The original documents are located in Box 66, folder "FY 1978 Spring Planning Review - HUD" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

1978 Spring Planning Review
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
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OVERVIEW

1978 Spring Planning Review

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Overview

This overview section focuses on HUD's four primary areas of activity: mortgage insurance, other mortgage credit, subsidized housing, and community planning and development. In each section, the Administration's objective, as CVAD understands it, is compared with current policy, and major policy issues are identified.

I. Mortgage Insurance

Administration objective - To assist homebuyers and project developers who would not be adequately served by the private market obtain mortgage credit.

Current policy - Default insurance is presently available to help finance the purchase of any home or project, subject only to statutory mortgage limitations, credit tests, and property standards. In many cases, the FHA-insured mortgagor also has access to conventional or privately insured mortgage loans. Mortgage insurance premiums do not reflect loss experience on either an aggregate or program basis. Consequently, large numbers of FHA-insured mortgagors receive subsidies from other FHA-insured mortgagors as well as from the Federal taxpayers.

Major issues:

1. To what extent should HUD be involved in the default insurance market? (Issue #1) Pursuant to a Presidential directive, HUD is just completing an analysis of alternative roles that the Federal Housing Administration could play in the mortgage insurance market. This analysis considers such topics as: (a) Should FHA continue to provide primary default insurance on mortgages covering single- or multi-family property? (b) To what extent should FHA compete with private insurers? (c) Should the insurance premiums charged certain high-risk borrowers be subsidized? (d) Should statutory limitations on eligible mortgages be lifted? A joint HUD-OMB memorandum based on the HUD analysis will provide the President with policy options on these issues.

2. How can underwriting standards be maintained in the face of intense pressures for section 8 production? At the present time, FHA mortgage insurance is necessary to secure financing for new section 8 projects. Since Secretary Hills is heavily committed to making the new construction component of section 8 work, FHA underwriters will be under great pressure to approve section 8 projects for insurance. This is reminiscent of former-Secretary Romney's emphasis on production, which had such a disasterous impact on underwriting performance.

3. How can HUD's loan management and property disposition policies be improved? HUD's policy toward avoiding claims and selling acquired assets has both short- and long-term budgetary implications. Several aspects of that policy have special importance for the 1978 and 1979 budgets, including: (a) the criteria used in deciding whether or not to accept assignment, or foreclose on an assigned mortgage, (b) the target set for property sales, and (c) the emphasis placed on "as-is" sales (as opposed to a repair-and-sell approach). We believe the Department should give a higher priority to this issue.

II. Other Support for the Mortgage Market

Administration objective - To improve the ability of the Nation's capital market to raise funds for housing, so that an adequate volume of housing construction can be maintained.

Current policy - Special tax and regulatory provisions have been adopted to make housing more attractive relative to other forms of investment. Some of these provisions (e.g., bad debt allowances, Regulation Q, limitations on S&L investments) accentuate fluctuations in the availability of mortgage credit. This, in turn, puts added pressure on the Federal Government to implement special programs for housing when credit is tight. Administration policy during the past year has been directed at: (1) increasing the demand for housing through mortgage interest subsidy programs (i.e., the tandem plans), and (2) modernizing the regulatory framework within which financial intermediaries operate (i.e., Financial Institutions Act).

Major issues:

1. What changes are needed to improve the operation of the mortgage market, and how can these changes be achieved? (Issue #2) Given Congress' failure to pass the Financial Institutions Act for the 4th year in a row, a fresh look at this proposal

and the problems it is intended to correct, is in order. The reassessment should take into account actions which can be taken under existing law, as well as actions that might improve the prospects for congressional approval of any necessary legislation. The results would be reflected in next year's legislative program.

2. Should the Federal Government provide further inducements to investment in housing? (Issue #2) Recently, a number of proposals have been advanced to increase housing's competitive advantage in the capital market, including: (a) Representative Sullivan's Home Owners Mortgage Loan Corporation, (b) Senator Brock's Housing Incentive Investment Act, (c) the National Association of Homebuilder's proposed tax credit for interest earned on savings deposits, and (d) Senator Humphrey's permanent 6 percent tandem plan. HUD is completing a study of housing finance that is designed to make explicit the costs and benefits of these and other proposals. OMB will be given an opportunity to review the study prior to release.

3. Should the Federal Government continue to hold assets acquired in connection with special mortgage purchase programs? The 1977 Budget made no provision for the sale of some $2.2 billion in tandem mortgages which were added to GNMA's inventory in 1975. Nor did it provide for prepayment of the Federal Home Loan Bank Board's outstanding loan from the Treasury. Sale of the GNMA mortgages and prepayment of the FHLBB loan would produce receipts to offset outlays elsewhere in the budget.

4. What should the Federal Government's policy be toward the secondary mortgage market? Even though the secondary market has continued to prosper as FHA insurance volumes have dropped, additional Federal support may be needed to maintain liquidity in the market. Options include portfolio insurance and reinsurance of PMIs.

III. Subsidized Housing

Administration objective - To assist lower income families in obtaining adequate housing, pending comprehensive welfare reform.

Current policy - Primary emphasis has been placed on HUD's section 8 program for existing housing, which focuses Federal aid on housing-poor families, rather than on housing producers, and relies on private market incentives to control costs. The new construction component of the program is being limited to the lowest politically feasible level. Section 235 was reactivated to avoid a court-ordered resumption of the program. There are no plans to continue the program once available authority has been used.

Major issues:

1. How should the Federal Government attempt to stimulate housing construction? (Issue #3) Some program to encourage construction of new apartment units is probably inescapable, regardless of the underlying need for such encouragement. As costs under the section 8/new construction program continue to rise, other alternatives for providing this stimulus are becoming more attractive.

2. Should the Federal Government subsidize homeownership? The section 235 homeownership assistance program is still popular with the homebuilders. They are pushing for faster utilization of the contract authority released last October, as well as for additional infusions of new authority. Since few section 235 participants were living in substandard housing prior to entering the program, the main issue involved here is the priority of ownership relative to other objectives (including improved housing consumption).

3. Can the private market meet the housing needs of special groups such as reservation Indians, the elderly and handicapped, and large families? A consumer-oriented housing strategy assumes that the private market will supply whatever housing units are demanded by consumers. Some observers do not believe that this assumption holds true for certain groups with special needs or problems, and that publicly assisted housing must take care of the unmet demand. More empirical analysis is needed to resolve this dispute.

4. What should be the Federal role in selecting sites for public housing? The Supreme Court's Gautreaux decision has directed greater attention to the process by which sites for federally subsidized housing are selected. Although the 1974 Act left site selection to localities in most instances, HUD will continue to get involved in the issue as (a) other groups seek court orders requiring affirmative action by the Department, (b) housing assistance plans are challenged, and (c) individual section 8 projects are challenged by local governments.

5. Should Federal housing assistance programs be consolidated? At least nine Federal agencies build, subsidize, or help finance housing. Areas of overlap include: (a) direct subsidies - HUD, DOD, and USDA; (b) guarantees and insurance - HUD, VA, and USDA; (c) seed money loans - HUD and the Appalachian Regional Commission; (d) rehabilitation loans - HUD and SBA; (e) direct Federal construction -

DOD and Interior/BIA. Significant tax expenditures overlap most of these categories. Increased efficiency might result from consolidation of similar programs or by concentrating housing programs in fewer agencies.

6. Should nonprofit sponsors get special treatment under Federal housing programs? Although nonprofit groups do not perform well as housing sponsors, Federal policy continues to encourage their participation in housing programs. If political considerations necessitate favored treatment for these groups, (a) objective criteria should be developed for weeding out the weakest ones, and (b) program regulations should be revised to strengthen incentives for good management.

7. Should the Federal Government underwrite prepurchase and default counseling for homebuyers? A HUD study indicates that default counseling may be cost-effective from society's standpoint, even though it is not cost-effective in budget terms. While this does not necessarily imply a Federal role, both HUD and the Congress are clearly headed in this direction.

IV. Community Planning and Development

Administration objectives - (1) To increase the capacity of local governments to undertake community development projects of their own choice, with a minimum of Federal second-guessing and red tape. (2) To minimize the need for Federal disaster relief by encouraging the purchase of flood insurance and discouraging development in flood-prone areas.

Current policy - To smooth the transition from categorical to block grants, the Administration has: (1) fully funded the block grant program, (2) accommodated the needs of urban renewal cities with under-funded projects, and (3) attempted to maintain an adequate discretionary balance for small metropolitan communities. At the same time, high priority has been given to closing out uncompleted categorical projects. Current policy is also directed at enrolling all flood-prone communities in the Flood Insurance Program by 1983.

Major issues:

1. What should be the Administration's legislative strategy when the community development block grant program comes up for reauthorization? (Issue #4) When the Congress considers legislation to extend the block grant program next session, a

number of subissues are sure to arise, including: (a) funding level, (b) the phase-out of hold-harmless as planned, (c) further transition money for underfunded urban renewal projects, (d) continuation of the Rehabilitation Loan Program, and (e) housing assistance plan requirements. Resolution of subissues (a)-(d) will have a direct impact on the budget. The Administration may want to propose changes in the program as well (for example, State allocation of discretionary funds, and further program consolidations).

2. Should an effort be made to consolidate planning assistance programs? Every study of Federal planning programs (and there have been many) has concluded that extensive consolidation is warranted. The troublesome issue has always been: On what basis should planning programs be consolidated?

3. How can the Flood Insurance Program's sanctions for noncompliance be preserved? Although the Flood Insurance Program enjoys widespread support, it has encountered stiff opposition from real estate interests (particularly in Gulf Coast States), and from Senator Eagleton, who has taken up the cause of many small communities unwilling to regulate land use in the flood plain. Unless adequate incentives for flood-plain management are maintained, the program will not achieve the desired objective of reducing flood damage.

V. Issues in Other Areas

A. Policy Development and Research - How can HUD's research program be given greater focus and more relevancy to the Department's mission?

B. Fair housing:

1. What should be done to improve the performance of financial regulatory agencies in combatting discrimination by lenders on the basis of race or sex?

2. What impact does HUD's processing of individual title VIII complaints have on housing opportunities, and should the Department be given broader enforcement powers?

C. HUD organization:

1. Should the administration of HUD's housing programs continue to be divided between Housing Production and Housing Management?

2. Is there a need for regional offices between Washington and the area/insuring offices?

D. Consumer Affairs - What is the impact of HUD's regulatory standards on housing costs?

E. New Communities - What provision should be made in the 1978 and 1979 budgets for foreclosure claims on existing projects?

VI. Tax Expenditures

There continues to be a need for more efficient and equitable alternatives to the following housing-oriented tax expenditures:

A. The array of incentives aimed at increasing investment in multifamily housing.

B. Owner-occupant deductions for mortgage interest and property taxes.

C. Exemption from Federal taxes of interest earned on public agency debt.

VII. Budget Outlook

The 1977 Budget managed to show a reduction in HUD outlays below the 1976 level without requiring a corresponding reduction in program activities. In fact, HUD's program level is scheduled to increase more in percentage terms than budget authority for the Government as a whole. The outlay reduction was made possible by providing for the use of section 8 rental subsidies in connection with HUD-insured properties on the brink of assignment. (Whether or not the full outlay reduction will be realized, however, is very much in doubt.)

