The original documents are located in Box 17, folder "Housing (2)" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

Received 4/10/75
4pm

THE WHITE HOUSE

WASHINGTON

April 7, 1975

MEMORANDUM FOR: JAMES J. CANNON, III
L. WILLIAM SEIDMAN

THRU: JOHN O. MARSH
MAX L. FRIEDERSDORF
VERN LOEN VL

FROM: DOUGLAS P. BENNETT DPB

SUBJECT: Housing Tax Credit ($2,000) Provision in the Tax Reduction Act of 1975

Dr. Larry Woodworth, Chief of Staff of the Joint Tax Committee, Friday advised me that both Chairmen Long and Ullman have been concerned that the applicability of this provision may be retarded in a fashion contradictory to the intent of the provision. Apparently, many new housing developments and condominiums are priced in such a manner that the first few units are sold as "loss leaders" so as to attract buyers and as sales pick up, the prices of the housing units are increased so as to eventually reflect the "true" sales prices.

Under the certification provision of the statute, the seller is required in the face of civil and criminal penalties to certify that the particular unit is being sold at the lowest price at which it has ever been offered. Obviously, the above described practice would disqualify many of the housing units in the current inventory thereby diminishing the sought-after effect of this provision.

Long and Ullman are considering issuing a joint statement suggesting that this technical defect be corrected by minor amendment. The matter has been discussed with the Treasury Department and, I understand, Secretary Simon concurs with the amendatory approach as the defect cannot be remedied by Treasury regulations.

cc: Secretary William E. Simon, Secretary Carla Hills, Honorable James T. Lynn, Honorable James H. Cavanaugh, Honorable Tod Hullin

JMC: The attached has gone forward.
I did not send my cover note to you.

P

HUD Housing

THE WHITE HOUSE
WASHINGTON

April 11, 1975

MADAM SECRETARY:

The attached is forwarded per our recent conversation.

Please call if you have any questions or if I can be of assistance.

James M. Cannon

Attachment - HAND DELIVERED
VIA WH MESSENGER
9:30 a.m. 4/11/75.
Called Prior to sending.
Harry Albright
"Pension Memo"

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

April 22, 1975

Housing
235

Mr. James M. Cannon
Assistant to the President
for Domestic Affairs
The White House
Washington, D.C. 20500

Dear Jim:

The enclosed paper on Analysis of Proposals for Stimulation of Housing Production is relevant, but not determinative, of our pending issue regarding §235.

I look forward to talking with you about both questions.

Sincerely,

Carla

Carla A. Hills

CAH:bp
Enclosure

cc: Mr. Tod R. Hullin

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C. 20410

OFFICE OF THE SECRETARY

IN REPLY REFER TO:

MEMORANDUM FOR: James M. Cannon
Assistant to the President
for Domestic Affairs

FROM: Carla A. Hills
Secretary of Housing
and Urban Development

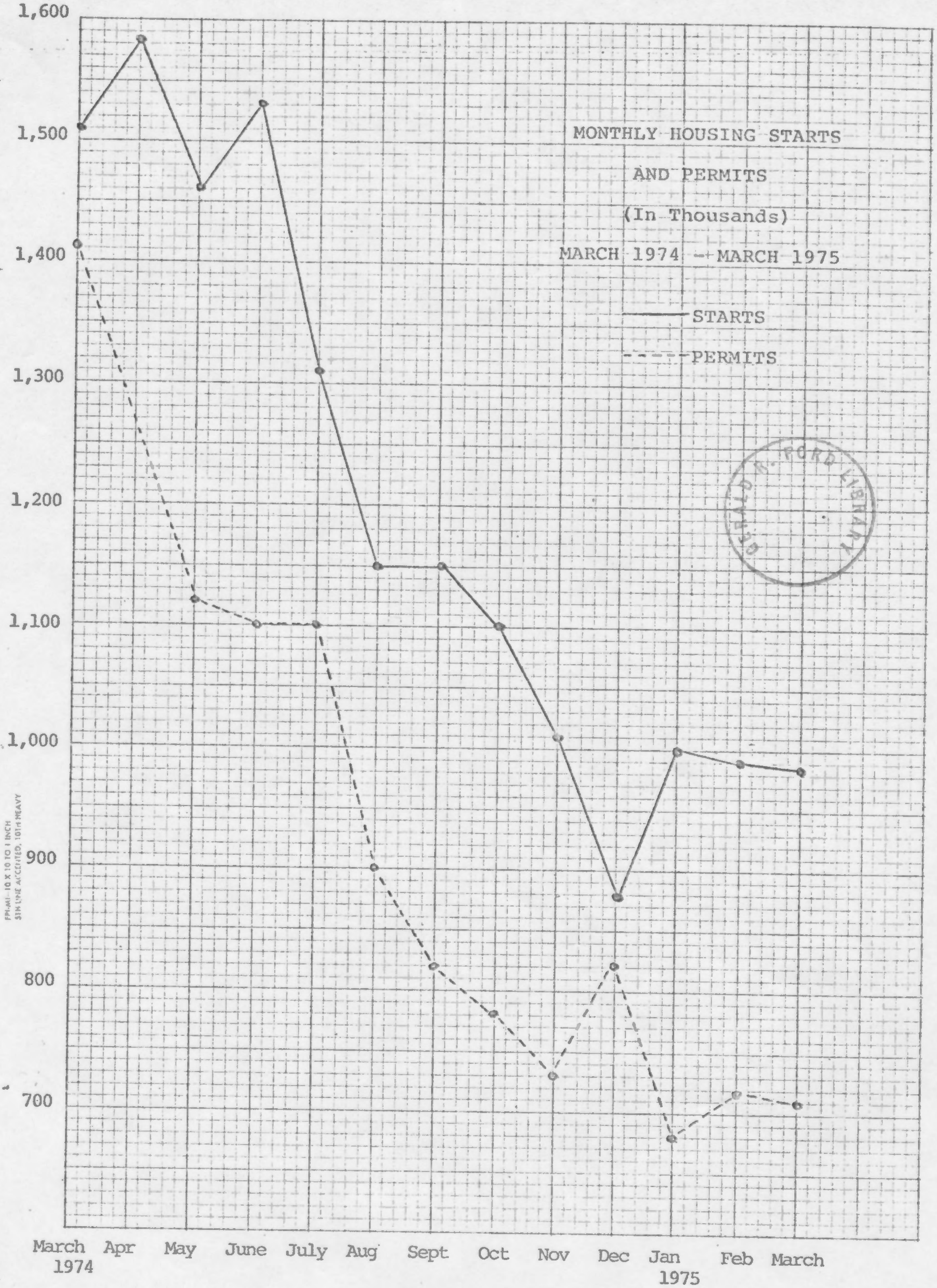
SUBJECT: Analysis of Proposals for Stimulation
of Housing Production

