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NATIONAL ASSOCIATION OF HOME BUILDERS

WASHINGTON, D.C.

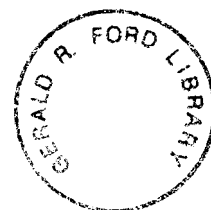
MAY 19, 1975

I AM PLEASED TO HAVE A PART IN YOUR SPRING BOARD MEETING. THE OCCASION IS ALSO A "SPRINGBOARD" FOR ME. IT MARKS MY FIRST FORMAL MEETING WITH THE DIRECTORS OF THE NATIONAL ASSOCIATION OF HOME BUILDERS.

I HOPE THAT WITH THIS MEETING WE CAN BEGIN A CONTINUING DIALOGUE, SEEKING TO ACHIEVE OUR COMMON GOAL -- PROVIDING "A DECENT HOME AND A SUITABLE LIVING ENVIRONMENT FOR EVERY AMERICAN FAMILY."

WITHOUT YOU, THAT GOAL WOULD BE ACADEMIC. A SUITABLE LIVING ENVIRONMENT MUST FIRST OF ALL BE PREDICATED UPON THE AVAILABILITY OF DECENT, SAFE AND SANITARY HOMES.

THUS, ACHIEVEMENT OF THE GOAL REQUIRES A SPEEDY RECOVERY FROM THE CURRENT DOWNTURN IN HOUSING PRODUCTION.

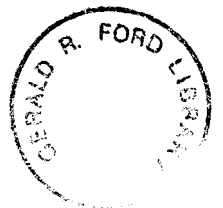


YOUR PRESIDENT NORMAN, IN HIS RECENT INTERVIEW PUBLISHED IN THE NAHB JOURNAL-SCOPE, WELL DESCRIBED THE HOMEBUILDERS WHO MAKE UP YOUR ASSOCIATION. QUOTING HIM:

"THE PEOPLE WHO GO INTO THIS BUSINESS HAVE TO HAVE COURAGE. WE ALL KNOW THIS IS A RISK-TAKING BUSINESS. IF WE DIDN'T TAKE THE RISKS THERE WOULDN'T BE MUCH BUILT. THE RISKS ARE MUCH GREATER TODAY BECAUSE OF TINKERING WITH THE SYSTEM BY WHICH HOUSING IS BUILT AND DELIVERED."

I AGREE WITH HIS ASSESSMENT. AMERICAN BUSINESS STARTED OUT AND PROSPERED BECAUSE AN ENTREPRENEUR WOULD PUT HIMSELF, HIS INGENUITY, AND HIS RESOURCES AT RISK TO ENTER INTO COMPETITION WITH OTHER LIKE-MINDED BUSINESS PEOPLE.

OUR PRIVATE ENTERPRISE SYSTEM, UNENCUMBERED BY GOVERNMENT TINKERING, IS STILL THE BEST MEANS TO MEET THE AMERICAN PEOPLE'S NEED FOR DECENT HOUSING.



UNFORTUNATELY, THE EMERGENCY HOUSING ACT OF 1975, AS IT EMERGED FROM CONFERENCE LAST WEEK, CONSTITUTES ANOTHER EXAMPLE OF THE SORT OF TINKERING WHICH CONTRIBUTED TO THE HOUSING INDUSTRY'S CURRENT PLIGHT. IT WILL NOT PRODUCE A RECOVERY IN THE HOUSING INDUSTRY.

SHOULD THAT BILL BECOME LAW, WE WILL BE ENCUMBERED BY ANOTHER COMPLEX NEW GOVERNMENT HOUSING PROGRAM. THE RESULT WILL BE MORE FEDERAL SPENDING, MORE GOVERNMENT INSULATION, A FURTHER DEPARTURE FROM OUR FREE ENTERPRISE SYSTEM -- AND IN THE LONG RUN, FEWER HOUSES BUILT.

THE BILL HAS A \$2 BILLION DOLLAR PRICE TAG. SUCH MASSIVE SPENDING THREATENS OUR ECONOMIC RECOVERY WHICH IS JUST NOW BEGINNING.

WORSE THAN THAT, IT CARRIES THE PROMISE OF ANOTHER INFLATIONARY CYCLE.



