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VETOED 6/24/75

DELIVERED TO THE HOUSE 6/24/75 7:15 PM

THE WHITE HOUSE

WASHINGTON

ACTION

Last day: June 24

June 21, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON JMC

SUBJECT: Enrolled Bill H.R. 4485
Emergency Housing Act of 1975

Attached for your consideration is a proposed message to the Congress reflecting your decision to veto H.R. 4485, the Emegency Housing Act of 1975.

As you requested, Secretary Hills has discussed and cleared the content and thrust of this message with Congressman Garry Brown. Congressman Brown has been working closely with Congressman Ashley in an effort to sustain your veto.

Jim Lynn, Max Friedersdorf, Bob Hartmann, Jack Marsh, Bill Seidman, Phil Buchen (Lazarus) and I all recommend approval of the proposed veto message which has been cleared by Paul Theis.

RECOMMENDATION

That you approve the veto message at Tab A.

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

JUN 18 1975

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 4485 - Emergency Housing Act of 1975
Sponsor - Rep. Barrett (D) Pennsylvania, and 18 others

Last Day for Action

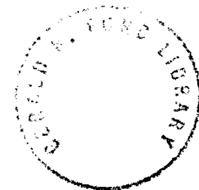
June 24, 1975 - Tuesday

Purpose

Authorizes three temporary new mechanisms for assisting middle-income families to purchase homes; authorizes a new temporary loan program to help unemployed or underemployed homeowners facing foreclosure on their home mortgages; extends the section 235 homeownership assistance program and the section 312 rehabilitation loan program and amends the laws governing certain other HUD programs.

Agency Recommendations

Office of Management and Budget	Disapproval (Veto Message attached)
Department of Housing and Urban Development	Disapproval (Veto Message attached)
Federal Home Loan Bank Board	Disapproval (Veto Message attached)
Council of Economic Advisers	Disapproval
Department of the Treasury	Would concur in a veto recommendation
Council on Wage and Price Stability Staff	Disapproval
Federal Deposit Insurance Corporation	No objection
National Credit Union Administration	No objection



Veterans Administration	Defers to HUD
Department of the Interior	Defers to HUD (Informally)

Discussion

H.R. 4485 is the congressional response to the slump in housing construction and to the fear of widespread foreclosures resulting from the recession. The Administration did not propose legislation, although it endorsed an expansion in coverage of the Emergency Home Purchase Assistance Act of 1974 to conventionally financed multifamily housing.

The enrolled bill would subsidize home purchases by middle-income families, and provide Federal loans on behalf of homeowners facing foreclosure because they are behind in their mortgage payments. These would be temporary programs with no new participants after July 1, 1976; the costs, however, would continue into the 1980's.

The Administration has consistently opposed this legislation as inequitable, administratively complex, costly, and counterproductive. Administration representatives have argued that signs of favorable housing trends make the proposed housing construction subsidies untimely and unnecessary, and that the likely incidence of foreclosure does not warrant new legislation, especially in light of present authority to encourage forbearance by mortgage lenders.

A detailed description of the provisions of H.R. 4485 is attached to HUD's views letter on the bill. The following summarizes the bill's major features.

Title I - Emergency Middle Income Housing

Title I of the enrolled bill would authorize the Secretary of HUD to subsidize the purchase of housing by families with incomes up to 120 percent of the area median. Three alternative forms of homeownership assistance would be made available:

(1) Mortgage interest reduction payments,

(2) Home purchase incentive payments, and

(3) Government National Mortgage Association (GNMA) purchases of below market (7 percent) interest rate mortgages.

This assistance would be used to help finance the purchase of a principal residence, including single-family, two-family, condominium, or cooperative units. Appraised values could not exceed $38,000 ($42,000 in high cost areas and $48,000 in Alaska, Hawaii, and Guam.)

Mortgage interest reduction payments would subsidize mortgage payments down to the amount due on a comparable 6 percent mortgage. The full subsidy would be provided for 3 years, gradually reduced over the following 3 years, and phased out by the seventh year.

Home purchase incentive payments of $1,000 would be available to assist middle-income families make the down payment on a home, excluding a condominium unit, on which construction began on or after March 26, 1975.

If a family which received either interest reduction or purchase incentive payments sold its home within 4 years, the Government would recapture the portion of the subsidy covered by the net gain realized on the sale. Lesser amounts would be recaptured if the home were sold in the fourth through sixth year.

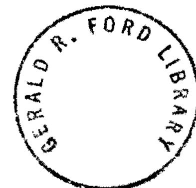
GNMA mortgage purchases would subsidize mortgage interest rates down to 7 percent. Under this alternative, GNMA would purchase 7 percent mortgages at face value and later resell them to the Federal Financing Bank or any Federal Reserve bank, absorbing whatever discount was necessary.

Mortgage lenders (e.g., savings and loan associations, mortgage bankers) would be authorized by HUD to approve a specific amount of mortgages for assistance, and families would be offered a choice as to which type of assistance they would receive.

Certain restrictions would apply to these programs:

-- Families would not be eligible for assistance under this title if they claimed a tax credit for the purchase of a new home as authorized by the Tax Reduction Act of 1975.

-- No more than 20 percent of the assistance could be used for existing housing and unsold new units on which construction began prior to March 26, 1975.



-- No more than 15 percent of the units could have appraised values in excess of $38,000.

-- Assistance would have to be distributed on a geographically equitable basis and in such a way as to encourage conservation of land and energy resources.

Title II - Emergency Mortgage Relief Program

This title would authorize $500 million for the Secretary of HUD to make repayable loans on behalf of homeowners who have incurred a substantial reduction in income because of involuntary unemployment or underemployment due to adverse economic conditions, and who have been delinquent in their mortgage payments for at least 2 months. The loans could be up to $250 per month for 24 months. Prior to any loan, the lender would be required to notify the homeowner of his intention to foreclose. The lender and homeowner would also have to notify the Secretary that the homeowner needs relief.

The emergency mortgage relief loans could only be made on the homeowner's principal residence, and would be repayable at an annual interest rate not exceeding 8 percent. Repayments could be deferred until after the mortgage was paid off or the property was sold.

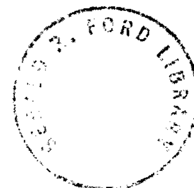
For 2 years after enactment, HUD and each Federal agency supervising financial institutions would have to encourage forbearance and request notification by lenders 30 days before instituting foreclosure proceedings. Every 60 days, HUD would have to report to Congress on the delinquency/ foreclosure situation and related issues.

Title III - Miscellaneous Provisions

Provisions of this Title of the bill would:

-- Extend the insurance authority for the Section 235 homeownership assistance program for 1 year until July 1, 1977.

-- Authorize extension of the Section 312 Rehabilitation Loan Program for 2 years at $35 million for each year; under existing law, the program is scheduled to terminate on August 22, 1975.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-- Provide a 7-month extension for FHA-insured owners to apply for defect compensation; the deadline presently is August 22, 1975.

-- Delay certain sanctions for noncompliance under the Federal flood insurance program, from July 1, 1975 to January 1, 1976.

-- Authorize GNMA to provide tandem support to conventional mortgages on multifamily projects, as the Administration requested.

-- Reduce the new Section 8 Lower-Income Housing Assistance Program by requiring $75 million presently available under the program to be used for conventional public housing.

-- Authorize HUD to permit a State or local housing agency to raise the maximum income limitations, percentage of income, and rental to be paid by the tenant in certain subsidized housing.

-- Provide that none of the funds set aside for Indian low-income housing in the Housing and Community Development Act be used to fulfill any outstanding commitments entered into prior to the date of enactment under any memorandum of understanding between HUD, Interior and HEW.