Regardless of the program decisions reflected in next year's budget, HUD outlays are likely to increase sharply in 1978, on the strength of prior-year commitments. CVAD staff estimates that over $5 billion in outlays are already built into the Department's totals for 1978, even though the fiscal year does not begin for another 16 months. As October 1, 1977, draws near, the opportunities for cutting outlays will be reduced further. In CVAD's judgment, the only way to successfully avoid a significant rise in 1978 HUD outlays is to sell mortgage assets (thereby postponing the increase until 1979 or 1980).

Another factor in the 1978 outlay picture is the budget status of HUD's section 202 housing for the elderly program. Under existing law, section 202 outlays are excluded from the budget totals, making an already popular program even more difficult to control. CVAD believes it is vital to make section 202 once again subject to the budget's discipline. (Strong support for returning the program to the budget has also come from the House Appropriations Committee.) Accordingly, CVAD has reflected section 202 outlays in the high, medium, and low alternative targets.

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Legislative Summary

	Senate	House
Bill Number	S. 3295	H.R. 12945
Title	Housing Amendments of 1976	Housing Authorization Act of 1976
Status	Passed by a vote of 55-24 on April 27.	Reported by the Committee on Banking, Currency and Housing on May 6; scheduled for floor action on May 25.

Undesirable features in one version only

Subsidized housing

Senate:

- Limitations on the Secretary's flexibility in providing section 8 assistance to FHA-insured projects.
- Additional budget authority for section 235/homeownership (+$6 billion).
- Extended contract terms for section 8 projects financed by the Farmers Home Administration.
- Limitation on section 235/ homeownership mortgage insurance premiums.

House:

- Higher income limits under section 235/homeownership.
- Change in procedure for setting minimum interest rate on USDA direct loans.
- Creation of a Homeowners Mortgage Loan Corporation with authority to provide $10 billion in 6½% mortgage loans.

Senate	House
• Lower interest rate on section 202/elderly loans.	
• Extension of authority to insure section 236/rental housing loans.	

Community Planning and Development

Senate	House
• Erosion of incentives to participate in the National Flood Insurance Program.	• Lower unemployment trigger under the countercyclical community development block grant program.

Mortgage insurance

Senate	House
• Extensive authority for HUD to compensate FHA-insured mortgagors for property defects.	

Undesirable features in both versions

- Subsidized housing:

  -- Contract authority earmarked for (1) public housing, (2) new construction, and (3) reservation Indians.

  -- Provision for public housing modernization at three times the level proposed in the budget (mandatory in the Senate bill).

  -- No provision to change definition of tenant income under the public housing program; appropriation authorization for operating subsidies increased by $112 million (25%).

  -- Higher mortgage limits under the section 235/homeownership program.

  -- Increased direct loan authorization for the section 202/elderly program.

- Mortgage Credit:
  - -- Extension of authority for emergency mortgage purchases.
  - -- Extension of authority for emergency homeowners' relief.
- Community Planning and Development:
  - -- Higher authorization for comprehensive planning.
  - -- Extension of authority to provide rehabilitation loans.
  - -- Broader definition of "rural area" under USDA programs.

FHA INSURANCE

1978 Spring Planning Review
Department of Housing and Urban Development
Issue #1: FHA Role

Statement of Issue

What should FHA's role be in the mortgage market?

Background

- FHA mortgage insurance is available for any purchaser whose application for home or project insurance meets credit, mortgage limit, and property standards. Annual insurance premiums are set at one-half percent of the mortgage's outstanding balance.

- Private mortgage insurance (PMIs) companies' penetration of the mortgage market increased dramatically from 4 percent in CY 1970 to 16 percent in 1973, but declined in 1975 to 13 percent. However, the recent recovery has boosted PMI activity to an annual rate of 14 percent. As PMIs have grown, FHA has been left with riskier mortgages. Losses on these mortgages have turned FHA into a $1.5 billion annual drain on the budget, despite surpluses in the basic homeownership insurance program. Volume and loss rates as of 1975 are shown below:

Section-Program	Insurance Written 1975 ($M)	Insurance in Force ($M)	Lifetime Default Rate (%)	Lifetime Loss Rate (%)	Required Reserves ($M)
203 Basic single family	4,224	48,792	9	4.3	-672
221 Moderate income	521	11,678	15	7.5 1/	+1,784
223(e) Declining areas	129	1,384	28	22.7	+394
235 & 236 Interest subsidy	522	8,000	20	5.6 2/	+1,375
Other programs	724	15,100			+191
Total 1975.............	6,120	84,954			+3,072

1/ Single-family rates. Multifamily default rate is 25 percent and loss rate is 13 percent.
2/ Single-family rates. Multifamily default rate is 20 percent and loss rate is 12 percent.

- A 1974 Presidential directive to HUD called for an analysis of alternative roles that FHA could perform in the mortgage market. HUD has submitted a second draft of the analysis, and the Department's major recommendations are reviewed below.

Analysis of Alternatives

Issue A - Should FHA continue to provide default insurance on single-family mortgages? The major findings for FHA's basic 1-4-family program (section 203(b)) are that:

- Private mortgage insurers (PMIs) have attracted preferred risk mortgagors away from FHA by charging premiums that more closely approximate marginal cost. The price discrimination inherent in a single rate structure has made this "cream-skimming" at lower premiums possible.

- PMIs are solid insurance companies and service most geographic areas and home-buying income groups. PMIs underserve rural and other small markets.

- Program inefficiencies brought about by social reviews have increased processing times, but were not significant causes of the basic 1-4 family insurance decline.

Arguments for continuing to insure single-family mortgages

- Since PMIs are not insuring in all submarkets (especially smaller communities), FHA provides insurance to some who probably would not obtain credit elsewhere.

- PMIs might exhibit monopolistic behavior without the availability of FHA insurance.

- Subsidy programs (section 235) need this financing vehicle.

Arguments against continuing to insure single-family mortgages

- A private substitute (PMIs) is generally available.

- FHA's tax-exempt status and Treasury borrowing rates are unfair competitive devices against PMIs.

- The impact of Federal insurance is of questionable efficiency for mortgage credit and housing production objectives.

HUD recommendation

Continue to provide single-family insurance in a manner which is complementary to the private market, but make programmatic changes (discussed below).

CVAD recommendation

CVAD concurs with provision of single-family insurance, but recommends making FHA less competitive with PMIs (discussed below).

Issue B - Should FHA continue to provide default insurance on multifamily mortgages? In the multifamily area, PMIs have only begun insuring and FHA is writing little insurance ($994 million in 1975), even with actuarially unsound premiums. FHA insured 9 percent of all multifamily mortgage originations in 1975. Except for the basic program, all multifamily insurance is actuarially unsound. Unlike the single-family area, private insurers can identify little FHA multifamily insurance for "cream-skimming." PMIs would be able to compete away more FHA multifamily insurance if FHA premiums were made actuarially sound. The HUD study was unable to identify any impact of multifamily mortgage insurance on the supply of housing.

Arguments for continuing to insure multifamily mortgages

- This insurance may indirectly support low- and moderate-income tenants (although no such benefits have been identified).

- PMI insurance is generally not available (although insurance of any kind may not be needed).

- Subsidy programs (especially section 8) need this financing vehicle.

- The multifamily market is currently depressed.

Arguments against continuing to insure multifamily mortgages

- The insurance subsidies go to private multifamily investors (and lenders) and no proof exists that these benefits are passed on to tenants through lower rents or better services.
- PMIs are beginning to insure multifamily mortgages.
- FHA's tax-exempt status and Treasury borrowing rates offer unfair competition to PMIs.
- Since foreclosure and resale of defaulted projects is so politically difficult, the inventory and tenant problems are growing at a significant rate.

HUD recommendation

Continue to provide multifamily insurance, but make programmatic changes (discussed below).

CVAD recommendation

Plan on limiting FHA multifamily insurance to only being the financing vehicle for subsidy programs when multifamily starts recover. Also, encourage PMI multifamily insurance as discussed below.

Issue C - Should mortgage insurance premiums be established on an actuarially sound basis, and if so how? The one-half percent premium is not actuarially sound for mortgage insurance programs in total and also leads to cross-subsidization within and between programs. The price elasticity of mortgage insurance is estimated at -1.75, indicating that the volume of insurance written is sensitive to change in prices (premiums). The price elasticity of a single insurer such as FHA would be higher than this overall elasticity, which means that a 10-percent increase in premiums might result in a 20-percent decline in FHA volume. Volume decreases from a change to actuarially sound premiums would affect less than 25 percent of FHA's insurance business. However, the increase in cash at closing could cause those groups presently dependent upon the actuarially unsound programs to delay home purchase. The premium increases would fall disproportionately on minorities and low-income families since they are the major clients of the actuarially unsound programs. Nevertheless, HUD's analysis concludes that the insurance subsidy does not provide significant assistance unless interest or other subsidies are also provided. Changing to actuarially sound premiums would make known and obvious the cost of each program.

HUD and OMB concur in changing to actuarially sound premiums by program. However, legislation could be proposed to have different premiums within programs to reflect different risk classes: risk-rating. Risk-rating could only be applied to FHA's basic single-family program, since HUD sees "little real prospect" for risk-rating multifamily programs and other single-family programs are too small.

Arguments for risk-rating within programs

- Premiums could be set at the marginal cost of each identifiable risk group which is a fairer price determination than a single premium per program.

- Cross-subsidization of premiums would be minimized so that further PMI cream-skimming would be reduced. PMIs have not tried risk-rating within their market, so FHA could set lower premiums and be able to compete for some of the profitable PMI market which might reduce outlays.

- FHA's ability to discourage monopolistic behavior by PMIs would be enhanced.

Arguments against risk-rating within programs

- With the advantages of being a Government corporation, FHA's ability to price below and compete directly with PMIs would be significantly increased.

- This approach would require untested premium-setting techniques although PMIs now allow different payment plans for the same total premium.

- Charges of Federal race discrimination (redlining) would occur since risk-rating would single out lower income inner-city neighborhoods, and minorities are a high proportion of these neighborhoods.

- Congress might not overturn an administrative change to actuarially sound premiums by program within the statutory annual maximum (1 percent), but probably would refuse to provide new authority to risk-rate premiums.

HUD recommendation

HUD endorses in principle the concept of risk-rating or multiple premiums within program, but recommends program-by-program actuarially sound premiums until the risk-rating studies now being expedited are completed. Risk-rated premiums would be set at a breakeven rate for taxpaying PMIs, plus a non-competitive margin. FHA premiums would only be lower than PMI premiums where PMIs were using their monopolistic power to get a great deal higher than market prices for their insurance.

CVAD recommendation

CVAD recommends establishing actuarially sound premiums only on a program-by-program basis. The better risk insurance would be further encouraged to be insured by PMIs and FHA volume would decline. Increases in actuarially sound premiums would be necessitated and eventually FHA would work itself out of any insurance that the private market can handle. Any risk-rating system would require congressional approval which seems unlikely. A legislative proposal could be counterproductive to the objectives sought.

Issue D - Should the Federal Government directly subsidize part of an actuarially sound premium for low- and moderate-income families in order to encourage home-ownership? HUD has studied the impact of providing mortgage insurance with subsidized premiums under the low- and moderate-income program (section 221). However, no clear determination has been made that the net benefits are positive, much less whether benefits exceed costs.

Arguments for subsidizing premiums for low- and moderate-income families

- Mortgage credit would be available to families who do not have the down-payment required for FHA basic insurance and could not obtain PMI insurance or credit elsewhere.