FORCING TREASURY BORROWING ABOVE A TOLERABLE LEVEL WILL DEplete AVAILABLE CAPITAL AND WILL DRIVE UP THE COST OF MONEY TO THE POINT WHERE THE ECONOMY WILL AGAIN PLUNNET DOWNWARD. LEADING THE PLUNGE -- AS ALWAYS -- WILL BE HOUSING. FEAR OF ANOTHER SUCH PLUNGE ACCOUNTS FOR PRESIDENT FORD'S DEEP CONCERN WITH THE PROSPECT OF AN UNREASONABLY HIGH BUDGET DEFICIT.

THE SPECIFIC PROVISIONS OF THE PENDING LEGISLATION, FAR FROM LEADING THE HOUSING INDUSTRY INTO A RECOVERY, MAY ACTUALLY RETARD HOUSING PRODUCTION.

THE REACTION OF THE CONGRESS TO THE HOUSING CRISIS REMINDS ME OF AN OLD "GOOD NEWS AND BAD NEWS" STORY. THE AIRLINE CAPTAIN ANNOUNCES OVER THE PA SYSTEM -- "WE HAVE SOME GOOD NEWS AND SOME BAD NEWS. FIRST THE GOOD NEWS: THE WEATHER IS PERFECT, WE HAVE A STRONG TAILWIND, AND WE'RE BREAKING ALL COMMERCIAL SPEED RECORDS. NOW THE BAD NEWS: WE'RE LOST."



THE NEW HOUSING BILL INDICATES THAT CONGRESS IS PROCEEDING FULL SPEED AHEAD, BUT ITS LACK OF FOCUS CONVINCES US THAT IT DOES NOT KNOW WHERE IT IS GOING.

THE BILL, AS DRAFTED, PROVIDES FOR A DIRECT GOVERNMENT INTEREST SUBSIDY FOR THE FIRST 6 YEARS OF A MORTGAGE. THAT SUBSIDY WILL NOT SOLVE THE CURRENT PROBLEMS OF THE HOUSING INDUSTRY. AS YOUR EXPERIENCE TEACHES, INTEREST SUBSIDIES ONLY DISRUPT THE FINANCIAL MARKETPLACE. THEY DO NOT INCREASE THE TOTAL AMOUNT OF CREDIT AVAILABLE FOR RESIDENTIAL CONSTRUCTION.

AN INTEREST SUBSIDY PROGRAM IS A REAL "MUSICAL HOUSES" GAME -- WHEN THE MUSIC STOPS, YOU DON'T HAVE MORE HOUSES THAN BEFORE, YOU HAVE FEWER. AND THAT IS BECAUSE, AN INTEREST SUBSIDY FOR ONE SEGMENT OF THE HOUSING MARKET MERELY SUBSTITUTES THOSE WHO GET THE SUBSIDY FOR THOSE WHO WOULD HAVE BUILT IF THE MARKET HAD OPERATED WITHOUT INTERFERENCE.



THE DEPTH OF THE PROPOSED SUBSIDY IS ALSO A MATTER FOR SERIOUS CONCERN. SUBSIDIZING MORTGAGES TO 6 PERCENT IS UNREALISTIC; CONVENTIONAL MORTGAGES HAVE NOT BEEN AT THAT LEVEL SINCE 1956. RIGHT NOW, THRIFT INSTITUTIONS ARE PAYING 7 PERCENT OR MORE FOR LONG-TERM MONEY; HOW CAN THEY POSSIBLY COMPETE WITH 6 PERCENT MORTGAGES?

SO THE PRESSURE WILL INEVITABLY BUILD TO EXTEND THE PROGRAM, AND HAVE THE FEDERAL GOVERNMENT FURTHER DISPLACE THE PRIVATE MORTGAGE MARKET.

TRUE THE PROGRAM IS LABELED "TEMPORARY". BUT AS WE ALL KNOW, ONCE A "GIVEAWAY" PROGRAM IS ENACTED INTO LAW, THE PRESSURE FOR INDEFINITE CONTINUANCE IS IRRESISTIBLE.

THE BILL IS EXPLICITLY ADDRESSED TO TODAY'S LAG IN HOME BUILDING. BUT A CLEAR DANGER INHERENT IN THE BILL IS THAT ITS IMMEDIATE EFFECT WILL BE TO DELAY -- RATHER THAN STIMULATE -- HOME BUYING.



THE BILL, DESPITE ITS HIGH COST, ONLY BENEFITS ABOUT 400,000 HOME PURCHASERS ANNUALLY. EVEN MR. SUMICHRAST'S MOST PESSIMISTIC FORECASTS ARE FOR MORE THAN 3 TIMES THAT NUMBER OF STARTS THIS YEAR.

