, and to authorize such facility to*

*“(a) provide supplementary assistance to the secondary market for home mortgages by providing a degree of liquidity for mortgage investments, thereby improving the distribution of investment capital available for home mortgage financing;*

*“(b) provide special assistance (when, and to the extent that, the President has determined that it is in the public interest) for the financing of (1) selected types of home mortgages (pending the establishment of their marketability) originated under special housing programs designed to provide housing of acceptable standards at full economic costs for segments of the national population which are unable to obtain adequate housing under established home financing programs, and (2) home mortgages generally as a means of retarding or stopping a decline in mortgage lending and home building activities which threatens materially the stability of a high level national economy; and*

*“(c) manage and liquidate the existing mortgage portfolio of the Federal National Mortgage Association in an orderly manner, with a minimum of adverse effect upon the home mortgage market and minimum loss to the Federal Government.”*

Of note, the secondary market was intended as a policy mechanism to improve liquidity and redirect housing credit flows without any caveat about business or financial cycle conditions, whereas the special assistance functions were statutorily intended, at the President's discretion, to either play a countercyclical role or advance various social and/or defense housing policy objectives supporting underserved mortgage markets.

President Eisenhower's remarks upon signing the Act emphasized social policy objectives and longer-term policy goals: *“It will raise the housing standards of our people, help our communities get rid of slums and improve their older neighborhoods, and strengthen our mortgage credit system. In coming years it will also strongly stimulate the nation's construction industry and our country's entire economy... by this new law we have made a major advance toward meeting America's housing needs”* (Eisenhower (1954)).

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<sup>3</sup>The subsequent three acts were the Housing and Urban Development Act of 1968 (Pub. L. 90-448), Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Pub. L. 101-73), and Housing and Community Development Act of 1992 (Pub. L. 102-550).



**Housing Amendments of 1955 (Pub. L. 84-345)** Enacted: August 11, 1955

The Act created two new special assistance functions, to be managed by Congress rather than executive order, for Fannie to enter commitments to purchase FHA mortgages insured under Section 213 (cooperative housing) and Section 803 (armed services housing). This new special assistance authority was limited to \$50 million for cooperative housing and \$200 million for armed services housing. The increased funding levels did not appear to be cyclically motivated.

**Housing Act of 1956 (Pub. L. 84-1020)** Enacted: August 7, 1956

The Act repealed the limitation on total authorizations for the management and liquidations and special assistance functions set by the 1954 Charter Act, although the special assistance authority limitation was not repealed. This effectively removed the portfolio limitations for just the management and liquidations function, as secondary market functions remained limited by restriction on obligations imposed by the National Housing Act of 1954. FNMA was additionally authorized to issue one-year “standby” commitments to purchase mortgages (Klaman (1961), p. 72). The Act also authorized FNMA to lower the stock purchase requirement for mortgagee counter parties from 3 to 2%, and to 1% under limited circumstances (Klaman (1961), p. 72). Permissible secondary market purchases were loosened from mortgages at par to those ‘within the range of market prices.’

**Limitation on Purchases of Older Mortgages** Announced: November 1956

As part of a coordinated effort to encourage new home production, FNMA announced in November 1956 that it would limit and reduce purchases of mortgages that had been guaranteed or insured more than four months ago (Klaman (1961), p. 72).

**Pub. L. 85-10** Enacted: March 27, 1957

The Act authorized and directed Fannie to issue an additional \$50 million in preferred stock, to be delivered to the Treasury, which was directed to accept said stock. The effect was to increase Treasury’s preferred stock holdings of FNMA up to \$142.8 million. Based on the existing cap on debt obligations of ten times capital, the injection effectively increased secondary mortgage market purchase capacity by \$550 million ( $\$50 \text{ million} \times (10 + 1) = \$550 \text{ million}$ ). The Act additionally increased the supplemental special assistance function authorization for commitments for and purchases of Section 213 FHA-insured mortgages (cooperative housing) by an additional \$50 million. The total increase in Fannie’s purchase capacity was therefore \$600 million. The Act also increased the limitation on Treasury’s purchases of Fannie obligations to \$1.35 billion.

