[Sept. 1976]

Home Owners

My goal is homeownership for every American family that wants to own its own home and is willing to work for it.

There are three principal barriers to the achievement of this goal, and I intend to deal with each of them. The most important barrier, of course, is high interest rates. My economic policies, including tight control of unnecessary Federal spending, will bring interest rates down.

The second important barrier to homeownership is downpayment requirements which often require years of saving. For those families who have proved they can hold a job and pay their bills, I shall ask Congress next year to change the FHA law to reduce downpayments by about one-third of what they are now.

The third important barrier to homeownership, is the size of the monthly payments. To deal with this problem, I will order expanded use of existing authorities to lower payments in the early years of homeownership and gradually increase them as family income goes up.

My goal is a home for every American who wants to own his own house, and is willing to work for it.

For the American families who want to own a home -- where the downpayment has been the principal barrier -- for those who have proved they can hold a job and pay their bills, I shall ~~ask Congress next year to change~~ the FHA law to reduce downpayment requirements.

(Optional Descriptive Paragraph)

Under my proposal, if you make $275 a week, your downpayment for a good house would be lowered one-third, from about $1,750 to about $1,250.

[illegible]

[illegible]

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[Sept. 1976]

INSERT PAGE 8

We must set goals and keep after them.

My first goal is 2 million new permanent jobs every year. Can we do it?

Yes. In the last 18 months we created more than 4 million new jobs. Today, there are more Americans at work -- 88 million of them -- than every before in our history.

But there are still too many Americans out of work, and in particular, too many young Americans in our urban areas who cannot find a good job, or get the training and experience they need to find a good job.

Americans have long since recognized the wisdom of assuring that every high school graduate who is willing, able and qualified be provided the means of going to college. We have done so through grants, loans and scholarships.

I am convinced that we can create a job scholarship program which will enable young people who choose not to go to college to get a job at which they can learn a trade, a skill, a craft or just plain good business sense. Such a program would make available a one-time [redacted], not for salary costs, but for costs of on-the-job training.

HUD - Effect is to reduce int rate 1,000,000 new Homeowners

Disaster - Bill Brock & Lud Ashley

HUD None

1.	FORMAT:	HOMEOWNERSHIP OPPORTUNITIES FOR MIDDLE AMERICA (HOMA) This program would provide a tax credit to purchasers of first homes. Both new and existing homes would be eligible. There would be a maximum mortgage limit of $38,000. The amount of the tax credit would be the lesser of (1) the difference between payments to principal and interest at the current market rate (9% assumed in this analysis) and payments to principal and interest at 6% or (2) the difference between principal and interest at 9% and 20% of the family's income. This program would phase out at about the $18,000 income level.	BROCK-ASHLEY GNMA would pay 2% interest on the mortgage initially, and any additional interest due to the variable rate provisions. This would accumulate with interest in the borrower's GNMA loan account which is to be repaid when the house is sold or by arrangement with GNMA.	GRADUATED PAYMENT/FIX Initial mortgage paym increased at a set ra payments should bette initial income constr
2.	Number of Families Assisted:	1.33 million	1.7 million	1.5 million
3.	Subsidy per Family:	The average subsidy per family in the first year of about $500 and of about $650 over the life of the loan.	There is no direct subsidy involved in the program. There are, however, indirect costs involved in all direct loan programs.	NONE
4.	Number of Incremental Purchaser per Year:	230,000	The GNMA loan would reduce monthly payments enough such that 250,000 to 300,000 additional families would be able to afford a $35,000 house without spending more than 25% of their income on housing. The GNMA loan would reduce current costs but increase total costs because the GNMA loan must be repaid with accumulated interest. Thus, there may be market resistance to this program, since it substantially reduces or eliminates a homeownership equity accumulation, one of the primary perceived benefits of homeownership.	80,000 (under constrai exceed 100%)
5.	First Year Outlays:	About $665 million	The average GNMA loan would be about $500 after one year. If 1.7 million loans were issued, total lending under the program would reach $850 million.	NONE
6.	Total Costs:	$1.7 billion over the period of subsidy for each year's assisted families. Assuming a 7% growth rate in normal income, the $14,000 family would phase out in 5 years and higher income families would phase out sooner.	Total lending for the first year participants will reach about $5 billion after 5 years. Lending to participants entering in years 2-5 will be about $10 billion. As currently conceived, total lending under the program will increast at an exponential rate. In theory, however, all of these outlays would be recovered as recipients ultimately repaid their GNMA loans.	NONE
7.	Cost per Incremental Purchaser:	(First Year) - $2,900 ($665 million divided by 230,000) (Total) - $7,391 ($1.7 billion divided by 230,000 incremental purchasers)	(First Year) - (Total) - There are no direct costs to the government, but in terms of budget impact, total lending would be about $2,800 per incremental purchaser in the first year. After 25 years, GNMA would have lent about $250,000 per incremental first year purchaser.	(First Year) - NONE (Total) - NONE
8.	Risk to the Government:	Essentially no default risk since FHA insurance is not required.	There is a particularly high risk of default associated with second mortgages such as the GNMA loans which may be higher than the original principal of the first mortgage, by the time it becomes due.	Increased FHA default