Budget Impact

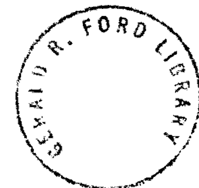
The enrolled bill would subject the authorizations in Titles I and II to the appropriations process. The aggregate amount of mortgages assisted under title I could not exceed $12 billion, with the following individual program limitations:

$300 million per year for mortgage interest reduction payments.

$400 million for home purchase incentive payments.

$12 billion for GNMA mortgage purchases.

HUD and OMB staff estimate that full implementation of the bill would result in the following outlays: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(In $ Millions)

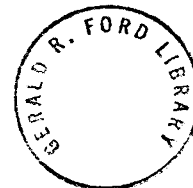
	FY 1976	FY Transition Quarter	FY 1977	Total thru FY 1977
Title I Home purchase assistance	714	180	534	1,428
Title II Foreclosure relief	250	125	125	500 1/
Title III Rehabilitation loans 2/	60	5	60	125
Total	1,024	310	719	2,053

1/ No loan repayments are included in this estimate.

2/ The outlay impact of other provisions cannot be estimated at this time.

The Title I estimates in the preceding table are for the below-market GNMA mortgage purchase program which most observers believe would be the preferred option and which is the most costly program. Some portion of the $500 million in Title II foreclosure loans would be repaid at up to 8 percent interest but repayments would not begin in the near future.

Because most of the Title I subsidies would go to families who would have purchased homes anyway, added tax revenues resulting from any increase in construction activity would not be significant.



Arguments For and Against the Enrolled Bill

Title I ("Emergency Middle-Income Housing Act")

Arguments for

1. The home building industry, hardest hit by inflation, tight money, and recession, needs to be stimulated in order to foster economic recovery.

2. An increase in home building would create jobs and increase demand for appliances, home furnishings, and other related products.

3. Some middle-income families that could not otherwise buy homes because of high interest rates would be able to do so with interest rate assistance, thereby expanding the market for new homes.

4. The added cost to the Government would be largely offset by the added tax revenue flowing from the employment generated by an expansion in home building.

Arguments against

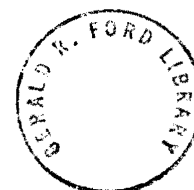
1. Sufficient authority to subsidize mortgage interest rates is already available under the Emergency Home Purchase Assistance Act of 1974, and over $2 billion remains unused.

2. The proposed interest assistance measures do not address the primary obstacle to a more rapid housing recovery--consumer confidence--and in fact could undermine it.

3. Most of the proposed subsidies would go to families who could have--and would have--purchased homes without Federal assistance; the number of new starts resulting from the bill would be small (less than 90,000, according to the Federal Reserve Board).

4. Whatever stimulus the bill would produce would occur many months from now when it may not be needed and could add to inflationary pressures.

5. The usual delays in implementing new programs would cause eligible families to postpone homebuying, thus retarding a housing recovery.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6. Families with incomes under the median would be forced to subsidize their wealthier neighbors who make, in some areas, over $27,000 a year.

7. The proposed subsidies would add over $700 million to the Federal budget deficit in fiscal year 1976, necessitating additional borrowing which would tend to drive up interest rates and reduce funds available for housing.

Title II ("Emergency Mortgage Relief Payments")

Arguments for

1. Unemployed homeowners would be able to avoid losing their homes.

2. Financial institutions would be assisted and would have additional funds to reinvest.

Arguments against

1. The foreclosure rate is low, and there is little chance that it will develop into a serious problem because of the normal tendency of lenders to forbear.

2. The Federal Government already has at its disposal a number of ways for heading off a major increase in foreclosures should one begin to develop.

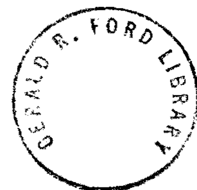
3. If the Congress wishes to supplement both the tendency of lenders to forbear and the tools already available to the Federal Government for dealing with a foreclosure problem, it can do so in a way that avoids the very serious administrative, financial, and incentive problems inherent in the Title II approach.

4. The fiscal year 1976 budgetary cost would be about $250 million.

Title III ("Miscellaneous Provisions")

Arguments for

1. The authority to provide tandem support to conventional mortgages on multifamily projects was requested by the Administration.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2. The flood insurance provision would postpone the drastic sanctions scheduled to be applied to home sellers in nonparticipating communities.

3. The Senate Committee argues that:

    a. Extension of the Section 312 Rehabilitation Loan Program is needed for those communities which lack the legal authority to make loans out of their block grant allocations.

    b. Buyers of defective HUD-insured homes are entitled to additional time in which to file claims because of HUD delays in accepting applications.

    c. Changes in income limits in federally subsidized projects are needed to solve the income problem that threatens the financial health of these projects.

Arguments against

1. The bill would extend the Section 235 and Rehabilitation Loan programs which are highly undesirable and which the Congress itself agreed to phase out only last year.

2. The bill would give special treatment to certain low- and moderate-income housing projects in a way that would redirect assistance away from lower income groups.

3. The bill would reduce the amount of authority available to support lower income housing projects under the new Section 8 program.

4. An extension of flood insurance sanctions could lead to further extensions so that subsidized flood insurance would never buy all the desired flood protection sanctions.

Agency Recommendations

HUD recommends that you disapprove H.R. 4485 for reasons detailed in its draft veto message: The levels of subsidy provided are excessively deep and costly; it would not work as intended; it could not be immediately implemented and, because of this delay, would actually impede an early recovery in housing starts; it has long-term impacts and implications that are inappropriate and undesirable for an "emergency" measure; and the subsidy provisions pose substantial problems of equity among those who would and would not be eligible for the relatively large subsidies provided.

Federal Home Loan Bank Board recommends disapproval, stating that it "now enjoys sufficient regulatory authority to encourage and cause forbearance by regulated home mortgage lenders if the general economic situation results in widespread distress for borrowers." Furthermore, the programs in H.R. 4485 would "not accomplish the legislative purposes, but impede housing recovery."

CEA recommends that you veto this bill noting that "Its passage would threaten to undermine the system of private home finance and forestall greater efficiency of the capital markets through financial reform by substituting credit allocations and government takeover of lending functions."

Treasury concurs in a veto recommendation, commenting that "providing subsidies to persons who would purchase homes even if the proposed subsidies were not available would be ineffective in stimulating additional housing."

Council on Wage and Price Stability staff recommend a veto because the enrolled bill would add substantially to the deficit, provides subsidies for families above the median income, raises difficult problems of choosing the families to be assisted, and encourages lenders to foreclose.

Other agencies whose views were requested either have no objection or defer to HUD on the enrolled bill.

OMB Recommendation

For the reasons set forth earlier as arguments against the provisions of the bill, OMB recommends that you disapprove H.R. 4485. An analysis of the authorities contained in the bill shows them to be unnecessary and undesirable. Moreover, the bill would not only increase outlays by over $1 billion in 1976, but would also generate additional pressure for spending increases and cast doubt upon the Government's willingness to control the budget.

Although the homebuilders and organized labor are waging an intense drive to overturn a veto of the bill, the chances of sustaining a veto appear good--especially given the large increase in new housing starts reported for May. The Conference Report vote fell 19 votes short of the required two-thirds in the House (22 votes short counting pairs). Moreover, HUD is negotiating with key Members of Congress to come up with alternative programs of housing assistance which would be acceptable to the Administration. This will

strengthen the Administration's position on this bill, as well as on the stripped-down version (limited to 6%/7% interest subsidy and foreclosure relief provisions), which the majority leadership is expected to push if a veto of H.R. 4485 is sustained.