- Subsidized premiums could be offered as a tradeoff to obtain comparable insurance terms (downpayment, expenses, term) with the basic and subsidy (section 235) programs.

- Explicit appropriations (forward funding) could be sought and congressional approval granted for these subsidies.

Arguments against subsidizing premiums for low- and moderate-income families

- Lower income families need more assistance than subsidized premiums for homeownership and a subsidy homeownership program (section 235) is available.

- The appropriations request for subsidies could be transferred within the President's budget authority total to an undesirable grant program if Congress mandated an actuarially unsound premium for this subsidized program.

- Benefits from these subsidies for housing production or mortgage credit objectives cannot be proven. The net benefits might be negative.

HUD recommendation

For the immediate future, HUD recommends that no program of mortgage insurance for low-income families (other than section 235) be provided and that the low- and moderate-income single-family program be terminated.

CVAD recommendation

CVAD concurs in the termination recommendation for the single-family program for low- and moderate-income families.

Issue E - Should the Federal Government directly subsidize part of an actuarially sound premium in older, declining areas? HUD has even more intensively studied the benefits from the large insurance subsidies provided to older, declining areas. However, the results are just as inconclusive in that the benefits cannot be quantified and net benefits may be negative. Authority to insure the refinancing of multifamily mortgages in older, declining areas was included in the 1974 Act, but was not implemented pending completion of these studies. Consistent with the recommendation to not subsidize any other insurance program for lower income families (see Issue D), HUD recommends termination of the section 223(e) program for older, declining areas with one exception. The exception is to directly subsidize actuarially sound premiums in neighborhood preservation areas.

<u>Arguments for subsidizing actuarially sound premiums in neighborhood preservation areas</u>

- The neighborhood preservation concept is a promising new approach that has had some success in utilizing the existing housing stock. FHA insurance appears to be a necessary element in a comprehensive strategy to revive older, urban neighborhoods.
- The subsidy would show that the Federal Government encourages this development and is willing to share the risks and costs with local government.
- Local governments would be encouraged to become more active in neighborhood preservation efforts.
- The subsidy should be less than the current older, declining area program since (1) preservation areas usually are not in substantial decline, and (2) local government and other investment in these areas should support housing values.

<u>Arguments against subsidizing actuarially sound premiums in neighborhood preservation areas</u>

- No criteria or local commitment requirements have been proposed for an area to be a "neighborhood preservation area" eligible for subsidized insurance besides a city's designation of any older, declining area. (Some criteria have been identified from pilot cases, but none were included as part of the recommendation.)

- The neighborhood preservation approach has only been pilot-tested in a few areas with limited success. A comprehensive set of local government and private lender commitments seem to be required in addition to Federal commitments.

- This program would be attempting to develop insurable risks within older, declining areas that have proven to be HUD's worst insurance risks.

- Multifamily insurance in these areas is even less justified (investor vs. homebuyer), and the current multifamily program in older, declining areas has been a worse risk than the single-family program.

- Multifamily refinancing also poses the difficult-to-control possibilities of having the investor (1) draw his equity out, and (2) get an inflated valuation.

- Congress might extend this narrowly drawn subsidy request to numerous other areas and groups.

- More direct approaches (such as community development block grant set-asides) are available if a policy decision was made for the Federal Government to subsidize neighborhood preservation.

HUD recommendation

Provide single-family insurance (section 223(e)) for older, declining areas only in neighborhood preservation areas and change to an economic life standard. Premiums should be directly subsidized from a forward funding appropriation that is available before program commencement.

HUD also recommends pursuing a "go-slow, experimental approach" in implementing the insurance program for refinancing existing multifamily mortgages (section 223(f)) in older, declining areas, and perhaps limiting the program to neighborhood preservation areas.

CVAD recommendation

CVAD recommends that HUD be requested to propose criteria and local commitments that would be required for neighborhood preservation subsidies and refinancing insurance. A decision would be put off at this time without prejudice to a later proposal.

Budgetary effects (outlays in millions)

	1978	1979	1980	1981
Alternative #1 (status quo)	1,160	1,030	830	750
Alternative #2 (HUD req.)	1,040	925	707	611
Alternative #3 (CVAD)	1,036	921	703	607

These outlay estimates only cover the direct impact of (1) elimination of rebates, (2) increased premium income, and (3) reduced actuarially unsound insurance. No estimates are made for risk-rating or less-than-major HUD recommendations made in the draft FHA study but not reviewed here.

Implementation of CVAD recommendations

For issues where HUD and CVAD disagree, a joint issue paper should be drafted by CVAD staff and transmitted to HUD staff for comment as soon after spring preview as possible. This drafting and comment process should resolve some issues. The remaining open issues should be presented to the President in an official HUD Secretary/OMB Director issue paper. An attached paper should indicate to the President where HUD and OMB are in agreement on recommended courses of action. Presidential decisions should be obtained before August 1, 1976, so that HUD's budget submission can reflect these decisions.

MORTGAGE CREDIT

1978 Spring Planning Review
Department of Housing and Urban Development
Issue #2: Mortgage Credit Policy

Statement of Issue

What should be the thrust of future Federal mortgage credit policy?

Background

The most recent mortgage credit policy efforts of the Administration have been: (1) to support the short-run demand for housing when credit is tight or interest rates are high, principally with HUD/GNMA "tandem" financing; and (2) to reform the regulatory environment of mortgage lenders through the Administration-proposed Financial Institutions Act (FIA). Tandem financing, however, has been accompanied by interest subsidies of from 1.5 to 2.5 percent at the insistence of Congress. This is a much greater level of subsidy than originally proposed by the Administration. Further, the FIA appears to be headed for defeat for the 4th year in a row. A reassessment of mortgage credit policy might be useful in light of the progress of recent policy. This paper attempts to set a framework for any such reassessment.

Alternatives

#1. Renew efforts to secure passage of the FIA, and continue to resist deeper subsidies in proposals that seek to facilitate mortgage credit flows. (Current Administration position.)

#2. Seek new tools to facilitate the flow of mortgage credit.

#3. Acknowledge a preferred status for housing over other types of investment, and accordingly subsidize housing across the business cycle. (Preference of key Congressmen and Senators in housing area.)

Analysis

Mortgage credit policy can be analyzed in terms of a continuum on which policy positions may be placed according to the degree of comparative advantage afforded housing over other forms of investment. At one extreme are policy proposals that encourage mortgage investment by relying on market incentives. These proposals are often directed at removing institutional restrictions (e.g., interest ceilings or asset limitations) in credit markets that dampen market incentives. While they might reduce cyclical fluctuations in the supply of mortgage credit (and thus reduce the pressure for countercyclical aid to housing), they would not insulate housing from the ups and downs of the general business cycle. Recent Administration policy has tended toward this end of the continuum. At the other extreme are policy positions that assume housing is a valued, superior investment which should be favored in the long run and insulated from the general business cycle in the short run. Further, proposals toward this extreme of the continuum are characteristically redistributive. The recent proposals of key congressional actors on housing policy have tended toward this end of the continuum.

The beginning of a new Presidential term and the stalling of the FIA offer an opportunity to reassess mortgage credit policy and to refocus the policy along the continuum (in either direction) or to seek new means to achieve mortgage credit objectives.

Alternative #1

A current mortgage credit policy tool of the Administration is the tandem program, under which HUD/GNMA purchases below-market rate mortgages and resells them, absorbing the discount required to meet private market yields. The program was intended to be an emergency one for use in periods of tight credit. However, the program has been vulnerable to tinkering, which deepens the subsidy. Although the program currently puts the release of funds at the discretion of the Administration, it also contains a required 7-1/2 percent interest rate, which insures a 1-1/2 to 2 percent subsidy in today's market. Subsidies have exceeded 2-1/2 percent in the past. These interest subsidies are larger than originally proposed, and they create congressional and interest group pressure to use the program as a redistributive tool, even when credit is not tight. Pending legislation would extend the tandem mortgage purchase authority until October 1977, further blurring the "emergency" character of the program. In addition, Senator Humphrey has proposed permanent tandem-like financing at a 6-percent interest rate, which would move the concept farther toward the subsidy extreme of the continuum.

The other recent, major mortgage credit proposal of the Administration, the FIA, has not passed Congress for 4 years in a row. It has been the victim of those who fear the FIA would not maintain the same privileged position for housing investment as the current financial regulations and tax laws do, and of the financial institutions which fear the loss of specialized lending in the face of general financial competition. Most of the amendments and counterproposals considered by Congress have been in the direction of larger, longer-term subsidies to encourage housing investment (maintenance of Regulation Q, a permanent system of advances for low- and moderate-income mortgages, etc.).

Barring a major shift in the composition of Congress or unexpected success in persuading financial institutions that the FIA will not hurt them, the Administration can expect continued resistence to the passage of the FIA and continued tinkering with tandem mortgage financing.

Other, older Federal initiatives in the area of mortgage credit continue to thrive with a wide spectrum of support. By and large, these initiatives use market incentives, but include some subsidy impact. They are:

- Federal insurance and guarantees of primary market mortgages, which makes mortgage investment relatively homogeneous and facilitates the geographic flow of credit.
- Federally sponsored secondary markets (FNMA and FHLMC) make the flow of mortgage credit more efficient.
- Guarantees of securities backed by federally insured mortgages also add homogeneity to mortgage investment, but in addition put the investment in a form more nearly like the financial instruments employed in other investment areas. This facilitates not only geographic flow, but also flow between housing and other economic activities.

Alternative #2

Academic literature and Federal agency research contain a variety of interesting proposals in the mortgage credit area that are relatively untested (though not unknown), and which are potential new policy tools. Many of these employ market incentives and shun subsidies. While most would not have the impact of the FIA on credit markets, they may be much easier tactically to implement. Included are:

- Variable-rate mortgages (VRMs), although they are currently blocked by congressional resolution, lead a long list of potential reforms of the mortgage instrument. State-chartered savings and loans in California have been offering VRMs for almost a year now, with success. A few large associations are writing as much as 50 percent of their mortgages as VRMs. Other mortgage reform possibilities include negative amortization, capital appreciation sharing, and 5-year refinancing cycles patterned after Canadian experience. HUD and the FHLBB both have research in progress on alternative mortgage forms.

- The FHLMC is working on a system for grading conventional mortgages. This would encourage geographic flows of credit and could lead to a more accurate comparison of conventional and federally insured mortgages. Also, it would make possible the issuance of securities backed by conventional mortgages, thereby facilitating flows between housing and other investments.

- Coinsurance of individual mortgages, to the extent it was applied to currently uninsured mortgages, could contribute to secondary market efficiency, albeit with a greater potential financial involvement by the Federal Government.

- Portfolio insurance and reinsurance of PMIs are also possible new policy tools to make mortgage investment more uniform geographically and more comparable to other forms of investment. They would carry some Federal financial exposure, but would still rely on market incentives to secure credit efficiency.