THE CRISIS IN THE HOUSING INDUSTRY

The housing industry is generally perceived as being in a period of crisis. Last year, new housing starts were far below the over 2 million rate of the three preceding years. The first three months of 1975 have not demonstrated an immediate likelihood of recovery. January starts were at an annual rate of only 999,000, and housing permits at a rate of 682,000. In February, the rate of starts fell to 980,000 although the rate of permits for future construction rose slightly to 714,000. In March, the starts figure continued to fall to 980,000, a rate down 35% from a year earlier, and second only to last December as the lowest since the Government began collecting housing statistics in 1946. Permits also dropped again, to 710,000, at an annual rate, off 49% from the March 1974 rate and second only to January as the lowest on record. (Chart A indicates the trends in starts and permits for the past 4 quarters).

To date, our response to this problem has been to rely upon predictions that the housing picture will improve markedly toward the latter part of 1975 and continue to improve throughout the next two calendar years. Housing production is normally explained

CHART A



MONTHLY HOUSING STARTS
AND PERMITS
(In Thousands)
MARCH 1974 - MARCH 1975
STARTS
PERMITS
1,600
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
March 1974
Apr
May
June
July
Aug
Sept
Oct
Nov
Dec
Jan 1975
Feb
March

as a function of credit availability, mortgage interest rates and consumer purchasing power. Savings inflows have recently increased substantially, making credit more readily available. In addition, interest rates have fallen over the past few months. As a result, we have forecast starts at an annual rate of 1.6 to 1.7 million by the end of this year. Total housing production for 1975, if these forecasts are accurate, will be at approximately 1.4 million units. (Chart B indicates both past and projected trends in housing starts and mortgage rates).

The total projected housing production for 1975 of 1.4 million units barely exceeds the dismal 1974 production level of 1.35 million units. Although the projected improvement in the housing picture will reduce unemployment in the construction industry from its current level of 15 percent, unemployment would still be 9 - 9.5 percent by year's end, a projected rate probably unacceptable to either the industry or Congress. More importantly, the start and permit figures for the first quarter of this year cast some doubt on the optimism of even these projections. Even though mortgage funds are widely available and interest rates are declining, the housing industry remains severely depressed and the expected upturn is not materializing.

Our forecasts of improvements in the housing industry were based on econometric models which emphasize the relationship between financial market trends and housing starts. These may be significantly and adversely affected by one or all of the following conditions:

1. <u>Consumer Confidence</u>. The estimated housing production for next year is based primarily on the available home mortgage rates. The fact that savings and loan institutions recently have experienced record inflows of funds and mortgage rates have fallen but housing starts have not risen dramatically, reflects, in part, a serious lack of consumer confidence in the housing market. Consumer decisions may be postponed because of uncertainty about