We have prepared the attached draft veto message for your consideration.

for Director

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

June 9, 1975

Mr. James M. Frey
Assistant Director for
Legislative Reference
Office of Management and Budget
Washington, D. C. 20503

Attention: Miss Martha Ramsey

Dear Mr. Frey:

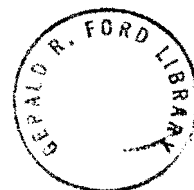
Subject: H. R. 4485, 94th Congress, Enrolled Enactment

This is in response to your request for our views on the enrolled enactment of H. R. 4485, the proposed "Emergency Housing Act of 1975".

Title I would be known as the "Emergency Middle-Income Housing Act of 1975". It provides for three new subsidies which are designed to encourage "middle-income families" to purchase new homes so as to stimulate additional housing starts. Title II provides for a system of direct Federal loans to help meet the mortgage payments of homeowners who are unemployed or underemployed. Title III contains a number of miscellaneous amendments to housing and urban development laws.

We are enclosing a more detailed summary of the provisions of H. R. 4485. We are also enclosing a chart which details our budget authority and outlay estimates for the bill.

We recommend that the President withhold his approval from the enrolled enactment of H. R. 4485, and, as required by applicable instructions, we are accordingly enclosing a draft message which the President might use in returning the bill to the Congress.



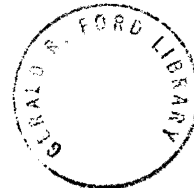
The draft message sets forth our principal objections to the bill. So far as the housing subsidy proposals in title I are concerned, the draft concentrates upon specific defects in H. R. 4485, particularly the provisions for 6 and 7 percent mortgages, while clearly suggesting a willingness to accept an appropriate alternative which does not involve a comparable combination of objectionable features. We believe that such an approach is necessary from a policy standpoint so long as housing starts remain at a depressed level. We also believe that this approach is appropriate tactically in view of the continued pressures upon the Congress to enact some form of subsidy and the desirability of forestalling later enactment of a "stripped down" bill that would include the 6 and 7 percent mortgage provisions, or possibly the latter alone, together with a foreclosure relief provision.

As to title II of the bill (foreclosure relief), while we expect to argue vigorously our objections to a direct loan approach in discussions with members of the Congress, we do not believe that it would be desirable to stress or detail these problems in the message. We would be happy to discuss this or any other aspects of the message with you or appropriate members of your staff.

Sincerely,

Carla A. Hills

Enclosures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Summary of Enrolled Enactment of H. R. 4485,
the Proposed "Emergency Housing Act of 1975"

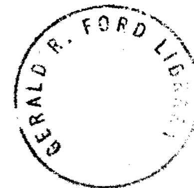
The bill consists of three titles -- Title I, "Emergency Middle-Income Housing Act of 1975," which authorizes various subsidies designed to stimulate home purchases and construction; title II, which provides for a system of relief payments to mortgagors threatened with foreclosure, and title III, which contains miscellaneous amendments affecting existing housing and community development laws and programs.

Title I -- Emergency Middle Income Housing

Title I of the bill would authorize three mechanisms for providing financial assistance with regard to home mortgages for middle-income families (those with incomes which, generally, do not exceed 120 percent of the area median). First, it would authorize the Secretary of Housing and Urban Development to make interest reduction payments on behalf of middle-income families. Such payments would equal the difference between the amount of principal, interest, and mortgage insurance premium due under the mortgage and the amount of principal and interest due on a 6 percent mortgage. These payments would phase out gradually after the first three years and after six years no interest reduction payments would be made.

Title I would also authorize GNMA to purchase home mortgages whose interest rates do not exceed 7 percent, to issue and guarantee mortgage-backed securities based on these mortgages, and to sell such securities to the Federal Financing Bank or to any Federal Reserve bank.

Finally, Title I would authorize the HUD Secretary to make home purchase incentive payments in the amount of $1000 to middle-income families to be applied to the downpayment on a home, construction of which began on or after March 26, 1975. Such incentive payments could not be made with respect to a family receiving assistance pursuant to other parts of Title I or pursuant to the Emergency Home Purchase Assistance Act of 1974.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The Secretary would be required to allocate to applicant lenders aggregate amounts of mortgages to be assisted and to afford, to the maximum extent practicable, to eligible families a choice among the programs authorized by this title.

The total amount of mortgages assisted could not exceed amounts approved in appropriations acts up to $12 billion. Of the total amount approved, not more than 20 percent could be allocated for use with respect to existing units or units placed under construction prior to March 26, 1975, and not more than 15 percent could be used with respect to units with appraised values exceeding $38,000. Mortgagors receiving the income tax credit for purchase of a home pursuant to the Tax Reduction Act of 1975 would not be eligible for assistance under this title. A mortgagor receiving the benefit of a home purchase incentive payment or an interest reduction payment would be obliged to repay all or part of the subsidy if he sold his home within 7 years unless he purchased another home within 18 months after such sale.

No aid under Title I would be available after June 30, 1976, except pursuant to contracts or commitments made before that date.

Title II -- Emergency Mortgage Relief Payments

Title II of this bill would authorize the Secretary of Housing and Urban Development to make mortgage relief payments on behalf of a homeowner who has been delinquent for at least 2 months in his mortgage payments, if his income has been so substantially reduced because of involuntary unemployment or underemployment due to current adverse economic conditions that he cannot make full mortgage payments. Such mortgage relief payments would not exceed the lesser of $250 per month or the amount reasonably necessary to supplement the amount the homeowner is able to pay on his mortgage. Such payments could be made for as many as 12 months, and could be extended once for as many as 12 additional months. Such payments would be in the nature of loans and would be repayable to the Secretary with no more than 8% interest charged thereon. The Secretary would be authorized to defer repayment of such payments until disposition of the property or until completion of the period of amortization for the mortgage.

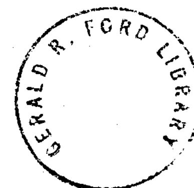
Mortgage relief payments could be made only with respect to a property that is the principal residence of the mortgagor and only if there is a reasonable prospect that the mortgagor will be able to make the adjustment necessary for a full resumption of his mortgage payments.

The bill would authorize $500,000,000 to be appropriated for Title II. Mortgage relief payments would not be made after July 1, 1976, except to mortgagors receiving the benefit of payments on that date. Title II would also require the Secretary to report to Congress at 60 day intervals (until July 1, 1976) on delinquency and foreclosure rates around the country and on other related issues. Title II would also require various Federal agencies to take appropriate action to waive or relax any requirements in order to cause or encourage forbearance in residential mortgage loan foreclosures.

Title III -- Miscellaneous

Title III would:

- -- extend the Section 312 rehabilitation loan program for two years (until August 22, 1977) and would authorize appropriations of $35 million for each of those two years;
- -- amend Section 5(c) of the U.S. Housing Act of 1937 to increase the set-aside of contract authority for projects to be owned by public housing agencies in the Housing and Community Development Act of 1974 from $150 million to $300 million, and to provide that none of the public housing funds set aside for Indian housing in the Housing and Community Development Act of 1974 could be used for commitments made prior to such Act to finance public housing for Indians;
- -- extend insuring authority under the section 235 homeownership assistance program for one year (until July 1, 1977);
- -- extend by seven months the period during which owners of FHA-insured houses that have serious structural defects could request assistance from HUD to repair such defects under section 518(b) of the National Housing Act;
- -- authorize HUD to permit certain State housing agencies to establish higher admission eligibility limits and to lower rent-to-income ratios to not less than 20 percent of a tenants' income in non-FHA insured, State-financed projects assisted under section 236 of the National Housing Act;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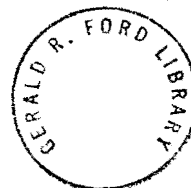
-- amend Section 202(h) of the Flood Disaster Protection Act of 1973 to delay until January 1, 1976 the effective date of the prohibition in such Act against the making of loans by Federally-supervised lending institutions in flood-prone areas not participating in the National Flood Insurance Program in the case of loans made to finance acquisition of a previously occupied residential dwelling; and