The accompanying Senate Committee on Banking and Currency report emphasized the urgent, stopgap nature of the bill: “[t]he purpose of the resolution is to provide immediate assistance on an interim basis to the secondary market operation of [FNMA]” (Senate Committee on Banking and Currency (1957a), p. 1). The Committee estimated that without the “*immediate relief*” provided by the Act, FNMA’s purchase program would come to an abrupt halt in early March—precisely what the bill was trying to prevent (Senate Committee on Banking and Currency (1957a), p. 2). It was noted that FNMA’s secondary market facilities had come under severe strain as “*pressure upon available investment capital tightened steadily during 1956*” (Senate Committee on Banking and Currency (1957a), p. 1). Lastly, the report noted that the “*the resolution is a stopgap measure*” and that the \$50 million capitalization increase fell short of the administration’s requested \$100 million increase, intended by the administration to be a “long-term solution,” but viewed as inadequate by the committee (Senate Committee on Banking and Currency (1957a), p. 3).

**Housing Act of 1957 (Pub. L. 85-104)** Enacted: July 12, 1957

The Act directed Fannie to issue an additional \$65 million in preferred shares to the Treasury Department, effective immediately, thereby increasing Treasury's preferred stock holdings to \$207.8 million. Based on the existing cap on debt obligations of ten times capital, the authorization effectively increased secondary mortgage market purchase capacity by \$715 million ( $\$65 \text{ million} \times (10 + 1) = \$715 \text{ million}$ ). In addition, the President's general special assistance authority was increased by \$150 million to \$450 million. The Act also increased the supplemental special assistance function authorization for commitments for and purchases of Section 213 FHA-insured mortgages (cooperative housing) from \$100 million to \$200 million and mortgages insured under Title VIII of the National Housing Act (armed services housing) from \$200 million to \$450 million. The total increase in Fannie's purchase authority was therefore \$1.215 billion. The Act additionally increased the limitation on the Treasury's purchases of Fannie obligations by \$900 million, from \$1.35 billion to \$2.25 billion, where it would remain until Fannie was taken into conservatorship during the Great Recession.

The accompanying committee report made clear that the increase in FNMA's borrowing authority was motivated by temporary stabilization concerns, "*an attempt to stabilize the market for federally underwritten mortgages and to prevent the continuing decline in housing starts and applications*" (Senate Committee on Banking and Currency (1957b), p. 8). The increase in the Treasury Department's authority to lend to FNMA was viewed as complementary to increasing Fannie's borrowing capacity, and report language noted that the line of credit "*provides assurance to private investors that FNMA has available a source of liquid funds which may be used to purchase maturing debentures*" (Senate Committee on Banking and Currency (1957a), p. 8). The conference committee report explained that the "*Treasury 'backstop'*" was increased to match FNMA's total purchase authority, which was expanded to \$2.25 billion by the Act (House Committee on Banking and Currency (1957), p. 16).

**Emergency Housing Act of 1958 (Pub. L. 85-364)** Enacted: April 1, 1958

The Act, of stated purpose "*to stimulate residential construction,*" increased the President's general special assistance authority by \$500 million to \$950 million. The Act also increased the supplemental special assistance function authorization for purchases of mortgages insured under Title VIII of the National Housing Act by \$50 million to \$500 million.<sup>4</sup> The act additionally created a new special assistance authority function for purchases of mortgages for low- and moderately priced housing insured under Title II of the National Housing Act or guaranteed under the Servicemen's Readjustment Act of 1944, with \$1 billion authorized to be outstanding at any given time. The total increase in Fannie's purchase authority was therefore \$1.55 billion.

