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THE WHITE HOUSE

PRESS CONFERENCE
OF

JAMES LYNN
SECRETARY OF THE DEPARTMENT
OF HOUSING AND URBAN DEVELOPMENT

THE BRIEFING ROOM

3:10 P.M. EDT

MR. HUSHEN: Ladies and gentlemen, we have the Secretary of Housing and Urban Development, Mr. James Lynn, and Under Secretary Mitchell to brief on the bill that the President signed today. Mr. Lynn will have a brief opening statement and then take your questions.

SECRETARY LYNN: As you know, the President signed into law today S. 3066, the Housing and Community Development Act of 1974. In the signing message, he states this bill is of far-reaching and perhaps historic significance for it not only helps to boost the long-range prospects for the housing market, but also marks a complete and welcome reversal in the way that America tries to solve the problems of our urban communities.

This bill climaxes years of efforts to replace 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. This new approach will put Federal funds to work on behalf of our cities and towns far more effectively than before.

Gentlemen and ladies, I will take your questions.

Q Mr. Secretary, what about the depressed housing market, generally people who can't afford to buy homes because of the situation now are not going to be able to buy homes with this program, are they?

SECRETARY LYNN: We are very hopeful that this program will give some help to the housing situation. It is not a good situation, as you know. We took action in May, adding \$10.3 billion in credit to ease this situation.

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As the bill provides, however, we are able, under this new legislation, to lower the downpayments that American families pay on new homes, and we can also increase the amounts of mortgages to which these low downpayment loan provisions may be applied.

For example, in a home that costs \$35,000, the amount of the downpayment is cut roughly in half from \$3,450 to \$1,750. I should also add, however, as the message indicates, we do not look upon this as a total answer to the housing situation, although it will be of substantial help.

We have been meeting over the last week to two weeks, meetings of the Troika, the Quadriad, which I have joined, looking at the current housing situations inasmuch as President Ford has evidenced great interest in that situation, and I would not be surprised if we would be meeting with him to give him a report on where we stand and what might be done within a very short period of time.

Q Mr. Secretary, under the bill, does HUD intend to continue the impoundment of funds under Sections 235 and 236 and if so, under what legal basis?

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SECRETARY LYNN: As you know, there was a Court of Appeals decision in the District of Columbia some three weeks ago that sustained the right to hold back on further expenditures under those programs. I see nothing in the present statute, the new statute that was passed, that would tell us to turn back on Section 235. For those who don't know, Section 235 is a program of providing subsidy to moderate income families around \$7,000, \$8,000 a year so that they may afford to buy single family housing-- in the main, new housing.

My feeling is very strongly that at a time when families making \$16,000, \$18,000 a year and more have increasing difficulty getting new single family homes, that we should address the needs for decent housing of lower income families by other approaches.

Secondly, on Section 236 which is an older program again that was for multi-family leasing, but subsidized, we did turn off the funds except for meeting bonafide commitments some time ago and we were sustained by the Court of Appeals.

In the conference report in this bill, the conference stated that the additional funding should be used--the funding that remains in 236--in those instances where mayors can demonstrate to me that the housing needs of a given community cannot be met through the other programs, meaning specifically, I believe, the new Section 8 program of assisting lower income families to get decent housing.

I, of course, will abide by that direction.

Q Mr. Secretary, you said that this was only a partial answer and you would be meeting again with the President about some other proposals to the housing market. What additional steps do you think the Federal government can take to ease the housing situation in America now?

SECRETARY LYNN: I think that the most important single step that we can take to ease the housing situation is to get better control over inflation. For years our country has been dependent on good inflows of savings into savings and loan institutions as the fundamental place we get our mortgage money for America.

Now one of the things that has happened is with the tight money markets there hasn't been the funds in the savings and loans and other thrift institutions to make the construction and mortgage loans that we need.

So the number one thing is to get a better handle on inflation and get softer money markets. Beyond that, we have a number of other things we have looked at continuously that we will bring to the President's attention and of course it will be his ultimate decision as to whether they seem to make sense and whether we should do them.

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Q What are some of those additional steps that you may take before him for consideration?

SECRETARY LYNN: I think until such time as we have brought them to the President's attention I shouldn't be talking about them in public. Thank you.

Q Do you think the home builders are going to be satisfied with this program?