-- extend coverage of the Emergency Home Purchase Assistance Act to conventionally financed multifamily housing (including condominiums and units therein), provided the mortgage amount did not exceed 70 percent (80 percent in the case of an individual condominium unit) of the value of the property or the mortgage was insured.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Emergency Housing Act of 1975
Budget Authority and Outlay Estimates

	1976	Transition 1976	1977	1978	1979	1980	Total
			(Dollars in Millions)				
Title I — Emergency Middle-Income Housing							
Section 104 — Interest Reduction Payments - BA..................	$1,350	...	...	...	...	...	$1,350
- Outlays.............	50	45	285	295	230	170	1,350
OR							
Section 105 — GNMA BMIR Mortgage Purchases - BA..................	...	...	...	...	...	...	...
- Outlays.............	714	180	534	...	...	...	1,428
OR							
Section 106 — Home Purchase Incentive Payments - BA.........	400	...	...	...	...	...	400
- Outlays....	200	50	150	...	...	...	400
Title II — Emergency Mortgage Relief Payments - BA..............	500	...	...	...	...	...	500
- Outlays.........	250	125	125	...	...	...	500 a/
Title III - Miscellaneous							
Section 301 — Extend Sec. 312 Rehab Loans for 2 years (8/22/77) - BA................	35	...	35	...	...	...	70
- Outlays (from new authority).......	35	...	35	...	...	...	70 b/
- Outlays (from repayment of previous loans)............	25	5	25	...	...	...	55 b/
Section 302 - Additional amount for conventional public housing - BA......	...	...	...	...	...	...	...
- Outlays.	...	...	...	...	...	...	...
Section 303 — Extend Sec. 235 to 6/30/77 - BA.................	...	...	...	...	...	...	...
- Outlays............	...	...	...	...	...	...	...
Section 304 — Excludes bona fide commitments in achieving statutory floor for Indians - BA..........	...	...	...	...	...	...	...
- Outlays.....	...	...	...	...	...	...	...
Section 305 — Extend Section 518(b) claim period by 7 months - BA...	...	...	...	...	...	...	...
- Outlays	...	...	...	...	...	...	...
Section 306 — State established income limits, rental charges, etc. for State aided Sec. 236 projects - BA..................	...	...	...	...	...	...	...
- Outlays.............	...	...	...	...	...	...	...
Section 307 — Extend 6 months (to 1/1/76) effective date of prohibition against loans on existing dwellings in flood prone areas - BA......	...	...	...	...	...	...	
- Outlays.	...	...	...	...	...	...	

a/ The legislation provides for repayable mortgage relief payments. Repayment terms and conditions are to be prescribed by the Secretary. The Secretary is specifically authorized to defer repayments until the property is disposed of or the mortgage is amortized. Therefore, no repayments have been estimated through fiscal year 1980.

b/ Repayable 3% interest loans. The term of repayment cannot exceed 20 years or three-fourths of the economic life of the structure after rehabilitation.

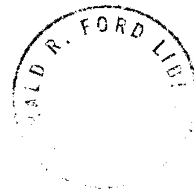
Outlay Summary
(Maximum Exposure)

	1976	Total
Title I...........	714	1,428
Title II..........	250	500
Title III.........	60	125
Total........	1,024	2,053

Draft: 6/6/75

I am returning without my approval the enrolled enactment of H.R. 4485, the proposed Emergency Housing Act of 1975. H.R. 4485 reflects an understandable desire to stimulate housing production at a time when general economic activity has fallen off sharply and unemployment is high. Unfortunately, this bill would not achieve its promised results. Worse, implementation of H.R. 4485 is far more likely to hinder than to help in our efforts to achieve a sound housing recovery and to deal effectively with our overall economic problems.

There are a number of trends that suggest the likelihood of a substantial housing recovery later this year. Funds are continuing to flow into savings institutions and are adding to the more than $10 billion in net inflows during the first quarter of this year. Interest rates have fallen substantially off their peaks. It now appears that the large inventory of unsold units that many have considered a depressant on new starts is being reduced more rapidly. Permits for new home construction have begun to rise. There has been a potentially significant improvement in the multifamily sector which has long suffered the most severely in the current housing recession.


R. FORD LIB

The existence of these favorable trends does not mean that we have yet overcome our problem in housing. To the contrary, we need to extend and expand our capacity to supplement and reinforce market trends if these falter or prove inadequate to generate the needed upturn in housing starts. I favor appropriate legislation that would be consistent with this course. H.R. 4485, however, is not such legislation. In fact, I am convinced that were I to approve this bill I would be acting against the interests of not only the American people as a whole but also against the interests of those who have a stake in housing as producers, workers, or prospective purchasers of new homes.

At the core of H.R. 4485 is a smorgasbord of new housing subsidies for middle income families, including provisions for mortgages with mandated 6 and 7 percent interest rates and $1,000 downpayment grants. Since there appears to have been no consensus in favor of any one of these new subsidies, the bill proposes that they be offered as a buyer's choice principle in the hope, apparently, that something will work.

The cost of full implementation of these new subsidies would be approximately $1.5 billion, with Government outlays in fiscal 1976 estimated at over $700 million. An addition to the

R. FORD LIB

budget on this scale is obviously a most serious matter, both in itself and in terms of its implications for other proposals for new Government spending. It is particularly important to housing that we maintain a firm line against unessential spending that adds to the deficit and necessitates borrowing which will tend to drive up interest rates. Moreover, I believe that budgetary restraint is an important element in any effort to instill the kind of consumer confidence in the future that is essential to a vigorous housing market.

Proponents of H. R. 4485 have argued that the budgetry costs of this bill will be outweighed by its favorable effect in stimulating an upturn in housing starts, thus producing additional economic.activity, jobs and tax revenues. These claims, however, overlook a number of critical defects in the bill which have to do with its relative cost, impact, timing, and long term implications.

First, the levels of subsidy provided are excessively deep and costly. Under H.R. 4485, mortgages would be heavily subsidized so that they may bear interest rates which could be lower than any which have been generally available in nearly ten years. These deep subsidies require larger Federal outlays and they complicate the budgetary problems of the bill.

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Moreover, they are unnecessary in view of experience in recent years indicating that a very active housing market can be sustained with interest rates substantially above those which the bill would require.

Second, the bill would not work as intended even if it could be immediately implemented. Although supporters of H.R. 4485 have claimed that it would produce hundreds of thousands of additional housing units, available evidence does not suggest that the bill would have any impact of this magnitude or that the units produced would necessarily be additional to those that would be produced in the absence of such large subsidies. Those most likely to be influenced to buy under the bill would be families near the top of the range of those eligible, and it is just these families who would be most apt to buy even without subsidy assistance on the scale proposed.

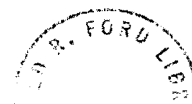
Third, the bill could not be immediately implemented and, because of this delay, would actually impede an early recovery in housing starts. The subsidies which would be authorized include new approaches that have never been tried before. To make this assistance available, it would not only be necessary to secure appropriations and write regulations but also to prepare a variety of new forms, establish procedures, and familiarize Government, lender and builder personnel throughout

the country with these new forms and procedures. With every priority being given, months would be required before full implementation. During this critical period, H.R. 4485 -- far from helping -- would actually inhibit home purchases among those eligible for assistance, since these families would understandably want to wait until the subsidies become available. Later, by the time the bill has any effect upon demand, the need for assistance will have diminished. Further, if the industry is then returning rapidly to more normal conditions, the bill might have some success at just the wrong time -- when it would add to newly emerging upward pressure on prices.