4. Number of Incremental Purchaser per Year:	230,000	The GNMA loan would reduce monthly payments enough such that 250,000 to 300,000 additional families would be able to afford a $35,000 house without spending more than 25% of their income on housing. The GNMA loan would reduce current costs but increase total costs because the GNMA loan must be repaid with accumulated interest. Thus, there may be market resistance to this program, since it substantially reduces or eliminates a homeownership equity accumulation, one of the primary perceived benefits of homeownership.	80,000 (under constraint tha exceed 100%)
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8. Risk to the Government:	Essentially no default risk since FHA insurance is not required.	There is a particularly high risk of default associated with second mortgages such as the GNMA loans which may be higher than the original principal of the first mortgage, by the time it becomes due.	Increased FHA default risk
9. Ease of Administration:	If assistance is provided as a tax credit, administration is extremely inexpensive but costs uncontrollable. If the assistance is provided by direct subsidies, administration is complex, but the number of recipients, hence costs, can be controlled.	GNMA would have to become a mortgage originator, and servicer or would have to pay mortgage bankers to provide this service.	FHA underwriting. FHA will
10. Other Problems:		The homeowner's real equity in the home is substantially reduced by the GNMA second lien. His mobility also is reduced because he must repay the loan if he sells his home. Given the potential exponential growth rate of total lending under the program, the indirect cost of additional interest on all Treasury borrowing is likely to be substantial. Finally, GNMA could become a large holder of single family homes if default rates are as high as may be reasonably expected.	Lender resistance due to inc reduced cash flow.
IMPACT on Typical $15,000 Income Family Buying a $39,000 House with $35,000 Mortgage:	Monthly mortgage payment reduced by $36, from $286 to $250, in first year; reduced by $15 in second year. No impact after second year.	Monthly mortgage payment reduced by $44, from $286 to $242, in each year. Total mortgage debt increases continually, by over $5,500 per year.	Monthly mortgage payment re first year; payment rises b term.

$4,000 Down Payment

Senator Brooke HUD oppose

Sen Brooke HUD oppose

T/FIXED RATE MORTGAGE	TAX EXEMPT SAVINGS	DOWNPAYMENT VOUCHER/GRANT	FEDERA
payments would be reduced and later payments et rate of increase. Increasing mortgage better match rising incomes. This mitigates onstraints on homeownership.	Contribution made to, and interest earned on, a savings account would be deductible from taxable income if the savings in that account are used for a downpayment by first time home purchasers. Limits would be $20,000 income, $10,000 total savings, $2,500 per year in addition to savings.	$1,000 cash payment to buyer	Federa second
	1.5 million families	1.46 million	1.55 m
	$2,500	$1,000	NONE
nstraint than loan to value ration cannot	75 - 100,000	60,000 Raises loan-to-value from .86 to .89 based on in-house research, this would increase housing demand by 60,000 units per year.	90,000 Lowers home if be in e
	$938 million	$1.4 billion	NONE
	Year 1: $938M a year Year 2: $1.88B a year Year 3: $2.86B a year Years 4-8: $3.75B	All costs are borne in the first year a family is a subsidy recipient.	NONE
E E	(First Year) - $37,500 to 50,000 (Total) - $37,500 to 50,000	(First Year) - $23,000 (Total) - $23,000	(First Y (Total)
ult risk	NONE	NONE	A signif increasi rate wou

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r) - NONE - NONE	(First Year) - $37,500 to 50,000 (Total) - $37,500 to 50,000	(First Year) - $23,000 (Total) - $23,000	
FHA default risk	NONE	NONE	A i r
riting. FHA will finance some this year (Section 245)	Run through tax system; so minimal administrative cost	Would impose significant operational capacity to administer the program (e.g., would have to certify incomes of participants ($20,000 income limit, and if constraints such as requiring purchase of decent safe and sanitary housing were imposed, would have to verify that constraints were met.)	R t
istance due to increased default risk and sh flow.	Creation of a new tax loophole with a large constituency. Slow implementation, most recipients will take several years to accumulate enough in their downpayment account to make a purchase. Also, deduction amount need not correlate with housing expenditures.	Equal subsidy would be paid to families of different wealth. May have slight inflationary impact on price of housing since subsidy reduces purchase price.	A t h
tgage payment reduced by $75, from $286 to $211, in payment rises by 3 percent per year over the mortgage	Downpayment effectively reduced by $1,000, from $4,000 to $3,000, through tax saving.	Lowers downpayment by $1,000 from $4,000 to $3,000.	R m