The increase in FNMA's portfolio limit was enacted at the tail end of the recession that lasted from August 1957 through April 1958. The Act, and particularly the additional special assistance purchase authorizations, were seen as "*a way to spur housing during a recession*" (Hagerty (2012), p. 34). This near-term, countercyclical emphasis was underscored by the accompanying Senate committee report, which explained the bill was "*designed to encourage and expedite the construction and financing of a substantial number of new housing units*" (Senate Committee on Banking and Currency (1958), p. 1).

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<sup>4</sup>An additional program had been recently established under Title VIII: Section 809 mortgage insurance for civilian owner-occupied housing for employees of military R&D installations (Pub. L. 84-574, enacted June 13, 1956).

**Housing Act of 1959 (Pub. L. 86-372)** Enacted: September 23, 1959

The Act increased the supplemental special assistance function authorization for purchases of Section 213 FHA-insured mortgages (cooperative housing) by \$25 million to \$225 million. The statutory limitation on the amount of the mortgage purchased under the special assistance functions was also increased from \$15,000 to \$17,500, while the loan purchase limit for secondary market functions was increased from \$15,000 to \$20,000 (FNMA (1969), pp. A38–A39).

The accompanying Senate Committee on Banking and Currency report characterized the Act as primarily motivated to address “*urban renewal and low-rent public housing*,” and made clear that the bill was the result of a multi-year deliberative process, as opposed to an emergency response (Senate Committee on Banking and Currency (1959), p. 1). In testimony before the Housing Subcommittee of the Senate Banking and Currency Committee, Federal Reserve Chairman William Martin expressed concerns that the inflationary impact of strong post-war housing activity growth was intensifying, and that mortgage credit was dominating capital markets (FRB August 1959, p. 882). He also cautioned against certain proposed provisions of the Act, notably discretionary decreases in down payments for FHA loans, “*at this time when mortgage lending and housing starts are at or near record levels and when growing pressures in the capital markets are being reflected in high and rising interest rates.*”

**Housing Act of 1961 (Pub. L. 87-70)** Enacted: June 30, 1961

The Act increased the special assistance authority under the direction of the President from \$950 million to \$2.05 billion outstanding at any time, through several channels: a general increase of \$750 million to \$1.7 billion; a further increase of \$207 million resulting from the transfer of remaining commitment and purchase authority for low- and moderately priced housing granted by Public Law 85-364 (the Act terminated this special assistance function); and an increase of \$139.4 million, equal to the net decrease in mortgage positions under management and liquidation functions for FY1961 (FNMA (1969), p. C8). The Act also provided for further increases in each of the fiscal years 1962-1964 by the net decrease in mortgage positions under the management and liquidation functions. Ignoring the reshuffling of the preexisting low-income assistance authorization, the total immediate increase in purchase capacity would have been \$889 million.

In his remarks upon signing the Act, President Kennedy hailed the bill as “*the most important and far-reaching Federal legislation in the field of housing since the enactment of the Housing Act of 1949*,” enabling communities and developers to “*build the cities of tomorrow where families can live in dignity, free from both the squalor of the slums and the unbroken monotony of suburban sprawl*” with emphasis on “*long-term development of this country*” (Kennedy (1961)). Neither his remarks nor the bill’s accompanying committee reports made mention of countercyclical motivations or other short-term policy objectives. The Federal Reserve Bulletin also underscored that many of the Act’s provisions “*are necessarily long-term in character*” (FRB December 1961, pp. 1383–84).