Fourth, the bill has long term impacts and implications that are inappropriate and undesirable for an "emergency" measure. Deep subsidies of the kind included in H.R. 4485 suggest a purpose of subsidizing a class of families many of whom may need subsidy assistance for purchase of new homes even in a normal housing market. Thus, there may well be pressures for continuing the subsidies in future years so long as mortgage interest rates do not fall to levels comparable to those which H.R. 4485 would provide. These pressures may be particularly acute in the case of the 6 percent mortgages authorized by the

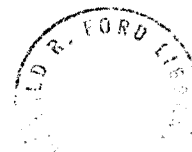
bill, since the legislation contemplates that those who purchase under this option will begin making higher payments in the future. Moreover, extensive use by homeowners of this option would require substantial Government outlays in future years when the economy may be operating at full capacity with inflationary forces at or approaching their peaks.

Fifth, the subsidy provisions of H.R. 4485 pose substantial problems of equity among those who would and would not be eligible for the relatively large subsidies provided. As the bill is written, subsidies worth up to thousands of dollars each would be made available to families within a given income group, while other families with incomes that may be only slightly greater would receive no subsidy at all and would be expected to pay full market rate mortgages. These discrepancies involve hundreds of thousands of families with roughly similar incomes; they could be very sharp and hard to justify. One consequence may be that, if H.R. 4485 were enacted, pressures would quickly develop for extension of its very substantial subsidy benefits. Another would be that, pending such an extension, families with incomes similar to those in the subsidy range, but who do not qualify for subsidy assistance, may very well be discouraged from purchasing homes. This would add to the negative impact of the bill.



Apart from the new housing subsidy programs in H.R. 4485, the bill would make a number of undesirable changes in our housing and community development laws. Among these features of the bill are a provision which would further extend the subsidized homeownership program authorized by section 235 of the National Housing Act. Another provision would extend and expand the authorization for the program of subsidized rehabilitation loans authorized under section 312 of the Housing Act of 1964. The Congress agreed to a termination date for both of these programs last year after long deliberation and consideration of alternative programs, and a reversal of that decision should not be made in the context of an "emergency" measure. The change in Congressional policy on the section 312 program is particularly hard to understand in view of the fact that communities are currently planning to make block grant funds available for rehabilitation loan purposes at an annual rate nearly double the highest rate achieved under the section 312 program in the past.

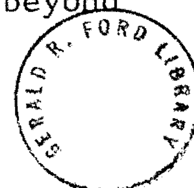
Another undesirable amendment in H.R. 4485 would increase the amount of housing funds that must be set aside for projects to be owned by local public housing agencies. This



amendment would require a shifting of fund allocations already made and a greater use of a project system involving longer lead times, thus delaying the provision of much needed lower income housing. I also object to an amendment in H.R. 4485 which would establish separate, more generous, rules for computation of admission limits and rent to income ratios in the case of certain State housing projects assisted under section 236 of the National Housing Act. At a time when many sponsors of section 236 projects are in difficulty, I see no adequate basis for such special assistance, at Federal expense, to a particular agency or those occupying its projects.

Despite my many objections to H.R. 4485, it does contain one laudable feature -- an expansion of the emergency credit authority contained in the Emergency Home Purchase Assistance Act of 1974 to include conventionally financed multifamily projects, including condominiums, and individual units in conventionally financed condominiums. We have lacked adequate authority in the past to deal with the acutely depressed multifamily sector.

Unfortunately, while the bill would expand the Emergency Home Purchase Assistance Act to include multifamily and condominium housing, it does nothing to extend that Act beyond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its present October expiration date. Moreover, it fails to make any modification in the interest rate formula of the Act which have proved excessively rigid and erratic in the past. I hope the Congress will address itself to these additional changes, and will also provide an increase in the Emergency Act authorization, because that Act can provide the kind of flexible, easily implemented authority which we need to retain until the housing market returns to more normal conditions.

Another potentially significant provision in H.R. 4485 would make available Federal loan assistance to homeowners threatened with foreclosure because they have been laid off or suffered reduced earnings due to economic conditions. Although I believe it is questionable whether we will in fact experience a pattern of widespread foreclosures or distress sales, I appreciate the desire of Congress to have legislation available should foreclosures or threatened foreclosures rise substantially above normal and acceptable levels.

I am concerned, however, with some particular features of the foreclosure relief provisions which would involve

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Government administration of a large scale direct loan program, and I have asked the Secretary of Housing and Urban Development to explore possible modifications with appropriate Congressional leaders.

Federal Home Loan Bank Board

320 First Street, N.W.
Washington, D.C. 20552

Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

THOMAS R. BOMAR, Chairman

June 13, 1975

Ms. Martha Ramsey
Legislative Reference Division
Office of Management and Budget
Room 7201
New Executive Office Building
Washington, D.C. 20503

Dear Ms. Ramsey:

This is in response to the request for our views on the enrolled bill H.R. 4485, the "Emergency Middle-Income Housing Act of 1975".

The Board recommends disapproval of the bill. We have had experience with programs of the kind set forth or expanded by H.R. 4485. 1/ It is our experience that such programs do not accomplish the legislative purposes, but impede housing recovery. They necessarily involve excessive start-up time, continual contact with the

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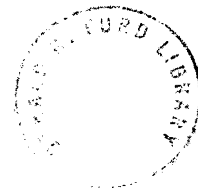
1/ Under Title I of the Emergency Home Finance Act of 1970, the Board, through the Federal Home Loan Bank System, operated the Housing Opportunity Allowance Program. The members of the Board are the Board of Directors of the Federal Home Loan Mortgage Corporation (FHLMC), which has acted as agent for the Government National Mortgage Association in implementing the Emergency Home Purchase Assistance Act of 1974. In addition to our experience under that Act, the FHLMC operated a similar mortgage purchase program which began in May, 1974.



Federal bureaucracy, are inefficient to administer, and do not adapt well to the practices of lenders, whose participation is essential. Further, the implementation of such programs at the present time clearly spurs inflation.

Title I of H.R. 4485 would attempt to reduce mortgage interest costs to "middle-income families", to stimulate employment in the home-building industry, and to encourage land and energy conservation in the interest of reducing costs of homeownership. The Secretary of Housing and Urban Development is authorized to assist middle-income families with respect to home mortgages (1) by reducing interest payments temporarily to the level of payments on a mortgage bearing an interest rate of six percent, (2) by purchasing and committing to purchase through the facilities of GNMA mortgages having interest rates of seven percent or less, and (3) by making "home purchase incentive payments". Title II authorizes the Secretary of HUD to make "emergency mortgage relief payments" on behalf of homeowners who are delinquent in their mortgage payments. Title III is a collection of provisions extending or supplementing other assistance programs.

H.R. 4485 as a whole is vulnerable to the general objections stated above; and both Titles I and II are particularly objectionable on the ground that both appear to discriminate in favor of certain families (apparently upwardly mobile ones) and against other, equally deserving, but less fortunate families who cannot meet the substantial increase in interest payments that will occur under Title I or "make the adjustments necessary for a full resumption of mortgage payments" under Title II. We have nevertheless prepared a veto message which concentrates on Title II as that part of H.R. 4485 which purports to do the most, but displays the greatest weaknesses. The proposed veto message is enclosed.

