The original documents are located in Box 44, folder "1975/05/06 - President and Jim Lynn" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

12 Noon - Presidential Meeting
Oval Office Lynn et al

Tuesday, May 6, 1975

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

ACTION

MAY 3 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES T. LYNN

SUBJECT: Mortgage Relief Legislation

Background

Congressional Action

The House and the Senate have passed mortgage relief legislation designed to avoid the possibility of massive foreclosures and distress sales of homes. The House passed a direct loan bill (H.R. 5398) by a vote of 321-21. The Senate passed a similar provision in Title V of an omnibus housing bill (H.R. 4485) by a vote of 64-26. A conference date has been scheduled for Monday, May 5.

Administration Position

The Administration has consistently opposed these congressional initiatives for mortgage relief as being unnecessary, counterproductive, and as being administratively complex. Although mortgage delinquencies have increased four-tenths of one percent (from 1 to 1.4) between July 1974, and this March, the current foreclosure rate is very low, .19 percent (less than half of what it was 10 years ago). The potential budget threat of this legislation would range from $500-$750 million.

HUD Proposal

Secretary Hills has recommended that the Administration attempt to influence the conference action by proposing a substitute mortgage relief bill and getting the mortgage relief provisions of the Senate bill split off from the other provisions. The substitute alternative would establish a co-insurance program where HUD would pay 90 percent of losses. The HUD proposal could add $75-$100 million to the budget. Secretary Hills' proposal would seem to have the following advantages and disadvantages:

Advantages

- The proposal would split off the most emotional provision and increase possibilities for sustaining a veto on the housing subsidy legislation;
- A co-insurance approach would weed out more poor risks than a Government loan program and would reduce the budget outlay threat substantially;
- An insurance approach would reduce the administrative problems relative to direct loans;
- A veto position would be easier to justify to the public after making this proposal.

Disadvantages

- The proposed program has the same significant weaknesses as the congressional bills:
  - it is not needed;
  - it undercuts lender incentives.
- A proposal now would undercut a major segment of the Administration's rationale for opposing the congressional bills, and give away an option that might be useful in sustaining a veto;
- Congress could accept the proposal, but make it 100% insurance. We would then be worse off than with the congressional proposals.

OMB Modified Proposal

OMB staff believe that the co-insurance approach proposed by HUD is conceptually better than the congressional initiatives both from a budgetary standpoint and administratively. However, we believe HUD's proposal should be modified to improve the actuarial soundness and thereby further reduce the potential liability to the Federal Government. In an attempt to make this co-insurance actuarially sound, OMB would make the following modifications to the proposal:

1. The combined amount of the mortgage and these loans would be limited to 90 percent of the property's appraised value.

2. The proposed initial premium of two percent would be increased to four percent by adding a one-fourth percent annual premium for eight years.

Mr. Daniel Kearney, President, Government National Mortgage Association, has indicated informally that he agrees that the OMB modifications would improve the soundness of the HUD proposal. We estimate that these modifications would reduce the budget threat of the co-insurance proposal.

Alternatives

1. Take no action to influence conference action.

2. Approve Secretary Hills' proposal and attempt to negotiate changes in the final bill.

3. Take no action now and pursue the OMB modified proposal as a fallback position in a veto sustaining strategy.

Recommendation

I recommend that we continue to oppose the enactment of any mortgage relief legislation and take no action now. However, as a fallback position, within a veto sustaining strategy, I would favor submitting the OMB modified proposal over the Secretary's proposal.

Decision:

____________ Alternative #1

____________ Alternative #2

____________ Alternative #3

THE WHITE HOUSE

WASHINGTON

May 5, 1975

MEMORANDUM FOR : TOD HULLIN

FROM : JIM CAVANAUGH

Please be sure the highlights of this are included in the decision memo for the President on this subject .

Attachment - Lynn memo to the President on Mortgage Relief Legislation

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

ACTION

MAY 3 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES T. LYNN

SUBJECT: Mortgage Relief Legislation

Background

Congressional Action

The House and the Senate have passed mortgage relief legislation designed to avoid the possibility of massive foreclosures and distress sales of homes. The House passed a direct loan bill (H.R. 5398) by a vote of 321-21. The Senate passed a similar provision in Title V of an omnibus housing bill (H.R. 4485) by a vote of 64-26. A conference date has been scheduled for Monday, May 5.

Administration Position

The Administration has consistently opposed these congressional initiatives for mortgage relief as being unnecessary, counterproductive, and as being administratively complex. Although mortgage delinquencies have increased four-tenths of one percent (from 1 to 1.4) between July 1974, and this March, the current foreclosure rate is very low, .19 percent (less than half of what it was 10 years ago). The potential budget threat of this legislation would range from $500-$750 million.

