

EB/CAP/83/10

November 3, 1983

To: Members of the Committee on Administrative Policies
From: The Committee Secretary
Subject: Annual Report on Salary Advances for Buying Homes

There is attached for the information of the Committee on Administrative Policies the 13th annual report on salary advances granted for buying homes, covering the year ended April 30, 1983. The report is being submitted in accordance with paragraph 9 of the proposals set forth in EBAP/69/227 (12/3/69).

Att: (1)

Other Distribution:
Members of the Executive Board

INTERNATIONAL MONETARY FUND

Annual Report on Salary Advances for Buying Homes

Prepared by Administration Department

November 2, 1983

In accordance with paragraph 9 of the proposals set forth in EBAP/69/227 (12/3/69), this is a report on the operation of the policy in financial year 1983 for granting salary advances to staff members for the purpose of buying homes (hereinafter referred to as housing advances).

I. Financial Summary

The decade-long period of uninterrupted increases in the demand by staff members for use of housing advances came to an end in FY 1982 when a tight mortgage market and high interest rates served to dampen demand. In FY 1983, the tight mortgage market eased and interest rates charged on mortgage lending fell to about 12 percent from a peak of about 17 1/2 percent reached in FY 1982. Consequently, requests for housing advances, numbering 59, virtually rebounded to the record level of 61 reached in FY 1981. The number of advances approved totaled 55 in FY 1983, an increase of 24 over the previous year. The total value of advances extended rose even more sharply to \$1,925,000, an increase of \$1,143,000, or 146 percent, over FY 1982. Two factors principally accounted for the increase: the aforementioned rise in the number of advances approved and a 39 percent increase, from \$25,225 to \$35,000, in the average amount advanced.

The most significant change in the distribution of housing advances occurred among staff in Ranges F and above; 30 advances were approved for staff in these ranges in FY 1983, compared with 12 the year before (see Appendix Table 1). As a proportion of the total number of advances approved, advances for staff in these ranges rose from 39 percent in FY 1982 to 55 percent in FY 1983. The median value of the housing purchased by staff in the higher ranges increased by 17 percent to \$151,000, while the ratio of houses to apartments purchased was 4:1, as compared to 3:1 in FY 1982. For staff in Ranges A-E, the median value of homes purchased rose moderately (10 percent) to \$78,000. Approximately two thirds of the 25 advances granted to staff in these ranges went towards the purchase of single family homes as opposed to apartments; this was a reversal of the pattern observed in FY 1982. Appendix Table 2 contains detailed information on housing advances approved in FY 1983.

The general improvement in the housing market in the Washington area during the period reviewed is reflected in the renewed demand for housing advances. In addition, the decline in "commercial" interest rates to about 12 percent during FY 1983 may partly explain the increase from 4 staff members in FY 1982 to 18 in FY 1983 who made use of the second tranche of the facility (advances of 12-18 months' salary), to which FHA rates are applied.

At the end of financial year 1983, there were 431 staff members with housing advances outstanding for a total amount of \$7,055,000, compared with 400 staff members and a total amount of \$5,833,000 at the end of the previous financial year. Twenty-four staff members repaid their advances during the year and, as indicated above, 55 new advances were approved.

II. Administration of the Policy

Of the 59 applications received in financial year 1983, two requests were denied because they were not for the first home in the area, and two applications were withdrawn by staff members for personal reasons.

Table 2. Selected Data on Home Purchases
under Salary Advance Policy, FY 1983

Salary Brackets of Borrowers (In dollars)	Applications Approved		Months of Salary Advanced				Purchase Price 3/ (\$1,000)		Advance as a Per- centage of Price				
	Houses	Apts. Total	12-Year Repayment 1/ 20-Year Repayment 2/		Min.	Med.	Max.	Min.	Med.	Max.	Min.	Med.	Max.
			No. of Cases	Min.									
<u>Ranges A-E</u>													
12,000-26,000	16	9	25	(21)	5.4	12.0	12.0	(39)	78	147	12	24	33
				(4)	13.7	15.7	17.1						
<u>Ranges F-M</u>													
Under 30,000	1	--	1	(1)	--	12.0	--	--	96	--	--	24	--
				(0)	--	--	--						
30,000-34,999	4	--	4	(2)	11.7	--	12.0	102	142	150	23	33	33
				(2)	15.5	--	17.8						
35,000-39,999	8	3	11	(5)	10.0	12.0	12.0	90	149	210	22	33	33
				(6)	12.4	16.6	18.0						
40,000-44,999	6	1	7	(4)	6.7	12.0	12.0	69	155	198	27	33	33
				(3)	15.3	16.5	18.0						
45,000 and above	5	2	7	(4)	8.9	10.9	12.0	157	202	306	23	33	33
				(3)	14.6	15.3	18.0						

1/ The advances equivalent to 12 months' salary or less are repayable over 12 years at 5 percent interest.

2/ These advances consist of two tranches. The first tranche is 12 months' salary repayable over 12 years at 5 percent interest. The second tranche is up to 6 months' salary repayable over 20 years at the FHA rate applicable at the time the request is approved. The combined weighted average of the FHA rate and the 5 percent Fund rate was in the range of 5.3 - 8.1 percent.

3/ House price including associated costs of purchase.

4/ Including one advance equal to 9.8 months of a staff member's salary, which is scheduled for repayment over 6 years at 4 percent interest.

Table 1. Distribution of Housing Advances Approved
by Salary Range, FY 1982 and FY 1983

Range	Number of Housing Advances Granted		No. as Percent of Total Advances Granted	
	FY 1982	FY 1983	FY 1982	FY 1983
A	1	1	3.2	1.8
B	4	7	12.9	12.7
C	3	7	9.7	12.7
D	7	7	22.6	12.7
E	4	3	12.9	5.5
F	3	2	9.7	3.6
G	7	13	22.6	23.7
H	2	8	6.4	14.6
I	--	3	--	5.5
J	--	1	--	1.8
K	--	1	--	1.8
L	--	1	--	1.8
M	--	1	--	1.8
Total	31	55	100.0	100.0