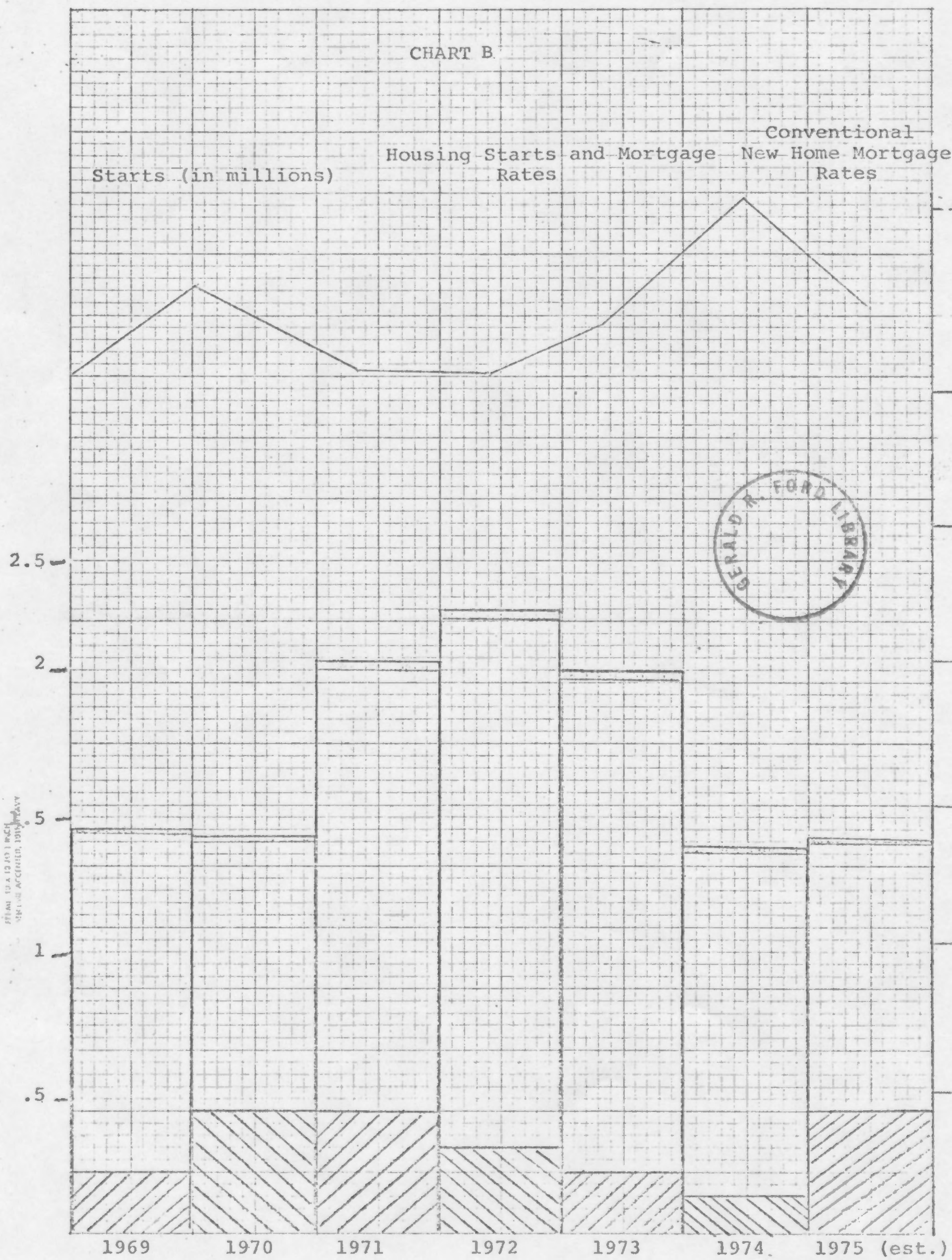


CHART B
Starts (in millions)
Housing Starts and Mortgage Rates
Conventional New Home Mortgage Rates
2.5
2
1.5
1
.5
9
8
7
6
5
4
3
1969
1970
1971
1972
1973
1974
1975 (est.)

unemployment, energy availability, increases in costs of living, or whether normal anticipation about appreciation in home values will hold true in an uncertain economic future. Lack of consumer confidence may be the single greatest retardant to the expected housing segment recovery.

2. Decreasing Disposable Personal Incomes. One of the important factors in housing production is consumer purchasing power, which has been undergoing a marked decline (as indicated in Chart C).

3. Financing the Federal Deficit. If the Treasury finances anticipated budget deficits in a manner which competes with savings flow, disintermediation can result with consequent high interest rates and credit scarcity, and with such an upward pressure on interest rates will come a downward trend in housing starts. Also, to the extent that lenders perceive a likelihood of renewed inflation, they may be reluctant to make long-term mortgages at the lower market rates upon which our projections are based.

4. Unemployment. A continued high level of unemployment, particularly in middle income segments of the population who are traditionally the major consumers of housing, will also affect the demand for new homes.

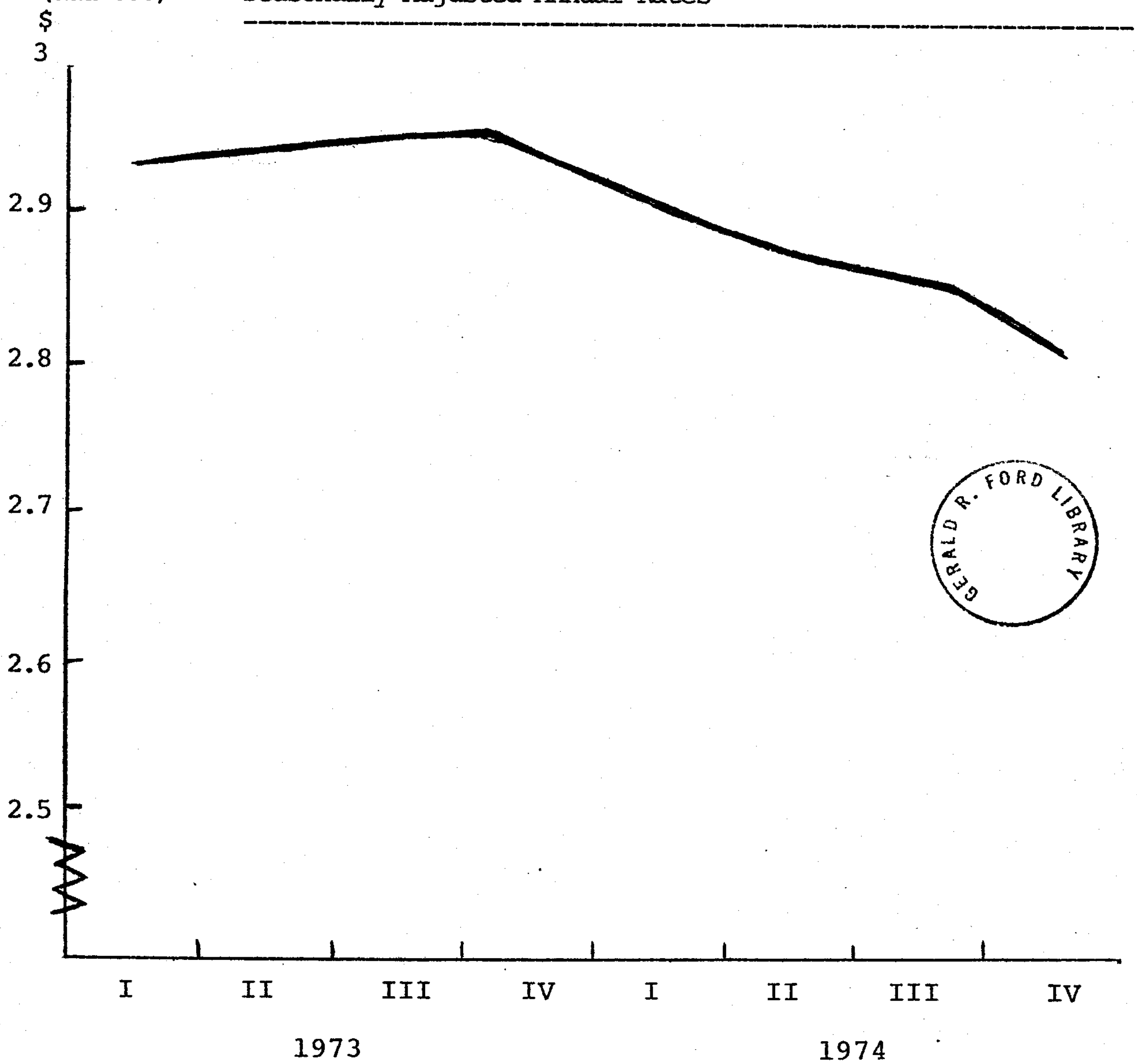
5. Foreclosures. It is expected that the percentage of delinquent mortgage loans will increase as a result of recent increases in unemployment. A substantial number of foreclosed units on the market will have a depressing effect on new home production, as was the case with mobile homes last year.