HUD Proposal

Secretary Hills has recommended that the Administration attempt to influence the conference action by proposing a substitute mortgage relief bill and getting the mortgage relief provisions of the Senate bill split off from the other provisions. The substitute alternative would establish a co-insurance program where HUD would pay 90 percent of losses. The HUD proposal could add $75-$100 million to the budget. Secretary Hills' proposal would seem to have the following advantages and disadvantages:

Advantages

- The proposal would split off the most emotional provision and increase possibilities for sustaining a veto on the housing subsidy legislation;

- A co-insurance approach would weed out more poor risks than a Government loan program and would reduce the budget outlay threat substantially;

- An insurance approach would reduce the administrative problems relative to direct loans;

- A veto position would be easier to justify to the public after making this proposal.

Disadvantages

- The proposed program has the same significant weaknesses as the congressional bills:

  . it is not needed;

  . it undercuts lender incentives.

- A proposal now would undercut a major segment of the Administration's rationale for opposing the congressional bills, and give away an option that might be useful in sustaining a veto;

- Congress could accept the proposal, but make it 100% insurance. We would then be worse off than with the congressional proposals.

OMB Modified Proposal

OMB staff believe that the co-insurance approach proposed by HUD is conceptually better than the congressional initiatives both from a budgetary standpoint and administratively. However, we believe HUD's proposal should be modified to improve the actuarial soundness and thereby further reduce the potential liability to the Federal Government. In an attempt to make this co-insurance actuarially sound, OMB would make the following modifications to the proposal:

1. The combined amount of the mortgage and these loans would be limited to 90 percent of the property's appraised value.

2. The proposed initial premium of two percent would be increased to four percent by adding a one-fourth percent annual premium for eight years.

Mr. Daniel Kearney, President, Government National Mortgage Association, has indicated informally that he agrees that the OMB modifications would improve the soundness of the HUD proposal. We estimate that these modifications would reduce the budget threat of the co-insurance proposal.

Alternatives

1. Take no action to influence conference action.

2. Approve Secretary Hills' proposal and attempt to negotiate changes in the final bill.

3. Take no action now and pursue the OMB modified proposal as a fallback position in a veto sustaining strategy.

Recommendation

I recommend that we continue to oppose the enactment of any mortgage relief legislation and take no action now. However, as a fallback position, within a veto sustaining strategy, I would favor submitting the OMB modified proposal over the Secretary's proposal.

Decision:

____________ Alternative #1

____________ Alternative #2

____________ Alternative #3

FYI

Jim Mitchell –
Ted Ashley
Gary Brown

THE WHITE HOUSE

WASHINGTON

May 5, 1975
1:24 p.m.

JMC:

Tod Hullin called to report to you that Carla Hills called him this morning regarding her position on the Emergency Housing Legislation memo we sent her on Sat.

mortgage foreclosure

What she would like to do is go with the "bad bill strategy" and at the same time, behind the scenes, try to work in our "acceptable" legislation at the last minute. She will not send a memo, but feels her phone call to Tod Hullin suffices.

Tod further wanted you to know that O'Neill and Lynn are asking for time to see the President this afternoon You would be asked to attend that meeting but as of now no time has been allotted.

WH Kay

Tod Hullin can sit in this meeting with you if you so desire. He will call as soon as a time is determined.

yes

OK.

p

ACTION

THE WHITE HOUSE

WASHINGTON

May 5, 1975

MEMORANDUM FOR THE PRESIDENT

FROM JIM CANNON

SUBJECT EMERGENCY HOUSING LEGISLATION

PURPOSE

The purpose of this memorandum is for you to determine the Administration position on the emergency housing legislation which will go to conference on Wednesday, May 7.

BACKGROUND

The most objectionable provisions of the emergency housing legislation which are considered likely to emerge from conference are:

	Estimated outlays for FY '76 (millions)
-- a foreclosure relief program	$ 350-400
-- a mortgage interest subsidy program	300
-- a $1000 home purchase incentive payment	400
-- an extension of the Section 312 Rehabilitation loan program	100

Even though these programs are subject to appropriations, HUD feels that all or most of the authorization would be appropriated by the Congress and the Budget Control Act of 1974 would mandate the expenditure of these funds.

The substance of these provisions is outlined at Tab A.

The foreclosure aspect of the legislation appears overwhelmingly popular as evidenced by votes of 321-21 in the House and 89-1 in the Senate. HUD and OMB are working to produce a mortgage foreclosure provision that would be acceptable to the Administration.

By what Senate vote?

The mortgage interest subsidy provision appears to be less popular, having passed the House by 259-106.

The Senate bill included other objectionable features including:

-- A one-year extension of the Section 235 subsidized housing authority;

-- An expanded and mandated "Tandem Plan" authority (Cost: $50 million in outlays for FY '76);

-- A six-month delay in the implementation of flood insurance sanctions.

It is not certain, however, that the House will accept these provisions.

Speaking for the Administration, HUD Under Secretary Mitchell has testified against all of these provisions on the grounds that they are expensive and unnecessary. OMB recommends that this legislation be vetoed on programmatic and budgetary grounds. But the outlook at this point is that a veto based strictly on programmatic and budgetary grounds, without any willingness to compromise, would be overridden. Regardless of veto threats by the Administration, HUD feels that it is certain that a "bad bill" will emerge from conference and that the question is how best to marshall our forces to sustain the President's veto.