**Housing and Urban Development Act of 1965 (Pub. L. 89-117)** Enacted: August 10, 1965

The Act legislated four staggered increases in the President’s special assistance authority: an increase of \$100 million upon enactment; an additional increase of \$450 million on July 1, 1966; an additional \$550 million on July 1, 1967; and an additional \$525 million on July 1, 1968. The Act further increased general special assistance authority by an amount equivalent to what would otherwise be available for new commitments and purchases of mortgages under Title

VIII of the National Housing Act, with \$107.5 million transferred effective upon enactment.<sup>5</sup>

The accompanying conference committee report characterized the Act as primarily motivated to “*to assist in the provision of housing for moderate- and low-income families, to promote orderly urban development, to improve living environment in urban areas, and to extend and amend laws relating to housing, urban renewal, and community facilities*” (House Committee on Banking and Currency (1965), p. 1). In his remarks upon signing the Act, President Johnson emphasized new approaches to serving disadvantaged populations: “*The importance of the bill is not only that it retains and improves the best of good and traditional programs; it is a landmark bill because of its new ideas. Foremost and uppermost of these is the program of assistance for the construction and the rehabilitation of housing for the elderly and for families of low income—the people who live in the most wretched conditions in our slums and our blighted neighborhoods*” (Johnson (1965)). His remarks made no mention of countercyclical motivation or other short-term policy objectives.

### **Loan Limit Decrease of 1966** Ordered: April 2, 1966

Public Law 88-560, enacted on September, 2 1964, had eliminated the statutory maximum limitation on the mortgage amount under the secondary market function. On April 2, 1966, the loan limit under the secondary market was administratively reduced from \$20,000 to \$15,000 “*to reduce the volume of mortgages then being offered for purchase and to conserve Corporation funds*” (FNMA (1969), p. A39). The Federal Reserve Bulletin noted that secondary market offerings of FHA/VA mortgages and Fannie’s aggregate mortgage holdings had hit record highs, as mortgage credit was becoming tight, and FNMA was trying to preserve cash (FRB May 1966, pp. 644–645).

### **Participation Sales Act of 1966 (Pub. L. 89-429)** Enacted: May 24, 1966

The Act authorized Fannie Mae to package and sell participation certificates (PCs) backed by pools of loans and obligations made or acquired by other Federal credit agencies. Funds raised by PC issues on agencies’ behalf would be available to those agencies to meet loan demands, thus reducing their reliance on borrowing or advances from the Treasury. Agencies’ PC issues would require approval by an appropriation bill, and such approval would direct the Treasury to provide payment to FNMA for any PC insufficiencies (e.g., if PC interest payments exceeded the interest borne by the agencies’ underlying obligations). The Act would soon serve as the statutory basis for Ginnie Mae’s MBS program after the Housing and Urban Development Act of 1968 split GNMA off from FNMA (see GNMA, Section 4.3). The Act also repealed the pending \$450 million increase in the President’s special assistance authority, authorized by the Housing and Urban Development Act of 1965, scheduled to take effect on July 1, 1966.

The Act’s stated objective was to “*to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies,*” and the bill was intended as “*a major step in a shift from public to private financing of governmentally sponsored credit programs*” (Senate Committee on Banking and Currency (1966), pp. 1–2). But in the short-run, the bill was also clearly motivated by trying to reduce Treasury’s debt issues. The accompanying committee report explained that “*borrowing needs of the Government are expected to be large in the year ahead*” and in the prevailing interest rate environment, the Treasury would not be able to issue additional long-term debt except at rates above a prevailing 4.25% statutory cap.

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<sup>5</sup>An additional program had been recently established under Title VIII: Section Section 810 mortgage insurance for off-base housing of military and essential civilian armed services personal (Pub. L. 86-372, enacted September 23, 1959).

That report also shed light on the privileged status of agency PCs, threading the needle between an explicit Treasury guaranteed versus de facto backing, while moving agencies' financing off the federal balance sheet and out from under the federal debt ceiling: *"The underlying obligations will be guaranteed by the agency establishing the trust, and timely payments of principal and interest on the certificates will be guaranteed by FNMA. FNMA's guarantee in turn is supported by borrowing authority from the US Treasury. Although the participation certificates will not be full faith and credit obligations of the United States, as a practical matter the moral obligation of the Government to back up these participation certificates is entirely clear. Because they are not Government obligations, they will be subject to State taxation, including State income taxes. They will be eligible securities to support Federal Government deposits. Since they are not Government obligations, they will not be subject to the Federal debt ceiling and they will not be subject to the 4.25-percent interest ceiling on Government bonds of 5 years or more"* (Senate Committee on Banking and Currency (1966), p. 3).