6. The Inventory Problem and the Tax Credit. From 1972 to January of 1975, the inventory of new unsold housing units fell only slightly from a record high of 440,000 to 400,000, with an additional inventory of 250,000 unsold condominium units. There is

CHART C

Per Capita Disposable Personal Income (in 1958 dollars)

(add 000) Seasonally Adjusted Annual Rates



some indication that this inventory is being reduced as a result of the recently enacted tax credit for purchases from the previously unoccupied existing stock, but the tax credit may also have siphoned off into this unsold inventory what little immediate demand now exists for new construction. Because consumers will be shopping for those existing units, to which the credit is applicable, builders are likely to postpone beginning any new construction until the large existing stock is depleted.

PROPOSALS FOR FEDERAL ACTION TO STIMULATE HOUSING PRODUCTION

Congress is now considering several legislative proposals to stimulate housing production and reduce unemployment in the construction industry. These include:

1. An Emergency Mortgage Interest Rate Subsidy. The House has already approved H.R. 4485 which would authorize, subject to appropriations, a direct Government subsidy for interest on home mortgages. The Senate Committee has reported out a similar bill. Both would provide that, for the first three years of the mortgage, the subsidy would be in an amount that would reduce interest payments to 6%; in the fourth year, the subsidy would be reduced by 25%; in the fifth year by 50%; in the sixth by 75% and in the seventh it would be terminated. Additionally, the House bill would allow the borrower to elect a permanent subsidy to reduce interest to 7% over the life of the mortgage.

   Families assisted could have incomes of up to 120% of the median area income and covered dwellings could not have an appraised value in excess of $38,000 (or $42,000 in certain high cost areas) at the time of purchase. At least 80% of homes affected by the House bill and between 70 and 90% of those covered by the Senate bill would have to be newly constructed. A total of 400,000 mortgages could be subsidized.

These proposals have several serious disadvantages. Both House and Senate bills would permit a temporary subsidy to 6% for a total of 400,000 units. The cost per mortgage for the first year would be $788, and the total discounted cost per mortgage over the six-year period would be $2,768. Thus, the first-year cost of the program would be $300 million and the total cost over $1.1 billion. (The House Committee estimated $1.35 billion). We project that this program would result in a maximum of 25,000 additional new starts in 1975 at a cost per start of approximately $44,000.

The House bill would also provide the option of a permanent subsidy to 7%, at a cost per mortgage of $4,116. A total 400,000 units could be covered at a total one-shot cost to the Government of $1.65 billion. (The House Committee estimated $1.4 billion). This program could be expected to produce a maximum of 115,000 additional new starts at a cost per start of $14,200. Costs of this magnitude will require increased Federal borrowing which could result in upward pressure on interest rates for all other home purchasers.

These proposals would also require the creation of a complex administrative mechanism at HUD, resulting in a delay in implementation. For example, involving HUD in certifying the incomes of purchasers would result in expensive case-by-case, labor intensive analysis of the family situation of each eligible home purchaser. Accordingly, the program might not be capable of providing the needed <u>immediate</u> incentive to housing production.

Moreover, 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.

Nor do these interest subsidy proposals guarantee any quick recovery in the housing industry. As present market trends demonstrate, there is no clear demonstration that a decrease in interest rates alone will be sufficient to get the stalled industry producing at full tilt once again.

2. <u>Increased GNMA Tandem Authority</u>. The Emergency Home Purchase Assistance Act of 1974 gave the Secretary, through GNMA, $7.75 billion in "tandem" authority. This "tandem" program allowed GNMA to make commitments to purchase and to purchase from lenders mortgages written at a statutorily determined interest rate and to sell these mortgages to FNMA or private investors at auction, absorbing the difference between the purchase and sale price as a subsidy. The use of this authority is discretionary with the Secretary. Approximately $2.25 billion of "tandem" authority remains available.

