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SOTU MEETING WITH SECRETARY HILLS
et al

Friday, September 19, 1975

9:00 a.m.

Situation Conference Room

MEETING WITH SECRETARY HILLS
w/Bill Seidman
Thursday, September 18, 1975
2:00 p.m.

Mr. Cannon's Office

Needs
1.8 - 2
New or amendment
per year

~~Market Hours~~

1
↑
Rehabilitatⁿ Area
How standing?

2
↑
extend
Loans over
Participate
supplies

3) Reform
Financial Institutions

4) How
America for
America for
America for
America for



THE WHITE HOUSE

WASHINGTON

September 18, 1975

MEMORANDUM FOR JIM CANNON

FROM TOD HULLIN


Attached is some material for you to review in preparation for your meeting with Secretary Hills this afternoon and for tomorrow morning's State of the Union session.

It is my understanding that this afternoon's meeting will primarily focus on the state of the housing industry (nonsubsidized) which is included in the first two pages of this memorandum.

THE WHITE HOUSE

WASHINGTON

September 18, 1975

MEMORANDUM FOR JIM CANNON
FROM TOD HULLIN 
SUBJECT STATE OF THE UNION MESSAGE
HOUSING AND COMMUNITY DEVELOPMENT

Outlined below are some brief thoughts for your review in preparation for the meeting with Secretary Hills on possible State of the Union initiatives. The subject areas covered in this memorandum include: nonsubsidized housing, subsidized housing and community development.

A. NONSUBSIDIZED HOUSING

Policy: It is the policy of the Ford Administration to provide a housing finance mechanism that:

- makes available to homebuyers sufficient mortgage credit repayable over an extended term at reasonable interest rates;
- avoids the extreme swings in the availability of mortgage credit which have occurred in the past.

Major program: The major program used by the Administration to assist nonsubsidized housing has been the "Tandem Plan" as authorized in the Emergency Home Purchase Assistance Act of 1974 and the Emergency Housing Act of 1975. Under this plan, the Government National Mortgage Association is authorized to make commitments at predetermined interest rates to purchase mortgages on both new and existing homes. The advantage of this program is that with the GNMA commitment, the homebuyer, the builder and the lender have an insured source of financing at a known, favorable interest rate. The cost to the government is limited to the loss which GNMA realizes if its selling price is less than the original purchase price. In the past 18 months, the GNMA has allocated over \$15.5 billion to purchase mortgages at below market interest rates. The forthcoming HUD appropriation bill includes another \$5 billion in mortgage purchase authority.

Background: The housing industry continues in the depression that plagued it in 1974. There are some signs of recovery; however, recovery is not progressing as rapidly or as steadily as the Administration had anticipated. The rate of private housing starts in August increased by less than 2% over July and remains 9% ahead of last year's level. The single-family housing sector remains fairly strong. However, multi-family starts, after a dramatic increase in July, dropped by 2% in August and remain almost 20% below last year's level. In August 1975, the building permits for single-family housing remained 6% ahead of the rate for last August, but multi-family building permits are 12% below the rate for last August.

The causes of the housing depression are many and varied. High interest rates, savings outflows and the rising cost of land, labor, materials and financing all contributed. One of the major factors has been the lack of consumer confidence which is expected in times of general economic recession.

HUD generally feels that the rate of housing starts will increase slowly during the last quarter of 1975 and pick up more strength in 1976. There are a number of industry indicators, however, that cloud this anticipated recovery. While savings institutions have experienced record inflows in recent months, the short term interest rates have been increasing which many in the industry believe is the major reason that the record inflow of savings has leveled off and, in some cases, actually decreased. The rise in short term interest rates and the reduction of savings inflows have caused the thrift institutions to be very cautious. Unemployment in the construction trades is still over 20%. Inflation continues to be a major problem for the industry as it pushes the cost of financing, land, labor and materials to new highs.