Alternative #3

The current session of Congress has seen a wide assortment of program proposals in the mortgage credit area that aim, in varying degrees, at a permanent comparative advantage for housing investment. Among them are:

- The permanent 6 percent tandem program mentioned above.
- The National Association of Home Builders' proposed tax credit for interest earned on savings deposited with mortgage lenders.
- A proposed federally sponsored Homeowners Mortgage Loan Corporation, which would make direct mortgage loans at 6-1/2 percent to qualifying households. Although contained in pending authorization legislation for HUD, this proposal is not expected to clear Conference Committee.
- The same pending authorization legislation contains a proposal to lower the interest rate on direct Federal housing for the elderly loans (section 202).
- Senator Brock and Congressman Ashley have proposed a Deferred Mortgage Interest Repayment Act (DMIRA) which would employ Federal loans to cover the difference between a fixed borrower's rate and a variable lender's rate. The DMIRA would also use the principle of capital appreciation sharing by having the loan repaid from the proceeds upon resale. In addition to using a Federal loan mechanism, the DMIRA proposed interest subsidies by starting the mortgages at 7 percent. It is interesting to note that the one change made in the proposal to date has been to deepen the subsidy from 7 to 6 percent.

Budgetary effects

This paper has attempted to construct a policy framework to assist an evaluation and reassessment of recent mortgage credit policy. Many of the possible changes outlined are regulatory in nature and would have no budget impact. Others, especially those near the subsidy end of the continuum, could have massive budget impact. Reasonable estimates are impossible, however, because of the broad strokes of analysis used and because of the infinite possible combinations of mortgage credit proposals.

CVAD recommendation

OMB should seek from the relevant agencies a reassessment of current mortgage credit policy including both substantive and tactical considerations.

SECTION 8
NEW CONSTRUCTION

1978 Spring Planning Review
Department of Housing and Urban Development
Issue #3: Housing Production Subsidies

Statement of Issue

How should the Federal Government attempt to stimulate housing construction?

Background

- Current Administration policy. Subsidized new construction has been relegated to a secondary role in the Administration's rental housing program for lower income families (section 8). Primary emphasis is being given to consumer-oriented subsidies keyed to the existing housing stock; subsidies for new construction are being limited to the lowest level that is politically feasible. An adequate supply of new units is to be achieved through normal economic incentives in the private market, aided by sound monetary and fiscal policies.

- Activity to date in 1976. The following table shows progress toward the budget goals in 1976, along with the targets for 1977 (in units):

	1976 & TQ		1977
	Target	Approvals through 4/76	Target
Section 8:			
New construction	112,500	57,967	112,500
Substantial rehabilitation	12,500	5,300	12,500
Existing:			
Regular	165,000	65,596	165,000
Loan management/ property disposition	110,000	---	110,000
Subtotal, Section 8	400,000	128,863	400,000
Conventional public housing	6,000	1,364	6,000
Total	406,000	130,227	406,000

- Subsidy levels. Officials and staff of both HUD and OMB (as well as some Members of Congress) have been disturbed by the high costs projected for the new construction component of section 8. Nonetheless, pressure is intense from the Homebuilders and their allies in Congress to increase subsidy levels further.

Alternatives

#1. Maintain the new construction component of section 8 at the level approved for 1976 and 1977 (125,000 units).

#2. Limit section 8 to existing housing, and support new construction under the conventional public housing program.

#3. Limit section 8 to existing units, and encourage construction of new multifamily units through the tandem plan.

Analysis

The analysis assumes that: (1) Federal production subsidies in some form are inevitable, and (2) the existing component of section 8 makes sense (note: this assumption should be tested). The primary considerations involved in this issue are: cost-effectiveness of alternative subsidy mechanisms, the time pattern of outlays, and budget controllability. In evaluating cost-effectiveness, attention is limited to the "construction premium" of each alternative--that is, the cost of developing a new unit over and above what it takes to subsidize a family in existing housing. For purposes of this analysis, the latter is assumed to equal the per-unit cost encountered under section 8/existing.

Cost-effectiveness

The table on page 30 contains estimates of the "construction premium" necessary under each of the three options. (The appendix provides more detail on the cost estimates.) It indicates that, in present value terms, tandem subsidies are much less costly than either public housing or section 8. This is so because they are intended for projects at the margin of feasibility (that is, those serving middle-upper income groups), rather than projects for which there is no market.

Cost of New Construction

	Section 8/New Current Policy	Section 8/New Sweeteners*	Public Housing HUD Est.	Public Housing CVAD Est.**	Tandem Plan
Assumptions:					
Annual rent increase	7.5%	7.5%	.9%	7.5%	N/A
Average tenant income in 1977	$5,000	$5,000	$5,000	$5,000	N/A
Annual increase in tenant income	5.0%	5.0%	3.0%	5.0%	N/A
Contract term	40 Years	40 Years	40 Years	40 Years	N/A
Market interest rate	N/A	N/A	N/A	N/A	10.0%
Contract interest rate	N/A	N/A	N/A	N/A	7.5%
First year cost:					
Direct subsidy	$4,200	$4,600	$2,400	$2,400	$---
Indirect subsidy	500	6,100	1,000	1,000	5,500
Subtotal	4,700	$10,700	$3,400	$3,400	$5,500
Less: Existing section 8	-1,700	-1,700	-1,700	-1,700	N/A
Construction premium	$3,000	$ 9,000	$1,700	$1,700	$5,500
Lifetime cost:					
Direct subsidy	$1,064,100	$1,147,700	$141,100	$549,700	$N/A
Indirect subsidy	6,600	12,100	39,200	39,200	5,500
Subtotal	$1,070,700	$1,159,800	$180,300	$588,900	$5,500
Less: Existing section 8	-421,400	-421,400	-421,400	-421,400	N/A
Construction premium	$ 649,300	$ 738,400	$ -0-	$167,500	$5,500
Lifetime costs (present value):					
Direct subsidy	$118,900	$130,300	$30,800	$70,800	$N/A
Indirect subsidy	3,500	9,000	19,300	19,300	5,500
Subtotal	$122,500	$139,300	$50,100	$90,100	$5,500
Less: Existing section 8	-52,900	-52,900	-52,900	-52,900	N/A
Construction premium	$ 69,600	$ 86,400	$ -0-	$37,200	$5,500

N/A Not applicable

* Assumes tandem plan support and a 10% increase in fair market rents (as Secretary Hills favors).

** Assumes that subsidy costs rise at the same rate as under section 8; in effect, HUD assumes that capital costs are fixed and operating subsidies rise at 7.5%/year.

As for the effectiveness of the construction stimulus:

- No evidence is available to indicate the extent to which section 8 subsidies encourage net additions to the Nation's housing stock.

- Projects built under the public housing program probably represent net additions to the housing stock, since they do not compete with privately built new units for either tenants or capital except in a very indirect way.

- Empirical research has not been able to identify any positive impact of tandem subsidies on housing starts.

Time pattern of outlays

Under all three alternatives there is a considerable lag between initial commitment and the first subsidy disbursement. The lag is shorter for section 8 and the tandem plan (2 - 2-1/2 years) than for public housing (nearly 4 years).

In the first full year in which subsidies are paid, outlays under the tandem plan (construction premium only) are 80% higher than they are under section 8 as currently designed. Adding tandem support to section 8, of course, would reverse the relationship. Public housing costs in the first year are less than one-third the cost of tandem subsidies, and only 60 percent the cost of section 8.

Budget controllability

- Section 8 commitments tie up budget resources for 15-40 years. Moreover, because there is a continuing relationship between HUD and section 8 projects, the budget is exposed to cost increases above those assumed at the time of commitment. FHA insurance also carries the risk of additional outlays.

- Once a public housing unit is completed, debt service charges are fixed for a 40-year period. Operating subsidies have proven extremely difficult to control, having increased at an annual rate of over 70 percent since 1969.

- Tandem subsidies can be controlled more easily than either alternative because they are paid at the front end, and need not involve a continuing Federal link to the project.

Other considerations

Tandem subsidies generally go to projects serving middle income families. This would prompt advocates of new construction for poor people to accuse the Administration of being callous.

Budgetary effects (per 100,000 units)

	(Outlays in Millions)				
	1977	1978	1979	1980	1981
Alternative #1 (Sec. 8)	---	---	86	552	1,107
Alternative #2 (Pub. Hsg.)	---	---	---	---	267
Alternative #3:					
Existing section 8	9	125	212	599	958
Tandem subsidy	---	---	277	554	554
Total	9	125	489	1,153	1,512

Implementation of CVAD recommendation

CVAD believes that, given the political need for some new construction program, tandem subsidies make much more sense than either section 8 or public housing. Accordingly, CVAD believes HUD should be directed to include in its 1978 budget submission (either as its recommendation or as an alternative) an estimate of the budget requirements for a conventional tandem program in place of section 8/new.

Comparison of First-Year Subsidy Costs
of New Construction Under Three Housing Programs

Cost Element	Section 8 FHA-Insured	Section 8 State Hsg. Agency	Conventional Public Housing	GNMA Tandem Plan
Total development costs	$36,000	$36,000	$32,600	$36,000
Mortgage loan amount	$32,400	$32,400	$32,600	$32,400
Term (years)	40	40	40	N/A
Interest rate: Market/contract	10%/10%	7.25%/7.25%	6%/6%	10%/7.5%
Tandem subsidy	N/A	N/A	N/A	$5,542
Annual loan amortization	$3,301	$2,487	$2,152	N/A
Operating expenses	1,966	1,966	1,208	N/A
Gross rent	$5,267	$4,453	$3,360	N/A
Tenant contribution	-1,100	-1,100	-975	N/A
Federal direct subsidy	$4,167	$3,353	$2,385	N/A
Indirect costs:				
Foreclosure	35	---	---	---
HUD administrative	60	60	60	---
Federal taxes foregone	433	1,244	975	---
(Memo: local taxes foregone)	(---)	(---)	(737)	(---)
Total, indirect costs	$ 528	$1,304	$1,035	$ ---
Total, subsidy costs	$4,695	$4,597	$3,420	$5,542

SOURCE: HUD, with development costs revised to reflect actual experience to date.

C.D. BLOCK GRANTS

1978 Spring Planning Review
Department of Housing and Urban Development
Issue #4: Community Development Block Grant Program

Statement of Issue

What should be the level of funding for the Community Development Block Grant Program for 1978 and 1979?

Background

- The appropriation authorization for the Community Development Block Grant Program expires after 1977.
- The Secretary of HUD is required, by March 15, 1977, to submit a report to Congress which makes recommendations for the program's future regarding the formula and the distribution of the funds. The Secretary plans to submit the report by December 31, 1976.
- As required by the Budget Control Act of 1974, legislation has been submitted to extend the program at the current level (less $100 million in special transition funds) through 1978, with the qualification that the amount may be revised later if the Secretary's report indicates the need for such revision.

Analysis

Because the goals of the Community Development Block Grant Program are very general, it is difficult to quantify what resources must be available to achieve these goals. The level of funding is largely a question of political judgment and priority.

Amending the 1974 Housing and Community Development Act to accommodate the extended authorization is sure to open up for discussion other issues as well. The Administration's success in getting its way on these issues is likely to be affected by its willingness to increase funding levels.

A. Extension of hold-harmless.

The hold-harmless provision of the Community Development Block Grant Program was designed to assure those communities that had participated in the categorical programs a smooth transition to a block grant approach. The amounts are determined by past categorical funding levels and are to be used to finance completion of partially finished categorical programs as well as providing for any necessary administrative adjustments.

The 1974 Act provides for the gradual phaseout of hold-harmless by 1980, at which time all recipients will get only their fair share of the funds, as determined by formula, and no more. However, HUD does not believe Congress will allow hold-harmless to die or, if it does, the phaseout will be spread over a longer period of time.

The closeout of the categorical projects is moving very slowly thus far, as shown below.