   Congressman Gary Brown has introduced legislation, with Administration support, to extend the Secretary's discretionary "tandem" authority to $10 billion and, in a subsequent bill, to $15 billion. His proposed legislation would also extend "tandem" authority to mortgages on condominiums, co-ops and multi-family dwellings as well as change the statutory interest rate formula to the lesser of 7 1/2% or the unsubsidized FHA rate. Factoring in the effect of points, a 7 1/2% "tandem" mortgage would have an effective interest rate for the homeowner over its 30 year term of 7.98%. Only 10% of the authority may be used to purchase mortgages on existing occupied dwellings.

   Because of the shallow subsidy involved, and the flexibility of the "tandem" authority as a device for mitigating temporary shortages of mortgage funds or high interest rates, the Administration has favored this device as the optimal means of dealing with temporary mortgage availability and interest problems.

   An attempt by Congressman Brown to have his increased "tandem" authority proposal substituted for the interest subsidy provisions of H.R. 4485 was defeated by a vote of 126 to 242 in the House.

3. <u>A Tax Credit for Purchase of a Residence</u>. The Senate Finance Committee's tax rebate bill contained a proposal for granting a tax credit to anyone who purchased a new or existing home during the remainder of the 1975 calendar year. The tax credit was to be 5% of the purchase price up to a maximum of $2,000. This provision did not survive in the final bill.

The tax rebate bill passed by Congress and signed by the President did, however, contain a 5% (up to $2,000) tax credit for the purchase of a home from the existing newly constructed but previously unoccupied housing inventory.

These tax credit proposals do have one significant advantage over the alternatives. A tax credit is simple and inexpensive to administer because it utilizes the existing income tax structure and reporting requirements.

4. The Home Purchase Incentive Payment. Senator Brooke introduced S. 948, providing for a $1,000 home purchase incentive payment to be paid to the purchaser of a single-family dwelling. The Senate Committee bill incorporates the Brooke concept affording homeowners the option of a $1,000 cash payment in lieu of the interest subsidy. Like the subsidy provisions, the cash payment is available to families with incomes up to 120% of the area median who buy houses costing less than $38,000 (or $42,000 in high cost areas). Between 70 and 90% of the covered dwellings must be newly constructed and a total of only 400,000 payments are authorized.

A POLITICAL PROGNOSIS

Congress will pass an emergency housing measure by late Spring and the Administration will be faced with a politically unpopular option of vetoing that measure. The President would be in a better position to oppose emergency housing legislation at that time if he had previously offered an alternative to deal with the perceived emergency situation. Such a measure could minimize cost impacts and long-term disruptions to the financial markets while still providing some meaningful stimulus to housing production. A scaled-down version of the tax credit or a modification of the incentive payment proposal would be such a mechanism although there is no assurance that Congress would see it as a substitute for a direct interest subsidy. Accordingly, support for a tax credit or incentive payment proposal should be combined with support for increased GNMA "tandem" authority, giving the Secretary a standby tool to deal with the interest rate problem. Administration support for and passage of such a measure focusing on both consumer confidence and interest rates, might ameliorate the pressure for more onerous and expensive legislation and would make the President's decision to veto such legislation more easily justifiable to the public.

At this point, it appears that the main retardant to housing production is not interest rates but consumer confidence. Moreover, the Administration has already indicated its support for increased standby GNMA "tandem" authority as the best means for dealing with any interest rate problem. Thus, our focus now should be on providing an immediate spur to consumer confidence, as a means of revitalizing the ailing housing industry. There are two reasonable alternatives to achieve that purpose.

1. An Alternative Tax Credit Proposal. Perhaps the least offensive of the alternatives available to the Administration would be constructed as follows:

   A tax credit of 5% of the purchase price of a home, up to $1,500, would be available to any taxpayer on his 1975 income tax return, if the home were purchased between March 13, 1975 and December 13, 1975. The credit would only cover new residences (construction completed between December 31, 1974 and January 1, 1976) to be used as a principal place of residence, as defined by the tax code.

   The proposal would cover condominiums and cooperatives. The credit would be limited to families with an adjusted gross joint income of no more than $20,000. Although our proposal involves a $20,000 limit, an option worthy of further consideration is a phasing out of the income limitation as by dropping the 5% credit by 1%, at $1,000 intervals in income, finally phasing it out at $25,000. This could ameliorate any perceived inequities to the income gap.

   To avoid speculation, a recapture provision should be included to make the incentive payment a reduction from the homeowner's basis in the property for purposes of capital gains taxation when the house is sold.

If it is determined that the immediate availability of the rebate would be either politically or economically preferable, a provision could be included allowing the credit to be carried back to the previous year's return. In that case, a taxpayer could, merely by filing an amended 1974 return, receive an immediate cash payment of the credit, thereby emulating the immediacy feature of Senator Brooke's proposal. We have, however, proceeded on the assumption that in order to prevent an immediate drain on the Treasury no such carry back would be permitted.

2. <u>A Modified Incentive Payments Approach</u>. Another way to have a similar effect on housing starts is the cash incentive payment incorporated in the Senate Committee's omnibus housing bill. That scheme is quite similar in effect to the Tax Credit proposal except that:

   (a) It provides an <u>immediate</u> payment to the home purchaser which he can use to defray settlement costs or towards his down payment;

   (b) It requires a slightly more complex administrative process because the extant Internal Revenue system is not utilized; and

   (c) There would be an immediate rather than a delayed expenditure of Treasury funds.

Because of the immediate availability of the cash payment, this program could produce more starts per dollar than a Tax Credit plan.