<u>OPTIONS</u>

1. Authorize HUD and OMB to indicate that they would recommend that the President veto this legislation.

   This option recommended by Jim Cannon, Max Friedersdorf, Jack Marsh, Bill Seidman.

   Approve __________ Disapprove __________

2. Authorize a hard Presidential veto signal on programmatic and budgetary grounds.

   This option recommended by no one.

   Approve __________ Disapprove _________

3. Authorize a hard Presidential veto signal on programmatic and budgetary grounds and indicate a willingness to work with the Congress to bring forth acceptable legislation including a foreclosure provision, an expanded tandem plan, and an extension of the flood insurance sanctions.

   This option recommended by no one.

   Approve _________ Disapprove __________

4. Authorize HUD and OMB to indicate that they would recommend that the President veto this legislation and at this time authorize Secretary Hills to

   -- indicate that the flood extension and tandem amendments would probably be acceptable to the Administration;

   -- explore ways of improving the foreclosure provision, without making any commitment as to acceptability.

   This option recommended by Secretary Hills and Director Lynn.

   Approve ________ Disapprove __________

A foreclosure relief program. The House bill authorizes the HUD Secretary to make repayable mortgage relief payments of up to $250 per month on behalf of homebuyers whose income has been substantially reduced. Homebuyers could qualify for loans with a maximum 8% rate until July 1, 1976, and the loans could continue through June 30, 1978. The bill carries an authorization for $500 million.

The Senate-passed provision accepted most of the House bill and increased the payments up to $300 per month for up to 36 months and increased the authorization to $750 million.

The Administration has opposed mortgage relief as being unnecessary because:

-- The current foreclosure rate is very low (less than half the foreclosure rate prevailing 10 years ago);

-- Increased mortgage delinquencies are not expected to cause a major increase in foreclosures as lenders tend to forebear; and moreover, the delinquency rate has stabilized from February to March;

-- The Federal government can cope with an increase in foreclosures under existing law (Federally insured or guaranteed mortgages only);

-- Foreclosure legislation is counterproductive because it offsets the normal tendencies of lenders to forebear;

-- Serious administrative problems would be created for HUD by requiring the Department to operate a direct loan program for hundreds of thousands of families.

A mortgage interest subsidy program. This program authorizes a direct mortgage interest subsidy that would reduce the mortgage interest rate for middle-income families to 6% for the first three years of the mortgage with declining subsidies ending in the seventh year.

The Administration has opposed this initiative as unnecessary because:

-- The first-year cost of the program would be $300 million, and the total cost between $1.1 and $1.65 billion;

-- Costs of this magnitude will require increased Federal borrowing which could result in upward pressure on interest rates for all other home purchasers;

-- This proposal would also require the creation of a complex administrative mechanism at HUD, resulting in a delay in implementation;

-- The phase-out of the 6% interest subsidy in both bills may be a trap for unwary housing buyers, possibly leading to foreclosures and inventory management problems in future years;

-- It mandates expenditure of funds when certain conditions are met;

-- Authority to subsidize mortgage interest rates is already available under the "Emergency Home Purchase Assistance Act".

The Home Purchase Incentive Program. This program provides for a $1000 home purchase incentive payment to be paid to the purchaser of a single family dwelling. As proposed, the $1000 payment would be in lieu of the mortgage interest subsidy.

The incentive program has been opposed because:

-- The first-year cost of the program would be $300 million;

-- Costs of this magnitude will require increased Federal borrowing which could result in upward pressure on interest rates for all other home purchasers;

-- This proposal would also require the creation of a complex administrative mechanism at HUD, resulting in a delay in implementation;

-- Much of the subsidy would amount to a windfall for buyers who would have purchased a home anyway, or would be captured by the builder.

Section 312 Rehabilitation Loans. The legislation would extend the 312 Rehabilitation Loan program until September 30, 1978, beyond the current authorization date of August 22, 1975. A $150 million program level would be authorized.

The extension has been opposed for the following reasons:

-- It would perpetuate a categorical grant program alongside a block grant program, the Community Development Grant program, intended to replace it.

-- A partial review of applications reveals that recipients of community development block grants have already decided to use $87 million of the fiscal year 1975 funds for housing rehabilitation;

-- Study of the current program has indicated that the high administrative costs make it an inefficient support for rehabilitation;

-- Extension of the program would set precedent for reactivating other categorical programs replaced by the block grant program.

5/6

Veterans Benefits

Vet Education Amy

ought to stand

on its own — not

as an add on to

~~Vete~~ Education

Vet - benefits - inc in

Disability Compensation

Ham 6% — $395 yr 74 76

Ford 10% — 415 yr 74 76

attempt to put in added c/L

increase -

Book 5'68

c/l inc by 58%

~~fixed~~

SS inc up by 106%

pension up 64%

compensation · up 54%
to disabled vets

Rockefeller & Co —
What issue . . .

34 authorizing staff —
to deal ~~retire~~ w/ all
foreclosures.

Anticipated aid on foreclosures

HOLC in Depression

O'Neill Don't guarantee
loan larger than value
of House

$1,000 max
2 - 4 yr
60 - day forbearance

P - would negotiation
mean a delay?

---

put off many
until after 5/12