	1976 Target	1976 Actual	Number Remaining to be Closed Out
Urban renewal	342	168	1,273
Model cities	72	6	139
All other	1,263	631	1,404

The closeout of a project is preceded by a lengthy period of fact-finding regarding its legal and financial status. HUD expects the pace to quicken as the administrative procedures are streamlined; i.e., centralization of effort, establishment of task forces, etc.

To spur the closeout of urban renewal projects, HUD plans to utilize more fully the power given the Secretary in section 112 of the 1974 Act; i.e., that a recipient's entitlement amount may be reduced by 20 percent to pay off urban renewal loans. While the local renewal agencies are unhappy about this, local government executives have not issued many complaints and are generally anxious to get their remaining categorical programs closed out.

The Department does not foresee a stepped-up successful closeout program as bringing much, if any, influence to bear in phasing out hold-harmless. The Secretary has said she has an open mind on hold-harmless, but no decisions will be made until the evaluation report is completed.

B. Continuation/revision of the housing assistance plan requirement.

HUD does not plan to recommend any revision in the housing assistance plan requirement. While there have been and continue to be problems in administering this requirement, the Department sees some value in the document: (1) it is a means of monitoring a community's performance in meeting low- and moderate-income housing needs; and (2) it serves as a useful vehicle for coordinating the block grants with other HUD programs (e.g., procedures are now being implemented which require coordination with the HAP before approval of section 8 applications). HUD has offered substantial assistance to entitlement communities in determining their "expected to reside" housing needs and is cracking down on applicants which do not present sufficient HAP's. The 1976 applications indicate that grantees are responding well to the stiffened requirements, although HUD has disapproved three 1976 applications thus far.

The HAP requirement hits hardest at the nonmetro discretionary recipient, who does not have the substantial low- and moderate-income housing responsibility to fulfill and has generally never participated in HUD programs before the establishment of block grants. HUD may consider recommending releasing these grantees from the requirement in the future. There is indication that both Senator Proxmire and Representative Ashley would be amenable to the idea after a somewhat longer test period to determine exactly how useful or useless a HAP is for the nonmetro communities.

C. Disbursement of the discretionary funds.

HUD estimates that, in 1977, 54 percent of its total block grant staff time will be devoted to processing applications for discretionary grants, compared to 29 percent devoted to entitlement applications. However, HUD really has no plans to address the possibility of State or other alternative disbursement of the discretionary funds. The Department considers this the least of its problems with the program right now and wishes to address and recommend changes only in those areas where it seems essential.

If HUD is to recommend any changes in the program operation, as is likely, there is considerable work to be done on evaluating the need for or impact of such recommendations. This information would be included in the Secretary's report of December 31, 1977.

A current review of the evaluation effort indicates that there is a considerable amount of confusion and delay. HUD is unwilling to discuss in much detail a precise outline of the evaluation study until the Secretary makes some preliminary decisions. The Department is working towards a November - December deadline for completion of the evaluation report and apparently will submit a budget figure on September 15 which does not reflect the report's findings. HUD staff are assuming that recommendations and a meaningful discussion of a 1978 budget figure will not begin till late November - early December. If the report's conclusions and recommendations are to impact the budget figure, it should be completed by September 15.

Alternatives

Of the aforementioned issues, only the extension of hold-harmless should have a direct impact on budget totals. The other issues deal with administrative problems.

At the present it appears that $3,148 million is the floor for appropriations in 1978 and 1979. If the Administration agrees to an extension of hold-harmless, increased funds would be needed so as not to divert funding from other recipients--a politically and programmatically damaging idea. If the Administration wishes to hold to the current phaseout schedule, additional funding may also be necessary, in order to sway those recipients who stand to lose funds under an entitlement allotment alone.

#1. Provide a major increase in funding (e.g., to $3.5 billion), including an urgent needs fund, in order to secure a hold-harmless phaseout at the current schedule. (high alternative)

#2. Provide a moderate increase in funding (e.g., to $3.3 billion) in order to secure a hold-harmless phaseout at some point in time but less rapidly than alternative #1. (medium alternative)

#3. Continue funding at current level and push for hold-harmless phaseout at the current schedule. (low alternative)

Budgetary effects (in millions)

	1978		1979		1980		1981	
	BA	O	BA	O	BA	O	BA	O
High alternative	3,500	2,470	3,500	2,776	3,500	3,117	3,500	3,352
Low alternative	3,148	2,400	3,148	2,600	3,148	2,800	3,148	3,000
Medium alternative	3,300	2,430	3,300	2,676	3,300	2,937	3,300	3,152

Recommendation

Because HUD has yet to proceed with any deliberation on its evaluation study, the issues and alternatives listed are preliminary. However, it should be impressed upon the Department that, if any changes in the formula or distributions or funds are to be considered, recommendations, their supporting analysis and budget impact should be submitted with the Secretary's budget request on September 15. We recommend including this requirement in the planning letter to the Department.

PROGRAM TRENDS

1978 Spring Planning Review
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Selected Program Trends
(dollars in millions)

	1969	1970	1971	1972	1973	1974	1975	1976	1977
I. Mortgage Insurance									
A. Mortgage insurance written:									
Units	564,092	644,106	838,559	830,458	538,880	316,972	292,261	295,506	302,976
Amount ($)	8,022	9,394	13,037	14,017	9,307	5,638	6,182	6,436	7,627
B. Mortgage assignments and property acquisitions:									
Single family	30,775	28,073	38,052	57,785	66,889	62,647	54,427	44,127	48,710
Multifamily	12,596	7,468	15,711	20,450	39,396	49,127	76,436	92,200	58,240 1/
Inventory on hand	98,611	97,191	117,220	155,552	202,811	238,316	272,725	308,382	279,795 1/
II. Other Mortgage Credit									
A. Special mortgage purchase commitments ($) 2/	---	---	---	2,873	1,773	2,381	11,410	5,000	---
B. Guarantees of mortgage-backed securities issued ($)	---	441	3,200	3,500	3,607	4,125	5,905	10,000	10,000
III. Subsidized Housing									
A. New approvals:									
Units	178,000	417,000	420,000	453,000	120,000	38,000	170,000	481,000	506,000
Obligations ($)	10,979	15,887	16,879	17,653	5,407	2,008	11,121	23,935	25,428
B. Subsidy costs:									
Housing payments ($)	374	488	704	1,054	1,312	1,614	1,704	2,225	3,049
Public housing operating subsidies ($)	13	28	103	233	348	320	475	535	464
IV. Community Development and Other									
A. Community development:									
New commitments ($)	1,642	1,633	1,880	2,471	2,361	716	2,735	2,893	3/ 3,248
Outlays ($)	794	1,379	1,594	1,958	1,865	1,872	1,973	2,290	2,575
B. Comprehensive planning grant commitments ($)	43	50	50	100	100	75	100	75	25
C. Flood Insurance outlays ($)	1	1	3	7	14	51	44	110	173
D. Research obligations ($)	11	24	43	44	60	67	59	65	65

1/ Assumes section 8 subsidies will save 67,500 units from assignment.
2/ Tandem programs for nonsubsidized mortgages.
3/ Includes new commitments for rehabilitation loans as well as community development block grants.

SUMMARY
TABULATIONS

1978 Spring Planning Review
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Summary Tabulation
Program Level
($ in Millions)

	1976	1977		1978		1979	
	Current	Base	Most Likely	Base	Most Likely	Base	Most Likely
Mortgage Credit							
Tandem Plan:							
Purchase commitments	(5,000)	---	(3,500)	---	(1,500)	---	(1,500)
Subsidy	610	---	422	---	172	---	172
Subsidized Housing							
1. Section 8 and public housing (Issue #3):							
Obligations (40 years)	25,775	23,050	24,840	25,360	27,330	27,890	30,060
Units	(406,000)	(406,000)	(400,000)	(406,000)	(400,000)	(406,000)	(400,000)
2. Public housing operating subsidies	540	460	600	550	690	620	760
3. Section 235/Homeownership:							
Obligations (40 years)	1,950	2,820	4,225	3,150	5,075	---	5,280
Units	(75,000)	(100,000)	(150,000)	(100,000)	(170,000)	---	(170,000)
4. Section 202/Housing for the Elderly:							
Loans	750	375	1,000	375	1,000	375	1,000
Units	(32,600)	(14,800)	(40,000)	(13,600)	(36,400)	(12,400)	(33,100)
5. Counseling and nonprofit-sponsor assistance	5	5	15	---	15	---	15
6. Other programs	1,400 1/	---	---	---	---	---	---
Community Planning and Development							
1. Community Development Block Grant Program (Issue #4)	2,800	3,250	3,250	3,150	3,500	3,150	3,500
2. Comprehensive planning	75	25	50	25	50	25	50
3. Rehabilitation Loans	120	---	80	---	80	---	80
4. Urban Renewal	---	---	---	---	100	---	100
5. Flood Insurance	75	100	75	100	75	100	75
Research	60	70	60	70	60	70	60
Other	40	---	20	---	20	---	20
Agency total	34,200	30,160	34,640	32,775	38,160	32,240	41,175

1/ 40-Year obligations for rent supplements and grants to State housing agencies.

1978 Spring Planning Review
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Summary Tabulation
Budget Authority
($ in Millions)

	1976	1977		1978		1979	
	Current	Base	Most Likely	Base	Most Likely	Base	Most Likely
Mortgage Insurance							
Federal Housing Administration Fund (Issue #1)	1,620	975	975	1,110	1,110	950	950
Subsidized Housing							
1. Section 8 and public housing (Issue #3)	18,030	16,580	16,000	25,360	27,330	27,890	30,060
2. Public housing operating subsidies	540	460	600	550	690	620	760
3. Section 235/homeownership	---	---	2,000	---	2,000	---	5,280
4. Section 202/housing for the elderly 1/	(750)	(375)	(1,000)	(375)	1,000	(375)	1,000
5. Counseling and nonprofit-sponsor assistance	---	---	10	---	10	---	10
6. Other programs	1,440 2/	---	---	---	---	---	---
Mortgage Credit							
1. Tandem Plan	4,750	---	1,500	---	1,500	---	1,500
2. Other programs	10	10	10	10	10	10	10
Community Planning and Development							
1. Community Development Block Grants (Issue #4)	2,800	3,250	3,250	3,150	3,500	3,150	3,500
2. Comprehensive planning	75	25	50	25	50	25	50
3. Rehabilitation Loans	50	---	50	---	60	---	60
4. Urban Renewal	---	---	---	---	100	---	100
5. Flood Insurance	75	100	75	100	75	100	75
6. New Communities	10	25	160	25	210	25	75
Research	50	70	60	70	60	70	60
Departmental Overhead and Other	190	220	220	220	220	220	220
Agency subtotal	29,640	21,710	24,960	30,610	37,925	33,060	43,720
Deductions for: Offsetting receipts	---	---	---	---	---	---	---
Agency total	29,640	21,710	24,960	30,610	37,925	33,060	43,720

1/ Numbers in parentheses indicate off-budget.
2/ Includes 40-year obligations for rent supplements and grants to State housing agencies.

