

Mr. BROWNSTEIN. We have always found, Congressman Hanna, that when the interest rate itself was adequate to attract the flow of mortgage credit, then there was a very small discount or none at all.

Mr. HANNA. I think, Madam Chairman, that that is the important point of the discussion on the mortgage industry. If your mortgage interest was responsive to, No. 1, the flow of funds requirements as between regions, and No. 2, were responsive to the actual pressures of the money market then you would have just a modicum of influence on points. But absent that flexibility I think you are always going to be dealing with the point system, and unfortunately, the point system falls on the transaction a little differently than the interest rate, is that not true?

Mr. BROWNSTEIN. Yes, as has been pointed out here before, if the discount itself is absorbed by the seller or the builder and it is passed on to the buyer only to the degree that an increase in the price can be made to accommodate this, but I would say also that FHA does not recognize in its valuations the amount of the discount.

Mr. WYLIE. Would the gentleman yield?

Mrs. SULLIVAN. However, that is just under FHA, is it not?

Mr. BROWNSTEIN. FHA and VA.

Mr. HANNA. Under FHA and VA. In the conventional mortgage there is more flexibility in the interest rate itself. You would find the interest rate responding to these two pressures I am talking about, whereas in the FHA and VA there is no flexibility, therefore the response is in the points.

Mrs. SULLIVAN. That is why, in this chart from the Kiplinger magazine that I quoted, it would not reflect as much what FHA does as it would on a conventional mortgage.

Mr. HANNA. I think the committee would make a mistake to move in this area about interest and the declaration of interest rates in first mortgages. I think the logical step is to leave the VA and FHA mortgage interest open-ended so there will be a true reflection of what the market requires.

Mr. WYLIE. Would the gentleman yield on that?

Mr. HANNA. Yes; I'll be glad to yield.

Mr. WYLIE. The point that I want to make is that the discount points or interest when it is reflected in the form of discount points at the time of closing is absorbed immediately by the seller, whereas if it is in the form of fixed interest which is allowed to adjust according to the market, it is absorbed over a period of 25, 30 years, whatever the period of the loan is, this indicates the hardship on the seller, I think.

Mr. HANNA. That would be true if you assume under most circumstances the seller really absorbs it and does not put it in the price of the goods. This is something the committee has to be aware of all the way along, that to a degree, when we start monkeying around with the interest rates we may be affecting price levels, also. Because there is only one way to skin a cat and if you think there is not an imaginative response possible with the enterprising entrepreneur in American society, you have pretty much downgraded the fellow where he really ought to be. Because I think this is what would happen, because the point is reflected in the price in most instances, believe me—in most instances.