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JUNE 24, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

TO THE HOUSE OF REPRESENTATIVES:

I am today returning, without my approval, H.R. 4485, the proposed Emergency Housing Act of 1975.

After careful examination of this bill and its provisions, it is my considered judgment that H.R. 4485, due to its cost, ineffectiveness, and delayed stimulus, would damage the housing industry and damage the economy.

This Administration is committed to a prompt recovery of the housing industry and to getting the construction workers back to work -- which are crucial elements in our overall economic recovery.

To reaffirm my commitment to such prompt recovery and my support of the existing Federal mortgage assistance program, I am today directing the release of the remaining $2 billion in these funds and requesting Congress to authorize another $7.75 billion in this assistance for housing. I will also support a workable plan to prevent mortgage foreclosures for home-owners who are out of work.

But H.R. 4485 is not acceptable for these reasons:

-- It could not be implemented without substantial delay, and probably would actually provide a disincentive to some home purchases. Consequently it would delay for months putting construction workers back to work.

-- It is in some respects inequitable. In some areas of the country, families with $25,000 of income could qualify for benefits, while in other areas of the country, families with $6,000 of income could not qualify.

-- The levels of mortgage subsidies (down to 6% in some cases) would give some buyers an excessive benefit at the taxpayers' expense.

-- For the modest benefits that might come in housing, this bill is too expensive -- over $1 billion in additional Federal expenditures in FY 76, and more in years to come.

This bill's provisions for the protection of home-owners who are presently unemployed or under-employed due to our economic conditions and who face foreclosure on their homes, though well intentioned, unnecessarily place the Federal government in the retail loan-making business as a sole means of relief. Depository institutions have a stake in avoiding foreclosures and should be active participants in any such mortgage payment relief program.

I believe there is a better way both to stimulate jobs in construction and to provide standby protection for homeowners who may be threatened by foreclosure:

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1. To add impetus to the industry's recovery and to put the building trades back to work, I am today directing the Secretary of Housing and Urban Development to make available, immediately, under existing law, $2 billion previously authorized for mortgage purchase assistance.

   We know this program works, and this action will make new mortgage money available immediately from thrift institutions and other lenders. But since the mortgages the Federal government purchases can be later resold, the cost to the Federal government is relatively low -- $60 million for FY 76.

2. To continue this effective tandem authority program, I propose that Congress extend this program beyond its expiration date in October, and to expand it to cover conventionally financed multi-family housing, including condominiums. In addition, I request authorization from Congress to put $7.75 billion more into this program to insure financing is available if needed to sustain the recovery of the housing industry.

3. To protect home-owners against foreclosure, I commend the efforts of the sponsors of legislation recently introduced in the Congress that would confer standby authority on the Secretary of Housing and Urban Development to make mortgage payment relief loans or to co-insure lenders who refrain from foreclosing on home-owners who are temporarily out of work. We want to preserve the good relationship between the home-owner and the bank or other institution which holds his mortgage -- and at the same time provide some fiscal protection to the lender who assists a home-owner.

While there continue to be many problems in the housing industry, and while there is far too much unemployment among housing construction workers, there are clear signs of recovery in this vital part of the American economy.

During the current calendar year, funds needed for mortgage loans have been flowing into savings institutions at record levels -- $19.7 billion net during the first five months of this year alone, nearly quadruple the level of the same period last year. With this flow of funds, interest rates have fallen substantially from their peaks of last summer.

Meanwhile, the government has been providing unprecedented support to the housing industry. Since last October, the Government National Mortgage Association has committed to purchase nearly $9 billion in conventional, FHA and VA mortgages with interest rates down to 7-3/4 percent. And this March, a tax credit for unsold new homes was enacted into law.

There are now strong indications that new home construction and sales are responding to these actions. New home sales increased 25 percent in April, the largest increase in 12 years. Home building permits climbed 24 percent in April and an additional 9 percent in May. Also in May, housing starts -- which represent not only new homes but new jobs -- rose sharply.

These favorable trends, however, do not mean that we have overcome our problem in housing. To the contrary, the level of home construction is still too low, and I fully agree with those who believe that a swift recovery in housing is a prime objective of national economic policy.

We must accelerate the improvement in housing that now appears to be coming about.

My action today to commit $2 billion for mortgage purchase assistance under the Emergency Home Purchase Assistance Act of 1974 will exhaust the current authorization under that Act. In proposing that this Act be extended, broadened to multi-family housing, and expanded by $7.75 billion, I am affirming that we have a tried and tested mechanism for supplementing and reinforcing housing construction.

Unfortunately, while H.R. 4485 does contain the multi-family amendment I have recommended, it fails to extend the current law, increase its authorization or effect any other improvements. Worse, it would authorize a variety of new and untried subsidies, including provisions for mortgages with mandated 6 and 7 percent interest rates and $1,000 down-payment grants. Since there appears to have been no consensus in favor of any one of these new subsidies, the bill adopts all of them in the hope that something will work.