THAT MEANS THAT THE SIBSIDY WILL NOT ONLY FAIL TO INCREASE, BUT MAY ACTUALLY DETER NEW STARTS. SOME HOME BUYERS WILL UNDOUBTEDLY DELAY PURCHASES IN THE HOPES THAT NEXT YEAR THEY WILL BE AMONG THE LUCKY FEW TO HAVE THEIR INTEREST PAYMENTS SUBSIDIZED.

ALSO, IT WILL TAKE SOME TIME FOR THE BILL TO BECOME LAW; ADDITIONAL TIME IS NEEDED TO DRAFT THE IMPLEMENTING REGULATIONS; AND, STILL ADDITIONAL TIME IS REQUIRED FOR THE NECESSARY APPROPRIATIONS. THE PROBABLE TIME FRAME FOR IMPLEMENTATION MAY BE NEXT FALL -- OR PERHAPS EVEN WINTER.

WHILE ALL THIS IS DRAGGING ALONG, POTENTIALLY ELIGIBLE FAMILIES CAN BE EXPECTED TO POSTPONE THEIR HOUSING PURCHASES UNTIL THE CHEAPER MORTGAGES BECOME AVAILABLE. DURING THAT PERIOD, HOUSING CONSTRUCTION COULD GO FROM DEPRESSED TO NEAR NON-EXISTENT.



THE POOR TIMING HURTS. WE LOOK FOR THE BILL TO BECOME EFFECTIVE RIGHT IN THE MIDDLE OF THE UPTURN WHICH THE ECONOMISTS HAVE PROMISED US. THAT MEANS IT GOES TO WORK JUST WHEN IT CAN DO THE MOST HARM BY CONTRIBUTING TO ANOTHER INFLATIONARY SPIRAL IN HOUSING COSTS.

CONGRESS HAS DIAGNOSED THE PROBLEM OF THE HOUSING INDUSTRY AS HIGH MONTHLY MORTGAGE PAYMENTS. BUT THAT IS A SYMPTOM, NOT THE DISEASE.

CONGRESS IS LIKE THE DOCTOR WHO SAYS PROUDLY THAT HE HAS SUCCESSFULLY TREATED THE PATIENT'S SYMPTOM -- BUT UNFORTUNATELY IN THE MEANTIME THE PATIENT HAS DIED OF THE UNDERLYING DISEASE. THAT UNDERLYING DISEASE MAY BE A HUGE FEDERAL DEFICIT WHICH DRIES UP AVAILABLE MORTGAGE FUNDS.

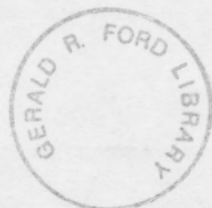
WE DO NOT BELIEVE THAT WE CAN SPEND OUR WAY OUT OF THE HOUSING SLUMP WITHOUT SETTING THE NATION UP FOR A NEW AND CRIPPLING INFLATIONARY SPIRAL -- IN WHICH HOUSING WOULD BE THE FIRST TO SUFFER.



NOT ONLY IS THE INTEREST SUBSIDY PROGRAM UNWISE, IT IS ALSO UNNECESSARY. THE RECENT RECORD INDICATES THAT VERY HIGH LEVELS OF DEMAND AND PRODUCTION -- AND I MEAN WELL OVER 2 MILLION ANNUAL STARTS -- CAN BE SUSTAINED WITH INTEREST RATES RANGING FROM 7-1/2 TO 8 PERCENT. MORTGAGES BEARING THAT RATE ARE NOW AVAILABLE UNDER OUR TANDEM PLAN.

THE TANDEM PROGRAM IS ONE OF THE TOOLS WE ARE USING TO ALLEVIATE THE CURRENT HOUSING CRISIS. THE EMERGENCY HOME PURCHASE ASSISTANCE ACT OF 1974 GIVES THE SECRETARY DISCRETIONARY AUTHORITY TO OPERATE A TANDEM PROGRAM THROUGH THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION -- OR GIINIE MAE.

UNDER THIS PLAN, GNMA MAKES COMMITMENTS TO PURCHASE -- AND THEN PURCHASES FROM LENDERS -- MORTGAGES WRITTEN AT AN INTEREST RATE DETERMINED BY A STATUTORY FORMULA. TODAY THAT INTEREST RATE IS BELOW 8 PERCENT.