1978 Spring Planning Review
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Summary Tabulation
Outlays
($ in Millions)

	1976	1977		1978		1979	
	Current	Base	Most Likely	Base	Most Likely	Base	Most Likely
Mortgage Insurance							
Federal Housing Administration (Issue #1)	1,520	830	830	1,160	1,160	1,030	1,030
Subsidized Housing							
1. Housing payments (including section 8, section 235, and public housing) (Issue #3)	2,270	2,570	2,590	3,000	3,080	4,000	4,200
2. Public housing operating subsidies	160	460	490	500	540	550	675
3. Section 202/housing for the elderly 1/	(-10)	(110)	(400)	(360)	1,100	(325)	1,150
4. Counseling and nonprofit-sponsor assistance	-1	2	7	---	12	---	13
Mortgage Credit							
1. Tandem Plan	660	110	180	460	560	---	190
2. Other programs	75	70	70	70	70	60	60
Community Planning and Development							
1. Community Development Block Grants	900	1,600	1,600	2,400	2,470	2,600	2,780
2. Comprehensive planning	90	75	80	25	50	25	50
3. Rehabilitation Loans	40	-8	70	-20	60	-20	60
4. Urban Renewal	1,150	1,225	1,225	600	650	400	500
5. Flood Insurance	110	200	175	250	220	250	225
6. New Communities	20	30	170	30	220	30	80
Research	60	70	60	70	60	70	60
Departmental Overhead and Other	460	320	330	125	150	120	150
Agency subtotal	7,510	7,560	7,870	8,670	10,400	9,120	11,230
Deductions for: Offsetting receipts	---	---	---	---	---	---	---
Agency total	7,510	7,560	7,870	8,670	10,400	9,120	11,230

1/ Numbers in parentheses indicate off-budget.

ANALYSIS
OF CHANGES

1978 Spring Planning Review
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Analysis of Changes
(in millions of dollars)

	1977		1978		1979	
	B.A.	0	B.A.	0	B.A.	0
Base estimates............................	21,710	7,560	30,610	8,670	33,060	9,120
Likely changes due to--						
Administration initiatives:						
Housing for the elderly - putting the fund back in the budget in 1978	---	---	+375	+360	+375	+325
Building energy conservation standards	+5	+2	+5	+5	+5	+5
New Communities - increase foreclosures	+135	+135	+185	+185	+50	+50
Congressional action:						
Annual Contributions for Assisted Housing - 1977 reduction made possible by assuming larger carryover from 1976; increases in 1978 and 1979 provide for increased new construction	-575	---	+1,970	---	+2,170	---
Housing for the elderly (section 202)	(+625)	(+290)	+625	+740	+625	+825
Section 235/homeownership assistance	+2,000	+25	+2,000	+80	+5,280	+200
Public housing operating subsidies - rejection of proposed savings and increase above performance funding	+135	+25	+140	+45	+145	+125

	1977		1978		1979	
	B.A.	0	B.A.	0	B.A.	0
Grants to State housing agencies - failure to rescind 1976 authority	---	---	---	+10	---	+15
Counseling and nonprofit-sponsor assistance	+10	+5	+15	+10	+15	+15
College Housing - continuation of the program	---	+5	---	+15	---	+15
GNMA: Special assistance - additional tandem plan releases	+1,500	+65	+1,500	+90	+1,500	+195
Community development block grants (1978 item)	---	---	+350	+70	+350	+175
Comprehensive planning	+25	+5	+25	+25	+25	+25
Urban Renewal - additional funds for project closeouts	---	---	+100	+50	+100	+100
Rehabilitation Loans	+50	+75	+60	+80	+60	+80
Flood Insurance	-25	-25	-25	-25	-25	-25
Research	-10	-5	-10	-10	-10	-10
Most likely level......................	24,960	7,870	37,925	10,400	43,720	11,230
Housing for the elderly - hold to the 1977 base level	(-625)	(-290)	-625	-740	-625	-825
GNMA: Special assistance - do not release additional mortgage purchase authority	-1,500	-65	-1,500	-90	-1,500	-195

	1977 B.A.	1977 O	1978 B.A.	1978 O	1979 B.A.	1979 O
Urban Renewal - avoid further commitments (or offset add-on's against community development block grants)	---	---	-100	-50	-100	-100
Housing Payments - hold section 235 to the 1977 base level	-2,000	-25	-2,000	-80	-5,280	-200
Federal Housing Administration:						
Discontinue premium rebates on 1-1-77	-20	-20	-40	-40	-40	-40
Raise FHA premiums to actuarially sound levels (but continue subsidizing premiums in neighborhood preservation areas)	-15	-15	-40	-40	-65	-65
Rehabilitation Loans - avoid further commitments (or offset add-on's against community development block grants)	-50	-75	-60	-80	-60	-80
Public housing operating subsidies - maintain at "old" performance funding level	-25	---	-25	-15	-25	-25
Restore 1977 cuts in:						
Flood Insurance	---	---	+25	+25	+25	+25
Research	---	---	+10	+5	+10	+10
High alternative target..................	21,350	7,670	33,570	9,300	36,060	9,735

	1977		1978		1979	
	B.A.	0	B.A.	0	B.A.	0
Housing Payments - discontinue approvals for new section 8 projects in 1977	-12,440	---	-13,685	---	-15,055	-185
Community development block grants - limit the increase in 1978 and 1979	---	---	-200	-40	-200	-100
Public housing operating subsidies - increase tenant rental payments (as proposed in the 1977 Budget)	---	---	-115	-25	-120	-80
Do not restore 1977 cuts for Flood Insurance and Research	---	---	-35	-30	-35	-35
Comprehensive planning - hold to 1977 base	-25	-5	-25	-25	-25	-25
College Housing - terminate the program as proposed in the 1977 Budget	---	-5	---	-15	---	-15
Counseling and nonprofit-sponsor assistance - rescind amounts added to 1977 Budget	-10	-5	-15	-10	-15	-15
Medium alternative target..................	8,870	7,655	19,495	9,150	20,615	9,285
Housing for the elderly - cut loan commitments from $375M to $200M beginning in 1977	(-175)	(-20)	-175	-75	-175	-175
Community development block grants - hold to the 1977 base in 1978 and 1979	---	---	-150	-30	-150	-75
Comprehensive planning - terminate the program in 1978	---	---	-25	-5	-25	-15

	1977		1978		1979	
	B.A.	O	B.A.	O	B.A.	O
FHA - do not subsidize insurance premiums	-5	-5	-5	-5	-5	-5
Low alternative target....................	8,865	7,650	19,140	9,035	20,255	9,010
Further reductions:						
Housing Payments - reduce section 8/ existing program level to 200,000 units in 1978 and 1979	---	---	-3,430	-5	-3,770	-90
Section 202 - terminate program and replace with tandem plan assistance	---	---	---	-130	---	-233

SUMMARY OF
AGENCY TOTALS

1978 Spring Planning Review
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Summary of agency totals
(in millions of dollars)

	1977	1978	1979	1980	1981
Budget authority					
Base estimate	21,710	30,610	33,060	35,640	38,710
Most likely level	24,960	37,925	43,720	44,400	47,750
High alternative target	21,350	33,570	36,060	x	x
Medium alternative target	8,870	19,495	20,615	x	x
Low alternative target	8,865	19,140	20,255	x	x
Outlays					
Base estimate	7,560	8,670	9,120	10,060	11,460
Most likely level	7,870	10,400	11,230	12,350	13,750
High alternative target	7,670	9,300	9,735	x	x
Medium alternative target	7,655	9,150	9,285	x	x
Low alternative target	7,650	9,035	9,010	x	x

RECONCILIATION OF AGENCY TOTALS

1978 Spring Planning Review

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

RECONCILIATION OF MARCH 25 ESTIMATE AND BASE

(in millions of dollars)

	Budget Authority	Outlays
I. Reconciliation of 1977 base:		
March 25 estimate	21,710	7,175
Administration initiatives: (None)		
Completed congressional action:		
Rehabilitation loans - inaction on proposed 1976 rescission	---	+10
Reestimates:		
(a) Urban Renewal and other terminated community development grant programs - slower spendout in FY 1976	---	+345
(b) GNMA: Special Assistance Functions Fund - increased discounts on tandem purchases	---	+30
Total, 1977 base	21,710	7,560
II. Base for 1978 through 1981:		
1978	30,610	8,670
1979	33,060	9,120
1980	35,640	10,060
1981	38,710	11,460

LIKELY
BUDGET THREATS

Date: 5/21/76
Budget examiner: Eve Barrett
Extension: 4610

Program: Comprehensive Planning Grants

Agency: Department of Housing and Urban Development

Three digit functional code: 450

Nature of threat (check one):

- [ ] Administration initiative
- [ ] Congressional rejection of Administration legislative proposal
- [X] Congressional: proposed new legislation or appropriations change
- [ ] Other

Change in base estimate:	1977	1978	1979	1980	1981
		(in millions of dollars)			
Budget authority............................	+25	+25	+25	+25	+25
Outlays....................................	+5	+17	+25	+25	+25

Brief description of threat:

Congressional action to date on HUD authorization and appropriation legislation appears headed towards an increase in appropriations over the 1977 Budget request. Probability of the threat materializing: .76-1.00.

LIKELY
BUDGET THREATS

Date: 5/21/7
Budget examiner: Edward A. Brigham
Extension: 4610

Program: Emergency Mortgage Purchase Assistance

Agency: Department of Housing and Urban Development

Three digit functional code: 401

Nature of threat (check one):

- [ ] Administration initiative
- [ ] Congressional rejection of Administration legislative proposal
- [X] Congressional: proposed new legislation or appropriations change
- [ ] Other

Change in base estimate:	1977	1978	1979	1980	1981
		(in millions of dollars)			
Budget authority..............................	+1,500	---	---	---	---
Outlays....................................	+66	+66	+145	+145	---

---

Brief description of threat: Of the $10 billion authorized for mortgage purchases by the Emergency Housing Act of 1975, $5 billion has been appropriated, and $3 billion has been released by the Administration (for multifamily mortgages in January, 1976). The concurrent budget resolution provides for the appropriation of an additional $3 billion of mortgage purchase authority. However, the 1977 HUD appropriations bill, as reported by the House subcommittee, contains no appropriation of mortgage purchase authority. The most likely appropriation, therefore, is some intermediate amount like $1.5 billion. We estimate that such an appropriation has a probability of 50 to 75 percent. Coupled with the unreleased funds, that action would make $3.5 billion available for use. Since the use of the funds is at the discretion of the Administration and since conditions are continuing to improve on housing markets, we estimate that the release would have a probability of less than 25 percent. The outlay estimates assume current market interest rates and a 50-50 split between single- and multifamily construction. They also assume an early 1977 release of the $3.5 billion.

LIKELY
BUDGET THREATS

Date: 5/21/

Budget examiner: Eve Barrett

Extension: 4610

Program: New Communities

Agency: Department of Housing and Urban Development

Three digit functional code: 450

Nature of threat (check one):

- [ ] Administration initiative
- [ ] Congressional rejection of Administration legislative proposal
- [ ] Congressional: proposed new legislation or appropriations change
- [X] Other

Change in base estimate:	1977	1978	1979	1980	1981
	(in millions of dollars)				
Budget authority	+137	+184	+51	+25	+25
Outlays	+137	+184	+51	+25	+25

Brief description of threat:

The 13 federally guaranteed new communities are in serious financial trouble. Independent studies of each community are being conducted to determine (1) the value and marketability of the property, and (2) the financial feasibility of reviving the community. HUD has not yet announced any foreclosures, but the Department does expect some activity in 1977 and beyond. The 1977-1981 figures cover acquisition and resale of communities, foreclosures, and continued interest payments. Probability of threat materializing: .76-1.00.