The Brooke and Senate incentive payment plans, as now drafted, have significant disadvantages from our perspective. First, neither is focused exclusively on new homes. Second, the administrative mechanism envisioned includes an income certification in the Senate bill, and various regulatory decisions in Senator Brooke's bill. These provisions would be expensive to administer and would delay implementation, thus depriving us of the immediate spur to start so badly needed now.

Properly constructed, an incentive payment system would work roughly as follows:

1. It would be limited in application to new construction, perhaps using a purchase price limitation such as that in the proposed legislation ($38,000 or $42,000 in high cost areas).

2. It would be limited to families with a gross adjusted taxable income in 1974 of $20,000 subject to a regional adjustment based on 1970 census based regional differences in median incomes. Alternatively, the payment could be phased out as the income level of recipient families went from $20,000 to $25,000.

3. Whenever an eligible purchaser submitted to the Secretary an application, including a seller's certification of (1) the sales price, (2) the construction dates, and (3) compliance with our minimum property standards along with (i) a description of the property, (ii) a statement that the house will be used as a principal residence, and (iii) the necessary income data, the Secretary would issue to the purchaser a <u>voucher</u> to be applied to the required down payment or the closing costs or redeemed for cash by the mortgagee at the time of closing. There would be criminal penalties for false certifications.

4. The income certification could be done by merely requiring submission of copies of the 1974 income tax returns for each member of the eligible household.

5. A mortgagee would, in turn, be reimbursed the amount of the voucher by the Treasury after the closing.

6. The houses covered should be limited to those on which construction was begun <u>after</u> March 25, 1975, and completed before January 1, 1976, so that the program was not duplicative of the already enacted tax credit and would create an undiluted incentive for immediate housing starts.

7. To avoid speculation, there should be a provision for partial recapture of the incentive payment by making it a reduction from the homeowner's basis in the property for purposes of capital gains taxation when the house was sold.

REASONS FOR SPECIFIC FEATURES OF THE TAX CREDIT OR INCENTIVE PAYMENT PROPOSALS

1. Limiting Eligibility to New Construction. Although the lack of liquidity for sales of existing homes that might result from limiting a plan to new construction could marginally affect the demand for new construction, the Harvard-MIT group predicts a strikingly beneficial effect on new starts resulting from excluding existing stock. The incentive to purchase newly constructed homes is significantly reduced by the coverage of existing dwellings since much of the demand generated could be siphoned off into the latter category of housing.

   Moreover, removing existing stock substantially ameliorates the potential inflationary effects of a proposal. For example, a purchaser might well reduce the price of his existing home in view of the effective reduction in the cost of his new home resulting from the incentive payment or credit, thereby creating a downward market pressure on prices generally.

   Lower or static prices in existing stock would have a dampening effect on any tendency for the prices of new housing to increase.

   Existing but previously unoccupied stock already benefits from the tax credit contained in the tax rebate legislation.

2. Income Limitations. An income limitation significantly reduces Federal costs, while maintaining the stimulative effect, by eliminating outlays to those upper income families whose decision to purchase is far less likely to be determined by the availability of a credit or incentive payment. This modification also avoids the inequity involved in giving a subsidy to home purchases by upper income families.

ADVANTAGES OF THE MODIFIED INCENTIVE PAYMENT AND TAX CREDIT OPTIONS

The tax credit and incentive payment approach have other significant advantages over the interest subsidy alternatives presently under consideration in Congress.

1. Administrative Simplicity. Because the tax credit is implemented through the existing tax system rather than requiring an entirely new HUD administrative mechanism, the administrative costs are apt to be significantly less than the alternatives. The incentive payment could also be made relatively easy to administer.

2. Definite Phase-Out. A December 31, 1975, cut-off date avoids the possibility of long-term cost impacts and creates a deterrent to delaying home purchase decisions. The one-year duration of the program may thus serve to even out production levels between 1975 and 1976. There would be an incentive for some of the housing production which would otherwise occur in early 1976 to be moved back into 1975, when the housing market is likely to be in a recovery period. The proposal is not a long-term solution to the cyclical nature of the housing industry but merely a means of mitigating the effect of that cycle over the next year, allowing for a more long-term solution to be acted upon in the interim.

3. Inflationary Impact. Because of its limited duration and exclusion of existing housing, the proposal is not apt to have a significant inflationary impact on the housing market.

COST EFFECTIVENESS

The cost effectiveness of the various alternatives is, perhaps, best demonstrated by Chart D. We have run an incentive payment and Tax Credit proposal through an econometric model of the housing market developed at the Harvard-MIT Joint Center for Urban Studies. Because the model would not accommodate the interest subsidy proposals without substantial modifications, the figures for those proposals have been developed by our own economists.

CHART D

	$1000 Cash Payment	$1500 Tax Credit	Long Tax Credit	Senate Temporary Interest Subsidy (6%)	House Permanent Interest Subsidy (7%)
Additional Starts	352,000	319,500	65,500	25,000	115,000
Cost of Program	$840 million	$915 million	$3.5 billion	$1.35 billion	$1.65 billion
Cost Per Additional Start	$2,400	$2,864	$53,640	$44,000	$14,200
Jobs Created	457,000	415,000	75,000	32,500	149,500
Average Cost per Affected Dwelling	$1,000	$1,300	$1,600	$2,768	$4,116

The cost per start figures are misleading. First, our estimates of the additional new starts are based on an econometric model projection and any additional starts beyond those estimates would be at a maximum revenue loss of $1,500 (for the tax credit) or $1,000 (for the incentive payment), further reducing the average cost per additional new start.