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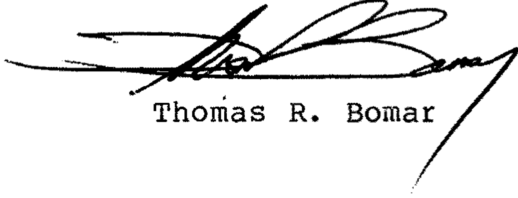
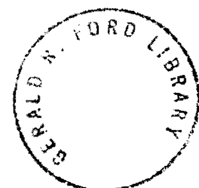
Ms. Martha Ramsey
Page Three

In conclusion, I wish to add that H.R. 4485 is not only objectionable for the reasons given above and in the proposed veto message, but is unnecessary. The Board now enjoys sufficient regulatory authority to encourage and cause forbearance by regulated home mortage lenders if the general economic situation results in widespread distress for borrowers.

Sincerely,



Thomas R. Bomar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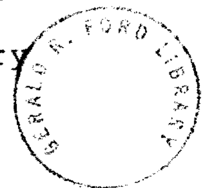
Proposed veto message

Title II [like Title I] requires veto action. Clearly, it is hard to find an area more deserving of concern than the protection of families against loss of their homes. It is exactly for this reason that we must be sure that this objective will be achieved, that it will be done fairly and equitably, and that Government intervention will help rather than hurt.

Unfortunately, Title II meets none of these tests. Its stated objective is to provide emergency assistance to families who need temporary mortgage relief as a result of unemployment due to adverse economic conditions. If it is to achieve its purpose, it would necessarily discriminate against equally deserving families whose emergency situation is due to death, illness, or other family misfortune, or to involuntary unemployment itself due to any number of reasons other than "adverse economic conditions". It would discriminate against families who, exactly because they require emergency relief, cannot "reasonably" show that they can undertake a "full resumption" of mortgage payments within the year. Families may under the title be denied relief, depending upon the ability or willingness of their particular institutions to indicate a weakness in their general portfolios, or to forbear from foreclosure action while Federal relief is being sought. As to families who may still hope to qualify, unnecessary foreclosure and other injurious action is invited by requirements that the mortgagee must formally indicate intent to foreclose, that it must also substantiate likelihood it will, and that the mortgagor must be delinquent at least two months. Thus, either or both parties may feel compelled to act, prematurely, or without assurance as to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eligibility or Government aid, and in a manner clearly damaging to the home owner's permanent credit record.

The Congress was correct in appreciating that the Title II kinds of requirements are necessary if abuse or misuse of Government assistance is to be prevented. What it failed to appreciate is that they likewise demonstrate the inherent weakness of this kind of proposal. Specifically, the area of concern - purely and temporary economic adversity - is exactly the area for which our home financing institutions are best geared, by practicalities and tradition, for handling the situation. They can do so with a minimum of risk and injury, direct and collateral, to customers needing help. They can do so without the mass of red tape and bureaucracy that the findings, certifications, and reports that Government intervention under the Title would require. They can do so with a minimum of cost to the parties and to the general public alike. And they can do so without discrimination.

The record thus far shows that our home financing institutions are sensitive to the need and to the responsibility. This has been in the best tradition of our free enterprise system. It has been in the best tradition of community responsiveness to a community need. I believe we should encourage, rather than disregard, these traditions and this kind of responsiveness to them.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 13, 1975

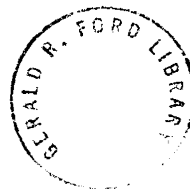
Dear Mr. Frey:

This is in response to your request for the views of the Council of Economic Advisers on H. R. 4485, the "Emergency Housing Act of 1975."

The Council of Economic Advisers recommends that the President veto this bill.

The first major provision of Title I of this bill involves interest reduction payments to lower the effective interest cost to mortgagors to 6 percent per annum for the first three years. The subsidies would be phased out after the sixth year. Since the average rate of inflation may well be close to 6 percent over the next few years, the bill implies that new middle-income homebuyers should pay no real interest at all in contrast to all other investors competing for scarce loanable funds. Hence the competition for funds would intensify and business investment would be penalized. We see no cause for such a policy or for subsidizing residential construction permanently. Furthermore fixing the nominal interest rate implies that the subsidy is larger the higher the rate of inflation and that its economic and budgetary costs cannot be determined in advance.

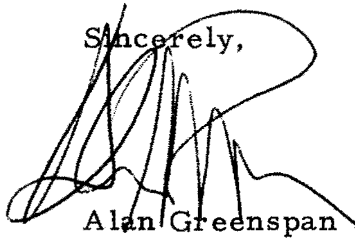
Giving GNMA permanent authority to purchase 7 percent mortgages at par amounts to nationalization of the market for new home mortgage credit for lower- and middle-income families. Regardless of what market rates turn out to be elsewhere, such families would be assured of 7 percent credit up to the limit on the total amount of funds appropriated. As additional billions of mortgages are financed through the Treasury, the Treasury's borrowing costs will rise.



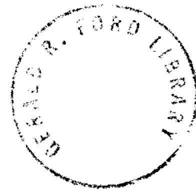
The $1,000 immediate cash-out home purchase incentive payment on homes constructed on or after March 26, 1975 is the least objectionable feature of Title I of this bill, provided this provision is allowed to expire at the end of 1975. Housing starts in 1976 are expected to be sufficiently strong without requiring the general taxpayer to subsidize homebuyers.

Title II of the Act provides for emergency mortgage relief payments for families who are unable to meet mortgage payments because of a substantial reduction in income as a result of involuntary unemployment. Though the Council is concerned about problems in administering this Title, it is not opposed to measures to alleviate economic hardships connected with the current high rates of unemployment. All considered, however, the Council of Economic Advisers must recommend a veto of this bill. Its passage would threaten to undermine the system of private home finance and forestall greater efficiency of the capital markets through financial reform by substituting credit allocations and government takeover of lending functions.

Sincerely,



Alan Greenspan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Mr. James Frey
Assistant Director for Legislative Reference
Office of Management and Budget
Washington, D. C. 20503

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
WASHINGTON, D.C. 20506

June 16, 1975

Mr. James M. Frey
Assistant Director for
Legislative Reference
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Frey:

I am writing in response to your request for views on H.R. 4485, an enrolled bill entitled "The Emergency Housing Act of 1975." The Council staff recommends that the President veto this bill for the following reasons:

(1) The bill would add substantially to the deficit in the Federal Budget, which already threatens to exceed the amount the President regards as acceptable.

(2) The bill provides subsidies for families above median income in each area, and for even more families who are above the national median income. Although we favor some subsidy programs for the poor, we can see no equitable ground for taxing everyone to support subsidies for families above the median income.

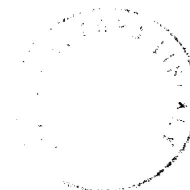
(3) Since the number of families to be assisted is much smaller than the number eligible, the bill raises very difficult problems of who should be assisted. It does not provide adequate guidelines to the Secretary of Housing and Urban Development for choosing the lucky families.

(4) Title II of the bill encourages lenders to foreclose mortgages that they might otherwise be willing to carry in the expectation that delinquent homeowners will be able to make payments when the economy returns to normal.

Although the bill would provide stimulus to the depressed housing industry, we do not feel that this is of sufficient importance to outweigh the disadvantages cited above.

Sincerely yours,

Albert Rees



Albert Rees
Director

THE GENERAL COUNSEL OF THE TREASURY
WASHINGTON, D.C. 20220

JUN 17 1975

Director, Office of Management and Budget
Executive Office of the President
Washington, D. C. 20503

Attention: Assistant Director for Legislative Reference

Sir:

Reference is made to your request for the views of this Department on the enrolled enactment of H.R. 4485, "To provide for greater homeownership opportunities for middle-income families and to encourage more efficient use of land and energy resources."