LIKELY
BUDGET THREATS

Date: 5/21/7
Budget examiner: Paul Newton
Extension: 4610

Program: Payments for Operation of Low-Income Housing Projects

Agency: Department of Housing and Urban Development

Three digit functional code: 604

Nature of threat (check one):

[ ] Administration initiative

[X] Congressional rejection of Administration legislative proposal

and

[X] Congressional: proposed new legislation or appropriations change

[ ] Other

Change in base estimate:	1977	1978	1979	1980	1981
	(in millions of dollars)				
Budget authority..............................	+135	+140	+145	+150	+150
Outlays....................................	+25	+45	+125	+130	+135

Brief description of threat:

Congress has shown no inclination to enact legislation revising the definition of income for public housing tenants, and proposed authorizations reflect operating subsidy requirements under the present system. This threat also assumes a $25 million discretionary add-on. Probability: .75-1.00.

LIKELY
BUDGET THREATS

Date: 5/21/7
Budget examiner: Eve Barrett
Extension: 4610

Program: Rehabilitation Loans

Agency: Department of Housing and Urban Development

Three digit functional code: 450

Nature of threat (check one):

[ ] Administration initiative

[ ] Congressional rejection of Administration legislative proposal

[X] Congressional: proposed new legislation or appropriations change

[ ] Other

Change in base estimate: (in millions of dollars)

	1977	1978	1979	1980	1981
Budget authority..........................	+50	+60	+60	+60	+60
Outlays..................................	+70	+60	+60	+60	+60

Brief description of threat:

The Rehabilitation Loan Program is due to terminate August 22, 1976. However, Congress will likely extend the program at least through fiscal 1977 with an appropriation authorization of $100 - $150 million. However, House Appropriation subcommittee action indicates the actual appropriation may be $50 million or so. Probability of threat materializing: .76-1.00.

LIKELY
BUDGET THREATS

Date: 5/21/

Budget examiner: William McQuaid

Extension: 4610

Program: Section 202 - Elderly Housing - A

Agency: Department of Housing and Urban Development -- off-budget

Three digit functional code: 401

Nature of threat (check one):

[X] Administration initiative

[ ] Congressional rejection of Administration legislative proposal

[ ] Congressional: proposed new legislation or appropriations change

[ ] Other

Change in base estimate:	1977	1978	1979	1980	1981
		(in millions of dollars)			
Budget authority	---	+375	+375	+365	+355
Outlays	---	+359	+323	+288	+252

Brief description of threat:

The Housing and Community Development Act of 1974 amended the Section 202 program for Housing for the Elderly and Handicapped and placed this direct loan program off-budget. The House Appropriations subcommittee report on 1977 HUD appropriations suggests that the Administration propose putting this account back on-budget. This part of the threat from the housing for the elderly program assumes that the Administration will propose the same loan level in 1978 as contained in the 1977 Budget but the funding will be proposed on-budget. The congressional threat from increasing this program level is presented in the threat from Section 202-Elderly Housing B. Probability of threat materializing: .76-1.00.

LIKELY
BUDGET THREATS

Date: 5/21/76

Budget examiner: William McQuaid

Extension: 4610

Program: Section 202 - Elderly Housing - B

Agency: Department of Housing and Urban Development -- off-budget

Three digit functional code: 401

Nature of threat (check one):

[ ] Administration initiative

[ ] Congressional rejection of Administration legislative proposal

[X] Congressional: proposed new legislation or appropriations change

[ ] Other

Change in base estimate:	1977	1978	1979	1980	1981
	(in millions of dollars)				
Budget authority...........................	(+625)*	---	---	---	---
Outlays....................................	(+289)*	+741	+827	+667	+652

*Parentheses means off-budget.

Brief description of threat: The Senate passed the "Housing Amendments of 1976" which would provide $2.5 billion in additional authority for section 202 - elderly housing loans. The interest rate on these loans would be reduced approximately 2.1 percent per year for a 40 year cost of $400 million per $1 billion in loans. While the 1977 outlays would be "off-budget," loan disbursements would increase Treasury borrowing which would drive Treasury rates up by an unknown amount. The House Committee on Banking, Currency and Housing has reported out a bill that also provides additional loan authority of $2.5 billion but the authority is to be spread over a 3 year period. The House Appropriations subcommittee bill includes $750 million in loan authority for this program. The additional outlays are assumed to be on-budget after 1977. Probability of threat materializing: .76-1.00.

LIKELY
BUDGET THREATS

Date: 5/21/76
Budget examiner: William McQuaid
Extension: 4610

Program: Section 235 Homeownership Assistance

Agency: Department of Housing and Urban Development

Three digit functional code: 604

Nature of threat (check one):

- [ ] Administration initiative
- [ ] Congressional rejection of Administration legislative proposal
- [X] Congressional: proposed new legislation or appropriations change
- [ ] Other

Change in base estimate:

	1977	1978	1979	1980	19[illegible]1
	(in millions of dollars)				
Budget authority	+2,000	---	---	---	---
Outlays	+23	+67	+67	+67	+67

Brief description of threat:

The Senate has passed the bill "Housing Amendments of 1976." This bill would increase the contract authority to make interest subsidy payments under the section 235 homeownership assistance program by $200 million. These contracts can be for a maximum term of 30 years. The budget authority resulting from this $200 million in contract authority would be $6 billion. The House subcommittee bill extended the section 235 program, but did not add new contract authority. The first concurrent resolution adopted a $2 billion level of budget authority for section 235 and the threat is based on this level. This additional contract authority would be subject to release in Appropriations Acts. Probability of threat materializing: 0.76-1.00.

POSSIBLE
BUDGET THREATS

Date: 5/21/7
Budget examiner: Eve Barrett
Extension: 4610

Program: Community Development Countercyclical Supplemental Assistance

Agency: Department of Housing and Urban Development

Three digit functional code: 450

Nature of threat (check one):

[X] Administration initiative

[ ] Congressional rejection of Administration legislative proposal

[ ] Congressional: proposed new legislation or appropriations change

[ ] Other

Change in base estimate:	1977	1978	1979	1980	1981
		(in millions of dollars)			
Budget authority...........................	+780	-0-	-0-	-0-	-0-
Outlays................................	+260	+260	+260	-0-	-0-

Brief description of threat:

The Countercyclical Supplemental Assistance Authorization bill, designed to provide aid to areas having unemployment rates of 8 percent when the national, seasonally adjusted average is 7 percent or greater, may be enacted by July 1. The authorized level of $780 million would likely be appropriated for 1977. Probability of threat: 0-.25.

POSSIBLE
BUDGET THREATS

Date: 5/21/

Budget examiner: William McQuaid

Extension: 4610

Program: Defect Compensation

Agency: Department of Housing and Urban Development

Three digit functional code: 401

Nature of threat (check one):

[ ] Administration initiative

[ ] Congressional rejection of Administration legislative proposal

[X] Congressional: proposed new legislation or appropriations change

[ ] Other

Change in base estimate:	1977	1978	1979	1980	1981
	(in millions of dollars)				
Budget authority	+56	+15	+15	+15	+15
Outlays	+56	+15	+15	+15	+15

Brief description of threat: The Senate has passed the bill "Housing Amendments of 1976." This bill would extend and expand the provisions to provide compensation for defects found in homes insured by the Federal Housing Administration (FHA). The provisions would retroactively include all homes previously insured by FHA. Around five million homes are currently insured by FHA and would be eligible for the defect compensation program. The retroactive features would require over 1,000 employees to process claims. The prospective application of defect compensation would change FHA's mortgage insurance program to a warranty program requiring an unknown number of Federal inspectors. The estimates of claims rates and cost per claim for newly eligible units are conservative and a loosely interpreted program could have costs in the hundreds of millions. Probability of threat materializing: .26-.50.

POSSIBLE

BUDGET THREATS

Date: 5/21/76
Budget examiner: William J. McQuaid
Extension: 4610

Program: Section 236 Operating Subsidies

Agency: Department of Housing and Urban Development

Three digit functional code: 604

Nature of threat (check one):

[ ] Administration initiative

[ ] Congressional rejection of Administration legislative proposal

[ ] Congressional: proposed new legislation or appropriations change

[X] Other

Change in base estimate:	1977	1978	1979	1980	1981
	(in millions of dollars)				
Budget authority	+50	+100	+200	+210	+220
Outlays	+50	+100	+200	+210	+220

Brief description of threat:

Recent court decisions have ordered HUD to pay operating subsidies for increased utility and tax expenses. Almost 29,000 units in section 236 projects are in default and many others are in financial trouble. Pressure is growing to fund a full program of operating subsidies to provide the difference between operating and debt service costs and rents based on 25 percent of the tenant's income. An adverse decision on a class action suit now before the U.S. District Court for the District of Columbia could bring about this operating subsidy program. The House Appropriations subcommittee bill would eliminate the funds now available for operating subsidies by using them to pay interest subsidy housing payments. Probability of threat materializing: .26-.50.

POSSIBLE
BUDGET THREATS

Date: 5/21/

Budget examiner: Eve Barrett

Extension: 4610

Program: Urban Renewal

Agency: Department of Housing and Urban Development

Three digit functional code: 450

Nature of threat (check one):

[ ] Administration initiative

[ ] Congressional rejection of Administration legislative proposal

[ ] Congressional: proposed new legislation or appropriations change

[X] Other

Change in base estimate:	1977	1978	1979	1980	1981
		(in millions of dollars)			
Budget authority..........................	0	+100	+100	+100	+100
Outlays..................................	0	+50	+100	+125	+125

Brief description of threat:

As HUD proceeds with the closeouts of urban renewal projects, it becomes more evident that many projects will need additional financial assistance to be completed as planned. This threat assumes Congress will provide additional relief through additional categorical grants. Probability of threat materializing: .26-.50.

EVALUATIONS
AND OBJECTIVES

1978 Spring Planning Review

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Program and Management Evaluation Studies

Evaluation Study	Status
Top Priority:	
Alternative roles for the Federal Housing Administration in the mortgage market	Underway
Impact of the Performance Funding System on the operation of public housing authorities	Underway
The cost-effectiveness of the section 8 lower income housing assistance program	Underway
Social and economic costs of various loan management and property disposition techniques	Underway
Evaluation of housing allowances	Underway
Impact of the Community Development Block Grant Program on recipient communities	Recommended by CVAD
Impact of the revised section 235 program on housing production, housing consumption, and the general welfare of recipient families	Recommended by CVAD
Next in Importance:	
Impact of the tandem plans on housing starts and the demand for new homes	Underway

Evaluation Study	Status
Causes of excess maintenance requirements and rent delinquencies in public housing projects	Underway
Evaluation of section 8 fair market rents	Underway
Access to housing in rural areas	Underway
Enforcement of title VIII of the 1968 HUD Act (Fair Housing) and its impact on access to housing	Planned
Cost-effectiveness of HUD's contracting procedures under the Flood Insurance Program	Recommended by CVAD
Performance of nonprofit sponsors in HUD's housing programs	Recommended by CVAD
Impact of the section 202 housing for the elderly loan program on housing opportunities for elderly persons	Recommended by CVAD
Important, but could be deferred:	
Evaluation of regional offices and their place in HUD's field organization	Underway
Relationship of HUD's research contracting to the Department's mission	Underway
Evaluation of the Target Projects Program	Underway
Use of community development block grant funds by recipients, and impact of HUD requirements on localities	Underway

Evaluation Study	Status
Evaluation of section 223(f) mortgage insurance (existing multifamily projects)	Underway
Impact of the section 701 comprehensive planning program	Recommended by CVAD
Impact of HUD property and construction standards on housing costs	Recommended by CVAD
Impact of HUD's mortgage-backed securities program on the supply of mortgage credit	Recommended by CVAD
Worth undertaking as resources permit:	
Use of incentive fees under the property disposition program	Underway
Evaluation of urban homesteading	Underway
Evaluation of alternatives for increasing reservation Indian and Alaska native housing opportunities	Recommended by CVAD
Impact of paying mortgage insurance claims with debentures rather than cash	Recommended by CVAD

FY 1978 Spring Planning Review
Department of Housing and Urban Development

Management by Objectives

Background

HUD has a highly developed MBO process which is titled the Goals Management System. It includes six broad Departmental goals and seven levels of objectives ranging from Presidential and Secretarial to field office, the latter having been developed very recently. Attachment A gives examples of the type and number of objectives at each level.