Second, the expenditure will benefit the housing industry not only in stimulating additional new starts but also in terms of the housing starts which would have occurred even without the tax credit or incentive payment. For example, when a family which intended to purchase a $20,000 home receives the benefit of $1,000 credit or payment, it is quite likely that much of that sum will be applied to increasing the quality or some other aspect of the purchased home. The proposal creates an incentive to devote the additional disposable income thus provided to housing costs because, to some extent, additional dollars spent on housing are subject to the 5% Government rebate. Accordingly, significant additional revenues for the housing and related industries can be expected as a result of the tax credit proposal, above and beyond the additional starts projected.

BENEFITS OF AN ADMINISTRATION INITIATIVE

The overall cost for the tax credit is projected to be $915 million, and for the incentive payments $840 million. The additional housing starts produced by the tax credit, for example, could, however, augment residential construction by $9.6 billion for this year and would, probably, also increase the purchase of furniture and major appliances by a significant amount, increasing the GNP for the rest of 1975 by at least $9.75 billion. In terms of Federal tax receipts, this could give the Government $1 billion of increased revenues for the year. Each of these figures would be slightly higher for the incentive payments proposal. There may also be a significant reduction of unemployment in the construction industry, which would, in turn, mean decreased unemployment compensation payments for the rest of 1975. On a conservative estimate of 1.3 man-years per new start, over 415,000 additional jobs in the housing industry would be created by the tax credit and 457,000 by the incentive payments. Accordingly, the final cost to the Federal Government, if any, is apt to be minimal. Balanced against that minimal cost are over 300,000 additional new housing starts for 1975 and, hopefully, a major impetus to renewed consumer confidence in the housing market, which is the ingredient so clearly lacking today. The press has indicated that the recently enacted tax credit for purchases from existing inventory has been overwhelmingly successful in getting consumers into the marketplace, suggesting that the tax credit or incentive payment mechanism is, indeed, an effective spark to consumer confidence.

CONCLUSION

We perceive the options available for responding to the pending legislative proposals for stimulating housing production to be as follows:

1. Resist all Congressional efforts to aid the depressed housing industry;

2. Seek enactment of a tax credit for the purchase of a newly constructed home; or

3. Join Senator Brooke in his support for a cash incentive plan to encourage new construction, with modifications to his proposal to suit our perceived needs; or

4. Do either 2 or 3, while at the same time seeking additional GNMA standby "tandem" authority.

For the reasons explained above, we recommend option 4. With a tax credit or incentive payment as a spur to consumer confidence and increased "tandem" authority available to deal with the problem of rising interest rates should that again appear to be a significant retardant to housing production, we would expect a resurgence of the housing industry which could lead the economy generally into a period of recovery.

THE WHITE HOUSE

WASHINGTON

April 25, 1975

MEMORANDUM FOR JIM CANNON

FROM TOD HULLIN

SUBJECT MEETING ON EMERGENCY HOUSING LEGISLATION
SATURDAY, APRIL 26, 1975
3:30 p.m. (60 minutes)
Roosevelt Room
Participants (List at Tab A)

PURPOSE: To discuss and determine the Administration position in regard to pending emergency housing legislation which will go to conference next week.

AGENDA: Opening remarks - Jim Cannon
Discussion - led by Jim Cannon - of political assessment and options
-- Secretary Hills
-- Director Lynn
-- Sol Mosher - Congressional assessment
-- Vern Loen - Congressional assessment
-- Pat O'Donnell - Congressional assessment
Conclusion - Jim Cannon - statement of decision or agreement to elevate issue to the President

BACKGROUND

By a vote of 64-26, the Senate approved a bill which combines a foreclosure relief provision and an interest subsidy provision. The House has passed similar legislation in two separate bills. A House-Senate conference is scheduled for next week. Of the two features, 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.

The Senate version of the foreclosure legislation would provide for $300 monthly payments by HUD on behalf of distressed mortgagors for as long as 36 months. The House version provides monthly payments up to $250 for as long as 24 months. These mortgage payments are direct loans to the homeowner.

The interest subsidy provision would lower the mortgage interest rate for middle-income families to 6% for up to the first three years of the mortgage with declining subsidies ending in the sixth year. The Administration has testified in opposition to each of these provisions.

Substantively, HUD and OMB may agree that the foreclosure provision and the interest subsidy provision should be vetoed. However, the question is how should these issues be handled in the political arena, recognizing that the Congress may force these provisions on the Administration by overriding the President's veto.

HUD POSITION

There is broad Congressional support for a foreclosure bill as "a vote for the unemployed". It is unlikely that the Administration could sustain a veto of a bill which includes a foreclosure provision.

HUD recommends that the Administration urge the House conferees to consider the interest subsidy and foreclosure provisions in separate bills. HUD appears to believe that the House conferees will fight for the split if the Administration offers to work with them to produce a separate and acceptable foreclosure bill. If the provisions are separated, the Congress would probably forward to the President an interest subsidy bill on which a veto could be sustained. The foreclosure bill would be considered at a later time.

OMB POSITION

OMB strongly opposes each of these provisions. They appear to believe that a veto could be sustained on a bill which includes a foreclosure provision and appear to be recommending that we take a hard line in opposition to this legislation.