GNMA THEN SELLS THESE MORTGAGES AT AUCTION TO THE FEDERAL NATIONAL MORTGAGE ASSOCIATION -- FANNIE MAE -- OR TO PRIVATE INVESTORS. GNMA ABSORBS THE DIFFERENCE BETWEEN THE PURCHASE PRICE AND SALES PRICE AS A SUBSIDY.

THE TANDEM PROGRAM NOT ONLY PROVIDES A SHALLOW SUBSIDY FOR MORTGAGE LOANS, BUT ALSO INCREASES THE TOTAL AMOUNT OF FUNDS AVAILABLE FOR MORTGAGE CREDIT. UNLIKE THE "MUSICAL HOUSES" GAME THAT CONGRESS PROPOSES -- WITH TANDEM, WHEN THE MUSIC STOPS, THERE IS MORE MORTGAGE MONEY AND MORE HOUSES.

DURING THE PAST YEAR, GINNIE MAE MADE COMMITMENTS TO BUY \$12.5 BILLION DOLLARS IN TANDEM PLAN MORTGAGES AT BELOW-MARKET INTEREST RATES. TO DATE, WE HAVE PURCHASED ABOUT \$2.5 BILLION DOLLARS' WORTH OF MORTGAGES, LEAVING MORE THAN \$9.5 BILLION DOLLARS STILL IN THE PIPELINE FOR PURCHASE.

THAT MEANS THAT YOU AND YOUR HOME BUYERS STILL HAVE \$9.5 BILLION DOLLARS OF FINANCING FUNDS, SOME AT 7 PERCENT, TO SUPPORT FUTURE TRANSACTIONS. A GOOD PROPORTION OF THE COMMITMENTS ARE ALLOCATED FOR SPRING AND SUMMER HOUSING STARTS. THOSE STARTS SHOULD GIVE A DESIRABLE BOOST TO THIS YEAR'S HOUSING CONSTRUCTION.



HUD SUPPORTS LEGISLATION WHICH WOULD INCREASE OUR TANDEN AUTHORITY AND EXTEND ITS AVAILABILITY FOR ANOTHER YEAR, TO OCTOBER 1976. WE ALSO FAVOR EXTENDING THE ACT TO ENABLE GNMA TO PURCHASE MORTGAGES COVERING MULTI-FAMILY PROJECTS, AND INDIVIDUAL CONDOMINIUM UNITS, WHICH ARE NOT FHA-INSURED.

A GREAT PLUS OF THE TANDEN PLAN IS THAT IT IS A MORE SIMPLE AND INEXPENSIVE WAY TO PUT MONEY INTO THE MORTGAGE MARKET THAN THE PENDING SUBSIDY LEGISLATION. AND, IT CAN BE QUICKLY IMPLEMENTED. HENCE, IT CAN ADAPT TO THE RAPIDLY CHANGING MARKET CONDITIONS THAT CHARACTERIZE THE HOUSING INDUSTRY.

BY TRADITIONAL STANDARDS, THE HOUSING SECTOR SHOULD ALREADY HAVE BEGUN A RAPID RECOVERY. FEDERALLY INSURED SAVINGS AND LOANS HAD NET-INFLOWS OF NEARLY \$10 BILLION DOLLARS -- DURING THE FIRST QUARTER OF 1975 -- WITH PERHAPS ANOTHER \$4 BILLION DOLLARS COMING INTO MUTUAL SAVINGS BANKS. MORTGAGE MONEY IS AVAILABLE. INTEREST RATES ARE BELOW LAST YEAR'S UNUSUAL LEVELS.



WHAT THEN IS HOLDING NEW HOME BUYERS BACK?

THE ANSWER APPEARS TO BE LACK OF CONSUMER CONFIDENCE. LAST MONTH SIX OF YOUR 14 AREA VICE PRESIDENT REPORTS EXPRESSLY MENTION LACK OF BUYER CONFIDENCE, AND MOST OF THE OTHERS IMPLY THAT SUCH IS THE PROBLEM.

WE KNOW THAT CONSUMERS ARE WORRIED ABOUT THE ECONOMY. THEIR CONFIDENCE CAN ONLY BE RESTORED WITH A CONVINCING DEMONSTRATION THAT THE RECESSION CAN BE CONTROLLED WITHOUT ANOTHER WILD BOUT WITH INFLATION. SINCE WHAT AILS HOUSING PRODUCTION IS LACK OF CONFIDENCE, NOT LACK OF MORTGAGE MONEY, THE CURE SHOULD BE LESS GOVERNMENT SPENDING -- NOT MORE. WE KNOW THAT HUGE ADDITIONAL FEDERAL SPENDING PROGRAMS WILL FUEL THE FIRES OF INFLATION.



