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December 28, 1984

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 14th annual report on salary advances granted for buying homes, covering the year ended April 30, 1984. 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

December 27, 1984

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 1984 for granting salary advances to staff members for the purpose of buying homes (hereinafter referred to as housing advances).

I. Financial Summary

The general improvement in the housing market in the Washington area, which began in FY 1983, continued throughout FY 1984. Mortgage financing became more affordable as interest rates on commercial mortgages declined from a peak of about 17 1/2 percent reached in FY 1982 to a low of about 12 percent in FY 1983; in FY 1984, the commercial rate fluctuated up and down in the range of 12 to 13 1/2 percent. However, in spite of the relatively eased conditions, staff demand for the use of the housing advance facility dropped off in FY 1984. Requests for housing advances, which had rebounded from 38 in FY 1982 to 59 in FY 1983, numbered only 46 in FY 1984. The number of advances approved totaled 44, a decrease of 11 from the previous year. Of the 46 applications received in FY 1984, two requests were withdrawn by staff members for personal reasons. The total value of advances extended was \$1,614,000, which was a decrease of \$311,000, or 16 percent, from the record high of \$1,925,000 approved in FY 1983. While the number of advances granted in FY 1984 decreased by 20 percent from FY 1983, there was a modest increase (5 percent) in the average amount advanced: \$36,700 in FY 1984 compared with \$35,000 a year earlier.

The number of housing advances approved in FY 1984 decreased for staff in Ranges A-E as well as for those in Ranges F-M; there was little change, however, in the proportionate distribution of advances between the two groups (see Appendix Table 1). Nineteen advances were approved for staff in Ranges A-E, as compared to 25 the year before. Advances for this group accounted for 43 percent of the total number of advances granted in FY 1984, a slight decrease from 45 percent in FY 1983. For staff in the higher ranges, 25 advances, representing 57 percent of the total approved, were extended in FY 1984; a year earlier, 30 advances, or 55 percent of the total, had been approved for staff in these ranges.

The median value of housing purchased in FY 1984 increased for staff in both groups. For staff in Ranges A-E, the median value of housing rose 17 percent to \$91,000; for staff in Ranges F-M, the median value increased 13 percent to \$170,000. The decided preference among staff at all levels was for single family homes as opposed to apartments. In FY 1983, 27 percent of housing advances went towards the purchase of apartments; in FY 1984, only 11 percent of the homes purchased were apartments. Appendix Table 2 contains detailed information on housing advances approved in FY 1984.

In both FY 1983 and FY 1984, 18 staff members made use of the second tranche of the housing advance facility (advances of 12-18 months' salary at commercially-linked interest rates) reflecting in part the general decline in "commercial" interest rates during this two-year period. In contrast, when interest rates had peaked at about 17 1/2 percent in FY 1982, only four staff members made use of the second tranche of the facility.

At the end of financial year 1984, there were 435 staff members with housing advances outstanding for a total amount of \$7,779,000, compared with 431 staff members and a total of \$7,055,000 at the end of financial year 1983. Forty staff members repaid their advances during the year and, as indicated above, 44 new advances were approved.

## II. Administration of Policy

When the second tranche of the housing advance facility (advances of 12-18 months' salary) was introduced in 1979, the interest rate to be fixed for the term of the advance was the Federal Housing Administration's (FHA) mortgage rate in effect at the time the advance was approved. However, U.S. legislation lifted the ceiling on FHA rates with effect from December 1, 1983; since that date, the FHA rate has floated. When the ceiling on the FHA rate was first lifted, and no reliable statistics on FHA loans had yet been published, it was decided, as an interim measure, that the interest rate applicable to home loans guaranteed by the Veterans' Administration (VA) should be used for the second tranche of the housing advance, as a proxy for the FHA rate. The VA and FHA rates had been identical for an extended period prior to December 1, 1983, and it was felt that applying the VA rate would be in keeping with the spirit of the Executive Board decision with regard to interest rates on the second tranche of the housing advance. Since the VA rate is more up-to-date than the FHA rate, which now is being published with a time-lag, it is planned to continue the use of the VA rate in the future.

The purpose of the housing advance policy approved by the Executive Board has always been to assist "permanent" staff, i.e., staff who are likely to remain in the Fund for a substantial period. In practice,

eligibility for housing advances has been limited until now to staff with open-ended appointments; fixed-term staff have been considered ineligible, as their appointments are normally limited to two- or three-year periods without expectation of any extension. Recently, an increasing number of staff appointments have been made on a fixed-term basis of up to five years with the understanding that they will be converted to regular status at the end of the term if agreeable to all parties concerned, and eligibility for housing advances is being extended to such fixed-term staff members. The policy will also be extended to staff members in the Economist Program, when it is clear that they will be offered a regular appointment upon the completion of their fixed-term appointment. Of course, staff in the Economist Program, like all new regular staff appointed in Ranges A-J, will not be eligible for a housing advance during the first year of service.