SECRETARY LYNN: I think the home builders are extremely happy with the new legislation. We worked with the home builders as we did with other interested groups and the Congress closely and I can say to you I believe very honestly that the home builders are very pleased with the provisions that are in the bill. I am thinking primarily of such things as the increased mortgage limits on FHA mortgages, the lower down payments on those mortgages, the higher amounts that we can work the Tandem Plan on. That is our program for new single family housing at 7-3/4 percent interest.

They also are very pleased with the added flexibility that savings and loans are given with respect to construction loans and mortgage money.

Q Do you think this will strengthen the savings and loans banks and also what do you do about the shortages, for instance, of wood, redwood, and steel and all this?

SECRETARY LYNN: Again, in conversations with people who are in the savings and loans, they are pleased with the provisions that are in the bill. I should say, of course, every group of this kind, whether it is savings and loan or home builders, have other things they would like to see too, but they are indeed pleased with the provisions.

The shortage problem, I believe, is a real one, but in giving order of priorities to problems -- and we know there are a number of problems -- less money in the pockets of our people to use for down payments, for mortgages, to meet monthly payments, to pay fuel bills and so on, caused by inflation, and that is part of our problem of inflation -- no growth and so on.

The number one problems though, I would say today are the lack of money for residential construction and permanent mortgages and the interest rate that has to be paid for that money.

Q Mr. Secretary, perhaps you have just answered this question, but I wanted to be clear. The President said the legislation was a sort of a shot in the arm for the economy. Could you identify the areas in this bill that you think are the primary shots in the arm?

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SECRETARY LYNN: I believe you are referring to his statements at the signing ceremony, where he said, "will be a welcome shot in the arm to housing." And he was referring to housing.

I am not purporting to state him precisely, but if I do recall correctly, he said "shot in the arm." What he was referring to in this regard, I think, primarily were the new lower down payment requirements which does make it easier for people to obtain new housing, and he was referring to the higher mortgage ceilings which reflect better current market prices for housing. Let's not forget those ceilings were set the last time in 1968 and they haven't been changed since.

He was also referring, of course, to a number of the other things that are referred to specifically under housing in the fact sheet.

Q Mr. Secretary, what in this bill will provide either larger amounts of money available for mortgages or lower interest rates? What attacks what you just said were the two major problems?

SECRETARY LYNN: I said that I think the primary way that we will get recovery in this area is by having a better handle on inflation that will result in some easing of pressure on the money markets. With that easing of pressure, interest rates generally would go down some and this will again bring about renewed vigor in the housing industry.

What this bill does in this regard is make some existing programs that we have work better, give them greater viability insofar as people seeking housing is concerned. After all, if you can get a house for half the down payment that you could before, that is very important.

Also, it has an impact on our Tandem Plan. As we announced much earlier in the year, we have made available loans at 7-3/4 percent, mortgages at 7-3/4 percent on FHA mortgage property. Now that has had some limitation in its usefulness because there have been low limits provided by the law as to the size of mortgage that can be involved for us to lend that kind of assistance. We are permitted under this statute to increase those limits. That should be a good deal of help to us.

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Q Mr. Secretary, the President said in his message that there were some flaws in this legislation. What are the flaw areas that you see?

SECRETARY LYNN: Oh, I think on a day like this when we have seen great strides forward, where there has been an excellent sense of cooperation, the Congress, the Administration, that we shouldn't dwell on things that any one of us in particular -- the Senate or the House or the Administration -- would have liked to have had but didn't.

I will give you one. For example, I would have preferred to have had the discretionary grant authority to make grants to rural areas and to SMSAs reside with the Governors, with the States, rather than with the Secretary, because I believe we should more and more give Governors, give States coordinated tools to do a better job of reflecting the particular nature and needs of their own States.

Q Mr. Secretary, what rate of inflation would you need to have to have a handle that you would need to help housing?

SECRETARY LYNN: I think we better have a briefing by somebody else on that one. I remember a clause about "keeping cotton picking hands" and I have a feeling I might be getting into that territory.

Q Any estimate of how many units you will be able to get started this fiscal year under the new Section 8 program?

SECRETARY LYNN: No, I don't. As you know, we have authority now, I believe, for well over 300,000 units in the current year for the new program. We have had a good deal of developer interest in the program. We have growing interest on the part of the local housing authorities. I think this early it is extremely difficult to try to predict the rate of applications, the quality of them and the processing time.

On the one hand, I am dedicated to using as much of that authority as I can, but it seems to me that we should also be certain that we have quality processing. I do not want to have two years from now a criticism of the program that it didn't work in the sense of high default rates and so on.

Some risk, of course, we must take to do the job, but we are going to insist on quality processing.