The enrolled enactment, inter alia, would establish new programs to subsidize mortgages for middle-income families. The beneficiaries of these subsidies would be residents of housing with sales prices of up to $38,000, or up to $48,000 in certain areas. There would be no requirement that the borrower demonstrate a need for the subsidy. Consequently, the bulk of the subsidies could flow to individuals in the middle-income range who would otherwise be willing and able to pay the current interest rates required in the mortgage market. While borrowers undoubtedly would be attracted to the lower interest rates available under the proposed subsidy programs, providing subsidies to persons who would purchase homes even if the proposed subsidies were not available would be ineffective in stimulating additional housing.

There are numerous indications in the floor debates on the Conference Report on H.R. 4485 that the bill will be vetoed. The Department would concur in a veto recommendation.

Sincerely yours,

General Counsel

Richard R. Albrecht

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C. 20429

OFFICE OF THE CHAIRMAN

June 17, 1975

Honorable James T. Lynn
Director
Office of Management and Budget
Executive Office of the President
Washington, D. C. 20503

Dear Mr. Lynn:

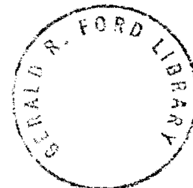
Your Office has requested our views and recommendations with respect to H. R. 4485, 94th Congress, an enrolled bill cited as the "Emergency Housing Act of 1975."

It is assumed that our comments on the enrolled bill are requested primarily with respect to § 202 thereof which requires the Federal financial regulatory agencies (including the FDIC), with respect to financial institutions subject to their jurisdiction, to --

"(1) take appropriate action, not inconsistent with laws relating to the safety or soundness of such institutions . . . to waive or relax limitations pertaining to the operations of such institutions . . . with respect to mortgage delinquencies in order to cause or encourage forebearance in residential mortgage loan foreclosures, and

"(2) request each such institution . . . to notify that Federal supervisory agency, the [HUD] Secretary, and the mortgagor, at least 30 days prior to instituting foreclosure proceedings in connection with any mortgage loan."

The only "limitations" of the type referred to in § 202 insofar as the FDIC is concerned would be criticism by examiners of defaulted residential mortgage loans of unemployed mortgagors who would qualify for mortgage relief payments under the enrolled bill. The Corporation has no objection either (1) to refraining from supervisory action based on the classification of such loans so long as the safety and soundness of the institution is not thereby jeopardized according to our standards (an interpretation of the word "laws" in item (1) above we would consider justified), or (2) to requesting banks it examines to give 30 days notice of intent to foreclose, as required by the bill.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From the Corporation's standpoint, therefore, there would be no serious objection to Presidential approval of H. R. 4485.

Sincerely,

Frank Wille

Frank Wille
Chairman

NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

Office of General Counsel

GC/JLO:eor
June 16, 1975

Mr. James M. Frey
Assistant Director for Legislative Reference
Office of Management and Budget
Executive Office of the President
Washington, D. C. 20503

Dear Mr. Frey:

The National Credit Union Administration has no objection to the enrolled bill titled "Emergency Housing Act of 1975."

Sincerely yours,

John L. Ostby

JOHN L. OSTBY
General Counsel

VETERANS ADMINISTRATION
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS
WASHINGTON, D.C. 20420
June 17, 1975

The Honorable
James T. Lynn
Director, Office of
Management and Budget
Washington, D. C. 20503

Dear Mr. Lynn:

This is in reply to the request of the Assistant Director for Legislative Reference for the Veterans Administration's comments on the enrolled enactment of H. R. 4485, 94th Congress.

This bill consists of three titles which provide for emergency middle income housing, emergency mortgage relief payments, and miscellaneous changes to the National Housing Act.

Title I is designed to reduce high mortgage interest costs to middle income families, to stimulate employment in the home building industry, and to reduce the cost of home ownership. It authorizes the Secretary of Housing and Urban Development to provide financial assistance to middle income families through periodic interest reduction payments, through the facilities of Government National Mortgage Association to purchase below market interest rate mortgages, and through home purchase incentive payments. Basing a borrower's ability to repay on a mortgage with a subsidized interest rate could lead to defaults when the supplement phases out if there has not been a corresponding increase in the borrower's income.

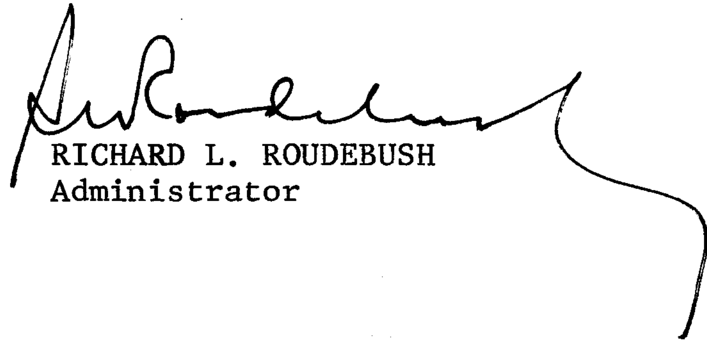
Title II provides a program to make repayable emergency mortgage relief payments on behalf of homeowners who are delinquent in their mortgage payments. The Secretary of HUD is authorized to make such payments on behalf of any mortgagor who has incurred a substantial reduction in income as a result of involuntary unemployment or underemployment due to the adverse economic conditions and is financially unable to make the full mortgage payments.

This provision of Title II may have a negative impact on the VA loan program. We believe that if such a program is undertaken, it may severely impair the incentives which lenders now have on most mortgage loans to practice forebearance and may result in the wholly unnecessary assumption by the Federal Government of potentially massive financial obligations. Not only will this program offer the lender in many instances an incentive to show an intent to foreclose when the mortgagor is delinquent, but it may also encourage delinquency on the part of the mortgagor in order to benefit from the repayment loan. The basic premise on which this title is based is that the delinquency rate on home mortgages is increasing rapidly. Reportable defaults in the VA for April 1975 decreased from those reported in the same month in 1974. The Veterans Administration has available means to assist temporarily unemployed veterans from losing their homes through foreclosure, by encouraging forebearance on the part of the lender. As this act encompasses all mortgagors, however, and implementation is directed at the Department of Housing and Urban Development, we defer to the views of that department.

Title III deals with miscellaneous changes to the National Housing Act and does not affect the Veterans Administration.

Since the bill will be administered by the Department of Housing and Urban Development, we defer to the views of the Secretary.

Sincerely,



RICHARD L. ROUDEBUSH
Administrator

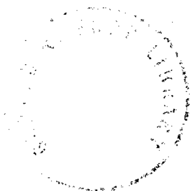
EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

DATE: 6-19-75

TO: Bob Linder

FROM: Jim Frey

Attached is the Interior views letter on H.R. 4485, for inclusion in the enrolled bill file. Thanks.



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United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

JUN 18 1975

Dear Mr. Lynn:

This responds to your request for our views on the enrolled bill H.R. 4485, "To provide for greater homeownership opportunities for middle-income families and to encourage more efficient use of land and energy resources."

With regard to Presidential approval of the enrolled bill, we defer in our views to the Department of Housing and Urban Development.

Under Title I of the enrolled bill, "Emergency Middle-Income Housing," the Secretary of Housing and Urban Development is authorized to provide financial assistance with regard to house mortgages for middle-income families by: (1) making, and contracting to make, periodic interest reduction payments; (2) purchasing, and committing to purchase, below-market-interest-rate mortgages through the facilities of the Government National Mortage Association; and (3) making, and contracting to make, home purchase incentives.

Under section 107 of Title I, the term "home mortgage" is defined to include a mortgage "which covers housing where the appraised value of the unit (or the average appraised value per unit in the case of a cooperative housing project) does not exceed $38,000, or $42,000 in high cost areas as determined by the Secretary of Housing and Urban Development, or $48,000 in Alaska, Hawaii and Guam."

This provision recognizes the need for higher prototype costs in areas where the cost of living is higher than the national average. Under this language, middle income families in these areas would be eligible for assistance. In our judgment, this provision would be beneficial to the Alaska Natives and Guamianians.