Attachment

Table 1. Distribution of Housing Advances Approved  
by Salary Range, FY 1983 and FY 1984

| Range                   | Number of Housing<br>Advances Granted |         | No. as Percent<br>of Total Advances<br>Granted |         |
|-------------------------|---------------------------------------|---------|--|---------|
|                         | FY 1983                               | FY 1984 | FY 1983  | FY 1984 |
| A                       | 1                                     | 2       | 1.8  | 4.5     |
| B                       | 7                                     | 6       | 12.7   | 13.6    |
| C                       | 7                                     | 5       | 12.7   | 11.4    |
| D                       | 7                                     | 5       | 12.7   | 11.4    |
| E                       | 3                                     | 1       | 5.5  | 2.3     |
| Subtotal,<br>Ranges A-E | 25                                    | 19      | 45.4   | 43.2    |
| F                       | 2                                     | --      | 3.6  | --      |
| G                       | 13                                    | 14      | 23.7   | 31.8    |
| H                       | 8                                     | 6       | 14.6   | 13.6    |
| I                       | 3                                     | 4       | 5.5  | 9.1     |
| J                       | 1                                     | 1       | 1.8  | 2.3     |
| K                       | 1                                     | --      | 1.8  | --      |
| L                       | 1                                     | --      | 1.8  | --      |
| M                       | 1                                     | --      | 1.8  | --      |
| Subtotal,<br>Ranges F-M | 30                                    | 25      | 54.6   | 56.8    |
| Total                   | 55                                    | 44      | 100.0  | 100.0   |

Table 2. Selected Data on Home Purchases  
under Salary Advance Policy, FY 1984

| Salary Brackets<br>of Borrowers<br>(In dollars) | Applications<br>Approved<br>Houses   Apts.   Total |   |    | Months of Salary Advanced                                  |              |              |                  | Purchase Price <u>3/</u><br>(\$1,000)<br>Min.   Med.   Max. |     |     | Advance as a Per-<br>centage of Price<br>Min.   Med.   Max. |    |    |  |
|---|--|---|----|--|--------------|--------------|------------------|---|-----|-----|---|----|----|--|
|   |  |   |    | 12-Year Repayment <u>1/</u><br>20-Year Repayment <u>2/</u> |              |              |                  |   |     |     |   |    |    |  |
|   |  |   |    | No. of<br>Cases  | Min.         | Med.         | Max.             |   |     |     |   |    |    |  |
| <u>Ranges A-E</u>                               |  |   |    |  |              |              |                  |   |     |     |   |    |    |  |
| 15,000 - 25,000                                 | 15   | 4 | 19 | ( 13<br>( 6  | 6.3<br>15.7  | 12.0<br>18.0 | 12.0 )<br>18.0 ) | 53  | 91  | 192 | 12  | 21 | 33 |  |
| <u>Ranges F-M</u>                               |  |   |    |  |              |              |                  |   |     |     |   |    |    |  |
| 35,000 - 39,999                                 | 9  | 1 | 10 | ( 6<br>( 4   | 9.1<br>14.0  | 11.7<br>15.7 | 12.0 )<br>17.6 ) | 90  | 141 | 194 | 18  | 33 | 33 |  |
| 40,000 - 44,999                                 | 5  | — | 5  | ( 2<br>( 3   | 12.0<br>13.2 | —<br>15.3    | 12.0 )<br>16.0 ) | 138   | 172 | 217 | 19  | 31 | 33 |  |
| 45,000 - 49,999                                 | 5  | — | 5  | ( 1<br>( 4   | —<br>13.0    | 12.0<br>14.5 | — )<br>18.0 )    | 158   | 183 | 287 | 24  | 32 | 33 |  |
| 50,000 - 54,999                                 | 1  | — | 1  | ( 1<br>( 0   | —<br>—       | 9.5<br>—     | — )<br>— )       | —   | 124 | —   | —   | 33 | —  |  |
| 55,000 and above                                | 4  | — | 4  | ( 3<br>( 1   | 11.7<br>—    | 12.0<br>16.7 | 12.0 )<br>— )    | 184   | 196 | 246 | 27  | 33 | 33 |  |

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 or VA rate applicable at the time the request was approved. When the ceiling on FHA rates was lifted with effect from December 1, 1983, the prevailing rate on VA-guaranteed home mortgage loans was used as a proxy for the FHA rate. The combined weighted average of the FHA/VA rate and the 5 percent Fund rate was in the range of 5.3 - 7.7 percent.

3/ House price including associated costs of purchase.