QUESTIONS TO BE RESOLVED

1. Can a veto be sustained on a bill which combines foreclosure and interest subsidy provisions?

2. Can a veto be sustained on a separate interest subsidy bill?

3. Can a veto be sustained on a separate foreclosure bill?

4. Will the conference separate the foreclosure and interest subsidy provisions?

5. What is the budget impact of these measures?

6. Would either of these measures constitute a new spending program?

7. Can the foreclosure provision be modified to make it acceptable?

8. Can the interest subsidy provision be modified to make it acceptable?

A

ATTENDEES

SATURDAY, APRIL 26, 1975, 3:30 p.m., Roosevelt Room

HUD

Carla Hills, Secretary
James Mitchell, Under Secretary
Sol Mosher, Assistant Secretary for Legislative Affairs
Dan Kearney, President, Government National Mortgage Association
Bernie Carl, Special Assistant to the Secretary

OMB

James Lynn, Director
Paul O'Neill, Deputy Director

DOMESTIC COUNCIL

James Cannon, Executive Director
James Cavanaugh, Deputy Director
Tod Hullin, Associate Director
Andre Buckles, Staff Assistant

CONGRESSIONAL RELATIONS OFFICE

Vern Loen, Deputy Assistant for Legislative Affairs (House)
Pat O'Donnell, Special Assistant for Legislative Affairs (Senate)

Detroit Plan -

4/30/75

Detroit - unemp over 21%

certain areas up to 60%

Problem of crisis proportions

Mayor Young. 'We're in a depression. But in the face of that we're proceeding with the renaissance.

But our crisis not isolated. not a fuel crisis -

But an early warning of a situation that can plague America unless we turn it around.

Laying off cops for first time since depression

136,000 - unemployment, one out of four.

Program -

ask him to extend your term

also need of fed govt

Mayor Fisher -

Woodcock -

Other Labor
Teamsters
APL-CIO Council

Need two things

(1st) 10600 public service jobs

critical jobs in
health care, public safety
youth service
cost $116,000,000

2d) manpower extension
of ~~3~~ 30,000 jobs
cost $439,000

want to make Detroit
a showcase of what can
be done by feds,
state, locals working
together.

Gerstenberg. Employment & Crime
2 worst remain some
problems we now
have.

Gerstenberg -

$7,000,000 - Drug program -

Ford - Bruce & Seed

Cemetery road for people -

Need Balance transportation

District unable to obtain grants under federal regs.

Gladys Woodward -

Levin -

Hart - "Amen"

Griffin - -

Diggs - yield time to interaction

P - Some things can be done administratively.

other legislation -

on crime - trust

in "domestic tranquility" & with deep concern for the victims of the crime.

Poor & disadvantaged are the victims of the crime major problem is crime criminality.

Cabinet -

~~Someone is coordinator~~

specific

meeting -

Cabinet

Coleman

P - our concern for the victims of the crime

need for prosecuting & sentencing is of maximum importance

Bob Lipshutz -

P - will look into use
LEAA - funds
use of personnel

Mayor Young -
18% Black police
to 50%

LEAA funds to
add 1,000 Black
police officers

not handling Big Drug
problem

Mac -
Somebody to go to
in govt to go
Council

P - L.C.
But go to
individual depts.

—

On Gen R. I
you can be
very useful in
convincing Senate &
House to go along
w/o drowning it
P - Don't let them
tie it up

¶ D. C. to coordinate
Federal involvement in
~~D. C.~~
Detroit Renaissance ~~[illegible]~~
~~[illegible]~~

Bill Milliken –
comprehensive approach important
—
2 major areas
1) Transportation
2) Housing
Speed up the process!
Cut the red tape!
New law, which you could do

P – Got 2 ~~Take~~
Legis ~~to~~
pass change &
Bill ~~Follow~~
with some temp
provision

~~Castle~~ Hills

We'll do what
we can in drugs & crime

THE WHITE HOUSE

WASHINGTON

May 2, 1975

MEMORANDUM FOR DIRECTOR LYNN
JACK MARSH
BILL SEIDMAN
MAX FRIEDERSDORF

FROM : JIM CANNON Jim

SUBJECT : EMERGENCY HOUSING LEGISLATION

Attached for your review, comment and recommendation is a DRAFT memo to the President regarding the emergency housing legislation.

I would appreciate receiving your comments and recommendations by 12 noon on Monday, May 5.

Your cooperation will be greatly appreciated.

THE WHITE HOUSE

WASHINGTON

May 2, 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	300

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. 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 would be overridden.

OPTIONS

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

   This option recommended by Max Friedersdorf.

   Approve X Disapprove ________

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

   This option recommended by ________________.

   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 ________________.

   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;

-- 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;

-- The interest subsidy proposal does not guarantee a quick recovery in the housing industry. As present market trends demonstrate, there is no clear demonstration that a decrease in interest rates alone will be sufficient to get the stalled industry producing at full tilt once again.

<u>The Home Purchase Incentive Program</u>. 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 as unnecessary 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.

THE WHITE HOUSE

WASHINGTON

May 2, 1975

MEMORANDUM FOR DIRECTOR LYNN
JACK MARSH
✓ BILL SEIDMAN
MAX FRIEDERSDORF

FROM : JIM CANNON

SUBJECT : EMERGENCY HOUSING LEGISLATION

Attached for your review, comment and recommendation is a DRAFT memo to the President regarding the emergency housing legislation.

I would appreciate receiving your comments and recommendations by 12 noon on Monday, May 5.

Your cooperation will be greatly appreciated.

THE WHITE HOUSE

WASHINGTON

May 3, 1975

Dear Carla:

Attached for your review, comment and recommendation is a draft memo to the President regarding the emergency housing legislation.

I would appreciate receiving your comments and recommendations by 12 moon Monday, May 5.

Your cooperation will be greatly appreciated.

Sincerely,

James M. Cannon
Assistant to the President
for Domestic Affairs

Honorable Carla Hills
The Secretary
Department of Housing
and Urban Development
Washington, D.C.

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.

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.

OPTIONS

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.

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

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.

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.

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

p