HUD has developed a two-tier tracking system to monitor these objectives. The first tier is a Headquarters Operating Plan (blue book) which became operational in FY 1975. This includes a monthly Secretarial Status Report which summarizes accomplishments on major goals and objectives and a more detailed and somewhat cumbersome quarterly status report which tracks all central office objectives, tasks and milestones. The second tier which became operational in FY 1976 are the quarterly regional operating plans (yellow books) for each of the ten regional offices. These plans include regional management objectives, program objectives and resource allocation plans for all programmatic activities. HUD intends to place particular emphasis on the further development of the resource allocation plans in FY 1977.

Status

- HUD's process is well developed and is actively used by the Secretary to track major objectives. However, use of the system by Assistant Secretary's and regional offices varies considerably.
- Deputy Undersecretary Wallace has already developed a schedule for the establishment of FY 77 objectives and operating plans. This schedule, as well as the general direction of the system for FY 1977,

was endorsed at a recent all day management planning meeting held by the Secretary with Assistant Secretarys and key staff members.

- The extension of the system to regional and area offices has been a painful process but it does appear to have improved communications between the central office and the field.

- The broader Departmental Management Initiatives which are an outgrowth of the MBO system have resulted in streamlining of some programs and procedures.

- The MBO process has been closely linked to a new budget issue identification process which is somewhat similar to OMB's spring planning review.

- A key to the success of the HUD system has been the appointment of an active Deputy Undersecretary for Management who has access to and support from the Secretary and who is committed to both an effective management system and timely resolution of important policy and management issues.

<u>Quality Of Objectives</u>

A list of HUD's Secretarial objectives is included in Attachment B. On the whole, HUD's system includes valuable and meaningful objectives particularly in the evaluation area. However, there are some superficial or marginally important objectives at the Assistant Secretarial level which HUD should try to eliminate in order that the system continue to reflect the true activities and priorities of the Department (e.g., complete improvement of State intergovernmental planning; develop alternative coordination models that can be used by State/local officials.)

<u>Performance On Objectives</u>

The process has been credited with several accomplishments. For example, the New Community Administration had considerably delayed developing workout and phase-out plans for new communities in trouble. Since the identification of this as a major problem, workout plans have been developed for eleven communities and one project has been foreclosed. Other examples include improved single family processing time, initiation of an evaluation of the Performance Funding System, early identification and correction of problems in meeting Indian housing goals, and timely performance of CDBG activities. However, increasing numbers of objectives are behind schedule and are listed as "major" or minor problems in the Department's status reports. Of particular concern are those which continue to be identified as problems with no visible evidence of improvement such as equal opportunity, multi-family sales goals, categorical close-outs and eliminating lead based paint hazard. An additional concern relates to some objectives which have broad titles but which further analysis indicates are much more limited in scope such as the impact evaluation of CDBG.

System Problems

The two-tier tracking system which is run by two different offices appears to involve a great deal of paperwork and some program staff feel that it is confusing. The result is a tendency in some areas for the system to become a "paper pushing" exercise by the staff rather than a meaningful management process. The effect is that the objectives are sometime not fully representative of work being performed or of the priorities of activities. This does not negate the fact that the system as a whole is one of the most effective management systems in the Federal Government but it is a problem that should be dealt with.

Outlook

In the next year, HUD should focus its efforts in two areas:

1. Improving performance on problem objectives many of which are identified above.

2. Streamlining the process to improve its use by and usefulness to Department managers including Assistant Secretaries and Regional Administrators.

March 31, 1976

STRUCTURE OF HUD'S GOALS MANAGEMENT SYSTEM PRESIDENTIAL THROUGH AREA OFFICE OBJECTIVES

Level						Approximate Number of Objectives at Each Organizational Level
Presidential	Process 1251 CDBG Entitlement apps. in an average of 55 days					10*
Secretarial	Process 1251 CDBG Entitlement apps. in an average of 55 days	Sell 59,488 single family properties				60
Assistant Secretarial	Process 1251 CDBG Entitlement apps. in an average of 55 days	Sell 59,488 single family properties	Reduce large Housing Authority vacancy rates from 6.8% to 5.1%			324
10 Regional Offices (V- Chicago)	Process 228 CDBG Entitlement apps. in an average of 55 days	Sell 16,099 single family properties	Reduce large Housing Authority vacancy rates from 4.7% to 4.1%	Implement sanctions for consumer affairs offenders		573
77 Field Offices (Milwaukee)	Process 13 CDBG Entitlement apps. in an average of 55 days	Sell 467 single family properties	Reduce large Housing Authority vacancy rates from 4.0% to 1.8%	Implement sanctions for consumer affairs offenders	Assure staff resources are consistent w/workload by reducing utilization of overhead	4000

*Not formally designated as such

Objectives for Period Ending 6/30/76

MAJOR SECRETARIAL OBJECTIVES

GOALS MANAGEMENT SYSTEM - QUICK LOOK STATUS AS OF 3/31/76

ALL OBJECTIVES THROUGH TRANSITION QUARTER UNLESS OTHERWISE NOTED

GOAL I - Promote Viable Communities

CPD
- Evaluate future role of existing 701 program (Satis)
- Revise CDBG regs, procedures and forms (Minor P)
- 1st annual report to Congress on CDBG due 1/1/76 (Comp)
- Inform gov't officials and public on CDBG effectiveness (Minor P)
- Public/private leveraging for maximum economic impact from CDBG (Major P)
- Procedures for close-out of urban renewal projects (Satis)
- Bicentennial Program (Horizons on Display) (Satis)

CPD/Field
- * Process 1346 entitlement apps. in an average of 55 days (Satis)
- Process 3481 CDBG discretionary balances apps. in an average of 55 days (Satis)
- Close-out 1677 categorical grants and loans: (342 urban renewal; 72 model cities; 1263 other) by 6/30/76 (Major P)

PDR
- * Evaluate nat'l impact of CDBG (Satis)

NCA
- Evaluate alternative approaches to New Communities (Minor P)
- Take action to support or phase out existing New Communities (Minor P)

HPMC
- Process 14,000 units of elderly housing for 202 (Satis)
- Review 480 mortgagees (Minor P)
- Implement the Coinsurance Program for up to 11,000 units (Minor P)
- Simplify Section 8 procedures (Minor P)

HPMC/Field
- Process 95% of all s/f apps. for conditional commitment in 5 days or less (Minor P)
- Process up to 413 firm commitments on 223(f) projects (Satis)
- * Provide assistance on up to 290,000 units under Section 8 (Major P)
- Complete processing to firm commitment on 172 Sec. 236 apps. by 6/30/76 (Minor P)
- Provide 9,723 units of Indian Housing by 6/30/76 (Major P)
- Award contract reservations for up to 75,000 units of Sec. 235 housing (Minor P)

GOAL II - Provide for Decent Housing

HM/Field
- No more than 10% variation on TPP goals (Minor P)
- Do not exceed s/f acquisitions of 45,790 (90%) and s/f defaults of 108,163 (2.13%) for 2nd half and transition quarter (Satis)
- 1/ Do not exceed m/f defaults of 631 (4.54%) and a m/f claim rate of 3.99% for 2nd half of FY'76 (Satis)
- Sell 59,488 s/f properties by 6/30/76 (Satis)
- Sell 145 m/f projects by 6/30/76 (Major P)
- Provide rental assistance on up to 110,000 units under Sec. 8 (Satis)
- Use $50 million in ACC authority to acquire HUD assisted housing (Satis)

GNMA
- Help stimulate economic recovery through guarantees of $12.6 billion in mortgage backed securities (370,000 units) (Minor P)
- Help stimulate economic recovery by the purchase of $7.2 billion of mortgages (219,100 units) (Satis)
- Extend authority under Emergency Home Purchase Act to 6/30/76 (Comp)
- Issue $3.0 billion in multifamily Tandem commitments (Minor P)

PDR
- Develop strategies for countering "down" periods of housing production cycle (Minor P)
- Evaluate future prospects for homeownership and make recommendations (Satis)
- Evaluate future financial market environment (federal and private) and the adequate flow of credit (Minor P)
- Evaluate the impact of unsubsidized FHA s/f activities (Satis)
- * Develop Presidential position paper on Future Role of FHA (Minor P)
- * Evaluate the impact of Sec. 8 (Minor P)
- * Evaluate Direct Cash Assistance Experimental Program (Satis)
- Obtain initial agreement on strategy for avoiding foreclosure on s/f and subsidized m/f properties due to economic reasons (Satis)
- * Evaluate the impact of the Performance Funding System (Satis)
- Develop a meaningful research program in conjunction with the National Institute of Building Sciences (Minor P)
- Implement initial phases of Solar Energy Demonstration Program (Satis)
- Evaluate effectiveness of the Tandem Plan (Satis)

GOAL III - Achieve Equal Opportunity

EO/Field
- Reduce inventory of Title VIII complaints open more than 150 days from 684 to 0 by 6/30/76 (Major P)
- Reduce inventory of Title VI complaints open more than 180 days from 37 to 0 by 6/30/76 (Major P)
- Perform 194 Title VI compliance reviews by 6/30/76 (Satis)
- Obtain 263 areawide affirmative marketing agreements by 6/30/76 (Major P)
- * Increase the deposit of HUD funds in minority banks to $18.35 million (Minor P)

GOAL IV - Protect Consumer Interests

CARF
- Issue and enforce regulations for mobile home safety standards (Minor P)

HPMC/Field
- Complete resolution on up to 65,742 claims under 518(b) (Satis)

PDR
- Complete the study on condominium abuses and report to Congress (Comp)
- Develop suitable techniques for eliminating the lead based paint hazard (Major P)

CARF
- Implement Consumer Representation Plan (Satis)

GOAL V - Cope With Natural Disasters

FIA
- Complete 924 Flood Insurance Rate Studies (Minor P)

GOAL VI - Improve HUD Management

UM
- * Assure the timely implementation of the four initiatives included under DMI-'75 (Minor P)

ADM
- Complete the definition phase of the Mortgage Accounting Program (HUDMAP) (Satis)

PDR
- Identify needs and options for providing timely data on housing and community development trends (Satis)

* Candidates for Presidential level objectives identified as such by HUD and OMB staff.

1. The Presidential objective would be to develop strategies for handling the multi-family default and acquisition problems.