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Q On the FHA mortgage section, presumably there will be more demand since downpayments will be lower and the higher mortgage will be higher. Aren't you apprehensive that since money is so tight that banks will start charging more and more points to the seller to have these mortgages put into effect?

SECRETARY LYNN: No, I don't think so. I think what we find is a very much interrelated market today; in other words, that there is no such thing as a separate market for mortgage money as opposed to other things. Sure, we get quotations on what the interest rates are for mortgages, but they are very closely tied to overall money demands.

The demands for corporate bonds, for example, the demands for other kinds of borrowing, I have the feeling that what we are going to see here is a good deal of utility of the new limits that we have, a good deal of utilization of those new limits, and I really don't believe it is going to result in any increase in points.

I am glad you raised the point. Sometimes there is misunderstanding when we raise the so-called interest ceiling on FHA rates. As you know, we did raise it again recently. The reason we raised that rate is to make it more realistic to the market; in other words, the closer we get to market in what the mortgage provides as the interest rate, the less points there are.

And I have to say that I have a thing against points in any substantial degree because I don't think they help anybody, the home seller or the home buyer. They increase the cost of the property because the seller, if he has to pay points, increases or tries to increase the price of the property in order to recover those points.

When he does that, it increases all kinds of costs, taxes; it increases insurance and so on. Of course, if the new owner ends up selling the property before the average period of time that mortgages are held, it gives a windfall to the person who did the loan.

Q Mr. Secretary, as you mentioned earlier, last May you moved to inject some \$10 billion into the housing market and you have taken these other actions and yet housing starts continue to fall and now about 18 months steady, building permits are still going down, so when do you expect to see a turnaround?

SECRETARY LYNN: I think a turnaround in the sense of restoration of the kinds of starts that we saw, which were extremely high historically, at least, during 1970, 1971 and 1972 is only going to occur when we do see some softening of the money market.

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Now, you referred to the program of the \$10.3 billion in assistance, plus, I assume you are adding the \$6.6 billion that was announced in January. We believe those programs have had some limited effect thus far. I would look to their effect to being felt more in the months ahead.

Now, those programs, or any other program of direct or indirect Federal aid over a short period of time, are not going to result in a restoration to the old starts rates of around two million units a year. What they do do however, though, is cushion the decline and help give us a better starting position for an upward move.

Q One of the big points you didn't mention was the big progress for taking out the discrimination of women.

SECRETARY LYNN: We mentioned it, of course, in our fact sheet, and we are very pleased with the provision. I have talked to Gloria Tooté about it, the Assistant Secretary for Equal Opportunity, and let me assure you she is very pleased. I accused her at one point of having a conflict of interest and she said, "Not at all."

I agree with her. We have seen enough evidence, anecdotally, at least, of people who have worked for us within our own department of where women's income isn't counted the same as men's income, that it is time that this was made explicit in the laws. We welcome it.

Q Mr. Secretary, do you expect to ask for the full funding for the community development program for the first year, and would you resist any attempts to cut it?

SECRETARY LYNN: I have to give you what my recommendation will be. I have not discussed the issue with the President. My strong recommendation to the President will be to fund it at the full amount that we put in the budget of the United States for this purpose, \$2.5 billion.

One of the things we should take into account, notwithstanding our efforts to keep the budget down, is that we have a somewhat unusual situation here. For over a year the funding levels under the old programs have been at something less than half, I believe, what a more traditional level would be.

So, therefore, after this period of transition it does seem to me that a \$2.5 billion level is appropriate.

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Another reason is this: That if you try to reduce the \$2.5 billion you do not get equal impact on communities under the new law. Under the new law hold harmless communities, those that are paid in the initial years on the basis of what they received in the past in average, will continue to receive that average amount even if there is some cut in funding.

So, therefore, the cuts would fall on those communities that have to rely on my discretionary balances, which includes communities in the main under 50,000 people, and believe me, there are many communities of under 50,000 that have the same kind of problem central cities have, certainly not in size, but relative to their population the same kind of problems.

Q When will the breakout be available on allocations to individual communities.

SECRETARY LYNN: We had a breakdown the other day in our computer but they switched over to another one, and I was told they lost very little time as a consequence of it. We have one copy available now. Multiple runs will be next week, but there is one out there.

I hope whoever looks at it doesn't take it away with them. We had better put a chain on it. (Laughter)

THE PRESS: Thank you, Mr. Secretary.

END (AT 3:29 P.M. EDT)