Under Title III of the bill, "Miscellaneous," section 5(c) of the Housing Act of 1937 is amended to read: "and (2) after the date of enactment of the Emergency Housing Act of 1975, none of the funds made

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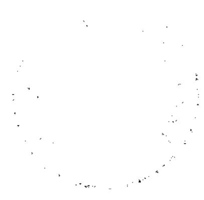
available under this sentence shall be used to fulfill any outstanding commitments entered into prior to such date under any memoranda of understanding among the Departments of Housing and Urban Development, Interior, and Health, Education and Welfare." This language clarifies the intent of the Housing and Community Development Act of 1974 with regard to Indian Housing.

Sincerely yours,



Assistant Secretary of the Interior

Honorable James T. Lynn
Director
Office of Management and Budget
Washington, D.C. 20503

THE WHITE HOUSE

WASHINGTON

June 19, 1975

MEMORANDUM FOR JUDY JOHNSTON

FROM TOD HULLIN JH

SUBJECT ENROLLED BILL HR 4485
EMERGENCY HOUSING ACT OF 1975

I concur with the recommendation that the President veto this bill. I suggest that the enrolled bill memorandum be held until the final veto message is ready for Presidential review - probably sometime on Saturday.

The President has already decided to veto this bill. JJ

To- J. Cavanaugh 6-18-75 6:00 p.m.

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

JUN 1 8 1975

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 4485 - Emergency Housing Act of 1975
Sponsor - Rep. Barrett (D) Pennsylvania, and 18 others

Last Day for Action

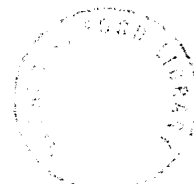
June 24, 1975 - Tuesday

Purpose

Authorizes three temporary new mechanisms for assisting middle-income families to purchase homes; authorizes a new temporary loan program to help unemployed or underemployed homeowners facing foreclosure on their home mortgages; extends the section 235 homeownership assistance program and the section 312 rehabilitation loan program and amends the laws governing certain other HUD programs.

Agency Recommendations

Office of Management and Budget	Disapproval (Veto Message attached)
Department of Housing and Urban Development	Disapproval (Veto Message attached)
Federal Home Loan Bank Board	Disapproval (Veto Message attached)
Council of Economic Advisers	Disapproval
Department of the Treasury	Would concur in a veto recommendation
Council on Wage and Price Stability Staff	Disapproval
Federal Deposit Insurance Corporation	No objection
National Credit Union Administration	No objection



TO THE HOUSE OF REPRESENTATIVES

I return herewith, without my approval, H.R. 4485, the Emergency Housing Act of 1975.

I can understand the Congress' desire to speed up the recovery in new home construction which is now underway. No other sector of the economy has suffered more than housing in recent years, and I am in complete agreement with the Congress that a swift recovery should be a prime objective of national economic policy.

The slump in housing, however, should not cause us to abandon good judgment and create a host of expensive and inequitable new programs in the hope that "something will work." Neither the Nation's taxpayers nor those families who depend on the housing industry for their well-being can afford mere gestures of concern for housing that ignore the real constraints on a more rapid housing recovery.

In my judgment, H.R. 4485 amounts to such a gesture. This bill is far more likely to hinder than help in our efforts to achieve a sound housing recovery and to deal effectively with our overall economic problems.

With funds continuing to flow into savings institutions at a record rate and with mortgage interest rates declining, the primary obstacle to a more rapid housing recovery is consumer uncertainty. Families must regain confidence in their own and the economy's future in order to be willing to make the kind of long-term commitment that a new home purchase requires. Many Members of Congress recognize this fact, as the debate on H.R. 4485 makes clear.

The Administration's economic policies are aimed at restoring consumer confidence as well as assuring that mortgage money will be in plentiful supply when consumers are ready to buy. We can only restore confidence by getting the economy moving forward again in a way that does not lay the foundation for a new round of double-digit inflation. And an adequate supply of mortgage money requires that we control the Federal deficit so as to avoid redirecting funds from housing to the U.S. Treasury.

The sharp increase in new home sales during the last several months, along with the significant increase in housing starts reported last week, clearly indicate that these policies are working.

What would the housing stimulus provisions of Title I of H.R. 4485 do? They would:

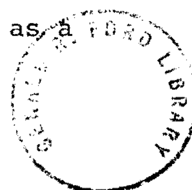
- duplicate authority already on the books to subsidize mortgage interest rates
- provide Federal subsidies to a small number of families, most of whom could--and probably would--purchase homes without Federal assistance
- saddle the rest of the Nation's taxpayers with the cost of these subsidies, which in some cases will continue for six years--long after the housing slump is over
- add over $700 million to the 1976 budget deficit.

Rather than speed up the housing recovery, Title I of H.R. 4485 is likely to slow it down. Were I to sign this bill, it would be months before the new programs could be implemented. First, HUD would have to secure appropriations, draft regulations, devise forms, establish procedures, and train staff. In the meantime, families that otherwise would be in the housing market would delay new home purchases to take advantage of the subsidies provided in the bill. By the time these programs have any impact, the housing recovery will be in high gear and the stimulus will add to the inflationary pressures which have plagued housing in the past.

None of the measures contained in Title I of H.R. 4485 addresses the problem of consumer uncertainty. In fact, to the extent bills such as this one raise doubts about the Federal Government's ability to control spending and limit inflation, consumer confidence will suffer and the housing recovery will be further retarded.

The Title I housing stimulus provisions of H.R. 4485 are referred to by the Congress as the "Emergency Middle Income Housing Act." I can assure you they will not be viewed this way by the vast majority of middle income families. The tax dollars of these families--as well as lower income families--will be used to subsidize 400,000 fortunate families, many of whom earn more than the median income, with some making as much as $27,000 a year!

Title II of H.R. 4485, estimated to cost as much as $250 million in fiscal year 1976, is aimed at helping families keep their homes when their incomes fall as a result of the recession.

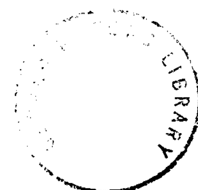


Past experience indicates that foreclosures will not be widespread--that lenders will be patient with those families who in the past have demonstrated their credit worthiness, but who have suffered a drop in income through no fault of their own. Moreover, the Federal Government has a number of tools to deal with a widespread foreclosure problem should one develop.

However, I am willing to accept additional authority on a standby basis to supplement these tools--and the normal tendencies of lenders to forbear--provided the new authorities are well designed and can be implemented with equity to homebuyers and taxpayers alike.

While the homeowner relief sections of H.R. 4485 contain many attractive features, they also contain some serious deficiencies. Foremost among these is the requirement that HUD operate a small loan program to assist homeowners who are behind in their mortgage payments. The administrative burden of such a federally-run program would be immense, and could hamper the effectiveness of Federal aid.

I am confident that these problems can be corrected without in any way weakening the effectiveness of homeowner relief contemplated by the Congress. Consequently, I have directed Secretary Hills to work with the Congress to improve the homeowner relief provisions included in H.R. 4485. I have also asked the heads of the financial regulatory institutions to share with us their expertise regarding the problem of mortgage delinquencies.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Finally, I object to H.R. 4485's extension of two housing programs--Section 312 Rehabilitation Loans and Section 235 Homeownership Assistance--which the Congress itself agreed to phase out only last year. The Act phasing out these programs followed one of the most extensive reviews of Federal housing programs ever conducted. Nothing has happened in the interim to warrant the continuation of either program.

For these reasons, and because of the $1 billion in Federal outlays which the bill would lead to in fiscal year 1976, I must return H.R. 4485 without my signature.

THE WHITE HOUSE

June , 1975

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