NOW, A RELATED PROBLEM IS THAT TOO MANY CONSUMERS THINK THAT "THEY DON'T BUILD HOUSES LIKE THEY USED TO". I DISAGREE; I KNOW YOU BUILD THEM BETTER.

BUT, IT'S UP TO BOTH OF US TO ASSURE THE CONSUMER OF THE QUALITY HE RECEIVES WHEN HE PURCHASES A NEW HOME. AFTER ALL, THE PURCHASE OF A HOME IS FOR MOST AMERICAN CONSUMERS THE BIGGEST BUSINESS TRANSACTION OF THEIR LIFETIME.

YOUR PRESIDENT HAS TAKEN UP THE CHALLENGE. RECENTLY ANNOUNCING YOUR NEW WARRANTY PROGRAM, HE SAID "WE MUST START BY BUILDING CONSUMER CONFIDENCE".

FHA ALSO HAS A WARRANTY PROGRAM TO PROTECT HOME BUYERS. BUT THAT PROGRAM IS QUITE LIMITED. IT HAS ONLY A ONE-YEAR DURATION AND COVERS ONLY THE HOUSING CONSTRUCTION GUARANTEED BY FHA, VA OR FNMA.

YOUR ORGANIZATION'S NEW WARRANTY PROGRAM IS AVAILABLE FOR A LONGER PERIOD AND FOR A BROADER CATEGORY OF NEW CONSTRUCTION. YOUR PLAN REPRESENTS AN IMPORTANT STEP IN BUILDING THE KIND OF CONSUMER CONFIDENCE NECESSARY TO A ROBUST RECOVERY IN HOUSING.



YOUR PLAN ALSO TEACHES AN IMPORTANT LESSON REGARDING THE CAPACITY OF PRIVATE INDUSTRY TO RESPOND IN A CREATIVE WAY TO CONSUMERS' NEEDS --- WITHOUT GOVERNMENT INTERVENTION. THAT IS THE GENIUS OF THE FREE ENTERPRISE SYSTEM.

SINCE WE SHARE A CONCERN FOR THE CONSUMER OF HOUSING, I OFFER YOU NOT ONLY AN ACCOLADE, BUT A PLEDGE OF OUR COOPERATION. WE WILL LISTEN TO YOUR IDEAS ON WAYS THAT WE CAN BE SUPPORTIVE OF CREATIVE PRIVATE SOLUTIONS TO HOUSING PROBLEMS.

YOUR INSIGHT WILL BE VALUABLE AS TO HOW EXISTING GOVERNMENT WARRANTY PROGRAMS CAN BEST BE USED TO COMPLEMENT PRIVATE WARRANTY PLANS.

WARRANTIES ARE BUT ONE EXAMPLE OF THE BROAD RANGE OF ISSUES UPON WHICH I WANT TO ENCOURAGE A CONTINUING DIALOGUE WITH GROUPS IN THE PRIVATE SECTOR SUCH AS THE NAHB. THE GOVERNMENT CAN HELP MAKE IT POSSIBLE FOR HOMES TO BE BUILT, -- BUT ONLY YOU CAN BUILD THOSE HOMES.



YOUR INDUSTRY IS JUST BARELY EMERGING FROM A LENGTHY PERIOD OF LOW PRODUCTION. THE KEY INDICATORS FOR HOUSING ARE BEGINNING TO POINT IN THE RIGHT DIRECTION. THE ECONOMY AS A WHOLE IS FINALLY STARTING THE SLOW PAINFUL CLIMB UPWARDS.

AS PRESIDENT NORMAN SAID "(THERE'S) NO TIME FOR MOURNING, WE'VE GOT A GOOD PROGRAM, LET'S GET BUSY!"

I AGREE. WE ALL HAVE A LOT OF WORK TO DO, AND A LONG WAY TO GO. I HOPE THAT THE NATIONAL ASSOCIATION OF HOME BUILDERS AND HUD CAN TRAVEL THE ROAD TOGETHER -- ASSISTING EACH OTHER -- TO PROVIDE A DECENT HOME FOR "EVERY AMERICAN FAMILY".

THANK YOU.