Pending legislation: In an effort to stabilize the availability of mortgage credit, the Administration has introduced the Financial Institutions Act which includes a provision calling for the establishment of a mortgage interest tax credit. It is believed that the mortgage interest tax credit will cause large institutional investors (pension funds, commercial banks, insurance companies) to invest in mortgages.

Possible initiatives: Recovery in the housing industry is more a function of general economic recovery than it is of any specific government policy or program. The President proposed, and the Congress has passed, two emergency housing bills in the last year. At this time, I am not convinced that we need additional legal authority. Aside from the President's efforts to stimulate a sound and sustained economic recovery, I do not believe that any major new initiatives are needed at this time to stimulate the housing industry.

B. SUBSIDIZED HOUSING

Policy: The policy of the Ford Administration is to assist low income families in obtaining a decent home and a suitable living environment through programs which:

- emphasize the use of existing houses rather than new construction so more families can be assisted with a given amount of Federal resources;
- maximize freedom of choice by offering a subsidy directly to the low income family.

Major program: The major program used by the Administration to support this policy is the new low income assistance housing program called the "Section 8 Program", which was established in the Housing and Community Development Act of 1974, signed by President Ford on August 22, 1974. This new program authorizes the Federal government to pay the difference between (i) the fair market rent and (ii) a portion of such rent -- between 15% and 25% of the gross income -- affordable by the tenant. The President's 1976 Budget authorized HUD to enter into subsidy agreements with up to 400,000 families.

Background: HUD has been very slow in putting the new Section 8 program on line. It is now in the early stages of operation and appears to be working well. The major criticism of the program has been that HUD has been too slow in getting it started and that permanent financing has been very difficult to obtain.

Possible initiatives: It's too early to determine whether or not the "Section 8" program will be a total success; however, I believe we've got a sound concept and a sound program and that ultimately it will be a success. In that the program is less than a year old, I do not believe that now is the time to put forth any major new initiatives on this front until we have proven the success or failure of this program.

One of the initiatives that the President may consider is the reinstatement of the "Section 235" subsidized housing program. This program was suspended by President Nixon in 1973 due to its high cost and its ineffectiveness. The question of that suspension is now before the courts and it may be that the courts will force the Administration to reopen this program. Perhaps the President should consider re-opening this program before being forced to do so by the courts. The objections of this program could be lessened by instituting a number of administrative changes.

C. COMMUNITY DEVELOPMENT

Policy: It is the policy of the Ford Administration to deliver Federal resources to state and local governments in a flexible and equitable manner to assist locally-elected officials as they strive to define the needs and priorities of their communities on policies and programs to address these needs.

Major program: The major program in support of this policy is the Community Development block grant program which was proposed by the Administration and signed by President Ford on August 22, 1974. This bill replaces the rigid programs of the past with a more flexible approach by sweeping away seven categorical grant programs such as urban renewal and model cities and replacing them with a single "block grant" program for community development. The funds are allocated through a formula which is based on population, the amount of housing overcrowding and the extent of poverty.

Background: The Community Development block grant program and the General Revenue Sharing program form the cornerstone of the President's urban policy. However, the President's urban policy is not limited to these two programs. The President's urban policy is a complete and balanced program that directs assistance to all the problems plaguing American communities such as housing, poverty, crime, unemployment, transportation, education, etc. HUD may be the primary Federal agency in implementing the President's urban policy; however, Agriculture, Community Service Administration, EPA, EDA, HEW, Labor, LEAA, Treasury and Transportation all play a very major role.

I do not believe that the President needs another major initiative within HUD to address the problems of community development. A number of pieces of legislation have recently been passed which address the problems of urban areas. The Housing and Community Development Act of 1974, the new CETA legislation, and the new mass transit bill are all examples of recently passed initiatives that funnel Federal dollars into urban communities to help them address specific problems.

[9/19/75]

~~Cost~~ Patient in debt

Loss of Money

Shortage of money?

? What ideal mix between

Single family & Multi-family

~~500~~ 600

with multi-family
1,200 - single only..



W/ a balance
community, you don't have
to have business

W/ a balance.
community, you have
a