The full implementation of these new subsidies, together with other provisions of the bill, would add over $1 billion to the fiscal 1976 deficit and ultimately cost more than $2 billion. An addition to the budget of this magnitude to benefit a few home-buyers is inequitable as well as costly.

It is most important to housing that we maintain a firm line against ill-considered spending that adds to the growing deficit and necessitates Federal government borrowing which tends to drive up interest rates and depress housing construction. I believe that budgetary restraint is a key element in our effort to instill the kind of consumer confidence in the future that is essential to a vigorous housing market.

Proponents of H.R. 4485 have argued that the budgetary costs of this bill would be outweighed by stimulating an upturn in housing starts, jobs and tax revenues. But critical defects in the bill concerning its relative cost, impact, timing and long-term implications will prevent it from achieving these objectives.

First, the levels of subsidy provided are excessively deep and costly. Under H.R. 4485, mortgages would be heavily subsidized so that they could bear lower interest rates than any previously available to other home-owners during the last ten years. These deep subsidies would require substantial Federal outlays. Moreover, experience demonstrates that a strong and healthy housing industry can be maintained without the deep subsidies contained in this bill.

Second, the bill would not work as intended even if it could be immediately implemented. Although supporters of H.R. 4485 have claimed that it would produce hundreds of thousands of additional housing units, evaluation by HUD and OMB does not suggest that the bill would have any impact of this magnitude or that the units produced would necessarily be additional to those that would be produced in the absence of such large subsidies. Those most likely to be influenced to buy under the bill would be families near the top of the eligibility range. These same families would be most apt to buy even without subsidy assistance on the scale proposed.

Third, because the bill could not be immediately implemented, it would actually impede an early recovery in housing starts. The subsidies which would be authorized include new approaches that have never been tried before. To

make this assistance available, it would not only be necessary to secure appropriations and write regulations, but also to prepare a variety of new forms, establish procedures and familiarize government, lender and builder personnel throughout the country with them. Even given top priority, months could be required before implementation is completed. Thus, H.R. 4485 -- far from helping during the coming months -- would actually inhibit home purchases among those eligible for assistance, since these families would understandably want to wait until the subsidies become available.

Fourth, the bill has long-term impacts and implications that are inappropriate and undesirable for an "emergency" measure. One of the subsidy options included in the bill would require home-owners with 6 percent interest rate mortgages to make increasing monthly payments in the future, up to the full payments that would be required at current market interest rates. I believe there will almost certainly be intense pressures for relief against these phase-up provisions in years to come -- and thus for a continuation of the deep subsidies this option involves. Moreover, even if this approach works as intended, it would require substantial government outlays in future years when the economy may be operating at full capacity with inflationary forces at or approaching their peaks.

Fifth, the subsidy provisions of H.R. 4485 pose substantial problems of equity among those who would and would not be eligible for the relatively large subsidies provided. As the bill is written, substantial subsidies would be made available to families within a given income group. Other families with similar or even less income would receive no subsidy at all and would be expected to pay full market rate mortgages. These discrepancies would be very sharp and hard to justify. In some areas, it would permit families with incomes well over $25,000 to qualify while, in other areas, families with incomes as low as $6,000 would be ineligible.

Sixth, H.R. 4485 would make a number of undesirable changes in our housing and community development laws. For example, the bill would extend the homeownership program authorized under Section 235 of the National Housing Act. It would also extend and expand the program of subsidized government rehabilitation loans authorized under Section 312 of the Housing Act of 1964. These provisions would reverse decisions the Congress itself enacted last year after one of the most extensive reviews of Federal housing policy ever conducted. Also objectionable are the provisions which would divert funds from the new leased housing program, and establish special rules for certain State agency housing projects assisted under Section 236 of the National Housing Act.

Finally, the foreclosure provision of H.R. 4485 is too limited in its mechanism for providing relief. This provision reflects the concern that mortgage foreclosures may soar during the recession. To date, no such trend has developed because private lenders have been cooperating with home-owners through forebearance and common sense arrangements. In fact, foreclosures rates have remained stable --- actually, at a level lower than that experienced during the mid-1960s.

Nonetheless, I can appreciate the desire of Congress to enact legislation, and I will support legislation which would

protect home-owners from loss of their homes due to temporary economic hardship and which recognizes the provisions of such relief is both a matter of concern for the federal government and the depository institutions or other mortgagees involved.

Good housing is one of our greatest national assets, and our objective was and is to assist in the recovery of the housing construction industry and to help get the building trades workers back to their productive and meaningful skills. I shall be glad to work with the Congress toward this objective.

GERALD R. FORD

THE WHITE HOUSE,

June 24, 1975.

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