### **Public Law 89-566** Enacted: September 10, 1966

The Act increased the cap on FNMA's secondary market facility leverage from 10 to 15 times its capital, surpluses, reserves, and undistributed earnings. The Act also increased the authorization for preferred stock issued to the Treasury by an additional \$110 million. Using 1965 year end capital of approximately \$415 million (FNMA Semi-Annual Report December 1965), the capital injection and leverage increase supported an expansion in the secondary market portfolio of up to \$3.84 billion ( $\$415 \text{ million} \times (15-10) + \$110 \text{ million} \times (15+1) = \$3.84 \text{ billion}$ ). The Act also increased special assistance authority for purchases of mortgages for low- and moderately priced housing insured under Title II of the National Housing Act or guaranteed under the Servicemen's Readjustment Act of 1944 by \$1 billion, with half this sum deriving from \$500 in new purchase and commitment authorization and the other \$500 million transferred from a reduction in the President's general special assistance authority. Thus special assistance function purchase authority was increased on net by \$500 million. The use of these special assistance funds were restricted to the purchase of mortgages for homes constructed after the date of enactment.

The 1967 Economic Report of the President explained that monetary tightening in 1966, intended to slow an overheated economy, had driven interest rates to 40-year highs, inducing a particularly sharp decline in residential construction activity (Economic Report of the President (1967), p. 6). By mid-1966, a steep drop in net savings flows to thrifts and a general credit crunch were dragging at housing starts and construction activity (FRB September 1967, p. 1481). The accompanying conference report stated that the Act's purpose was to *"stimulate the flow of mortgage credit for Federal Housing Administration and Veterans' Administration assisted residential construction"* (House Committee on Banking and Currency (1966), p. 1). In the same vein, the CQ Almanac characterized the bill as intended to ameliorate the effect of tight monetary conditions on the housing market: *"A pronounced slump in the housing industry was one of the most serious imbalances in the economy during 1966. S 3688 was intended to somewhat relieve this condition"* (CQ (1967)).

### **Loan Limit Increase in 1966, Elimination in 1967** Announced: October 4, 1966; February 3, 1967

With the increase in FNMA's purchase authorization pursuant to Public Law 89-566, Fannie was able to reverse course from conserving cash back to expanding purchases in support of the distressed mortgage market. The loan limit was increased on October 4, 1966 to \$25,000 for new construction and to \$17,500 for existing homes. On November 2, 1966, the ceiling on existing homes was increased back to \$20,000.

On February 3, 1967, Fannie removed its standing loan limits for eligible secondary market mortgage purchases, which had been reduced from \$20,000 to \$15,000 in April 1966, and established that it would instead purchase FHA-insured mortgages up to FHA's loan limit. The loan limit for Section 203(b) mortgages had most recently been increased from \$25,000 to \$30,000 by the Housing Act of 1964 (Pub. L. 88-560, enacted September 2, 1964). Unlike FHA mortgages, VA-guaranteed mortgages were not limited by a statutory ceiling, but various administrative purchase limitations were periodically imposed on loan size or the non-guaranteed portion of VA mortgages (see FNMA (1969), p. A40).

The Federal Reserve Bulletin noted that FNMA's net mortgage purchases had declined in late 1966 and early 1967, and that private mortgage market conditions had improved. FNMA also raised its purchase price in February and March 1967 "*in an effort to stimulate housing activity further*" (FRB September 1967, p. 1481). Offerings to FNMA started to pick up in May 1967, when private market mortgage rates started to decline in line with other market rates.

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