Seidman/Strong ✓ OMB ✓

FEDERAL GUARANTEE OF DOWNPAYMENT Federal guarantee of loan for one half of downpayment. This second loan would be secured by a second lien.	REDUCE FHA DOWNPAYMENT REQUIREMENT Legislative change to reduce downpayment required for FHA insurance Current: 3% for up to $25,000 10% for $25,000 - $35,000 20% for $35,000 - $45,000 Option: 3% for up to $25,000 5% for $25,000 - $40,000 10% for $40,000 - $50,000 20% for $50,000 - $60,000
1.55 million	275,000 (expected FHA volume plus incremental purchases)
NONE	NONE
90,000 - 140,000 Lowers downpayment required at purchase but raises total price of home if the second lien is amortized at mortgage rate which will be in excess of rate of inflation.	20,000 Reduces downpayment requirement for FHA only by an average of 3%.
NONE	NONE
NONE	NONE
(First Year) - NONE (Total) - NONE	(First Year) - NONE (Total) - NONE
A significant increase in foreclosure rates. For example, by increasing loan-value ratio by 8 percent (.86 to .93) foreclosure rate would be increased by 11 percent. (elasticity of 1.4).	An increase in foreclosure rate. Losses should be covered by the .5% premium.

	90,000 - 140,000 Lowers downpayment required at purchase but raises total price of home if the second lien is amortized at mortgage rate which will be in excess of rate of inflation.	20,000 Reduces downpayment requirement for FHA only by an average of 3%.
	NONE	NONE
	NONE	NONE
	(First Year) - NONE (Total) - NONE	(First Year) - NONE (Total) - NONE
	A significant increase in foreclosure rates. For example, by increasing loan-value ratio by 8 percent (.86 to .93) foreclosure rate would be increased by 11 percent. (elasticity of 1.4).	An increase in foreclosure rate. Losses should be covered by the .5% premium.
pants	Requires HUD processing at time of guarantee and management in the event of foreclosure.	Simple change in FHA processing. Larger volume of FHA insurance would increase work load.
. ce	Amortizing second life of mortgage will require a higher income to support loan (e.g., a higher monthly payment because of the higher mortgage amount).	Requires legislative change. Has greatest effect on homes in excess of $30,000. Could result in FHA becoming more competitive with private mortgage insurance.
	Reduces downpayment by $2,000, from $4,000 to $2,000; raises monthly payment by $20, from $282 to $302.	Could lower downpayment by up to $2,500, from $4,000 to $1,500.

1. FORMAT:	HOMEOWNERSHIP OPPORTUNITIES FOR MIDDLE AMERICA (HOMA) This program would provide a tax credit to purchasers of first homes. Both new and existing homes would be eligible. There would be a maximum mortgage limit of \$38,000. The amount of the tax credit would be the lesser of (1) the difference between payments to principal and interest at the current market rate (9% assumed in this analysis) and payments to principal and interest at 6% or (2) the difference between principal and interest at 9% and 20% of the family's income. This program would phase out at about the \$18,000 income level. @ 13.7, optional 305 227.83 305	GRADUATED PAYMENT/FIXED RATE MORTGAGE Initial mortgage payments would be reduced and later payments increased at a set rate of increase. Increasing mortgage payments should better match rising incomes. This mitigates initial income constraints on homeownership.	FEDERAL GUARANTEE OF DOWN Federal guarantee of loan second loan would be secu
2. Number of Families Assisted:	1.33 million	1.5 million	1.55 million
3. Subsidy per Family:	The average subsidy per family in the first year of about \$500 and of about ~~\$650~~ 1150 over the life of the loan. @ 6% 9% 1280 average income assumed - 15,800	NONE	NONE
4. Number of Incremental Purchaser per Year:	~~230,000~~ 250,000 HUD estimate ~~32~~ 103,000 OMB estimate for comparable subsidy under 5.5% income growth. 52,000 OMB estimate for comparable subsidy under 7% income growth.	~~80~~ 40,000 (under constraint than loan to value ration cannot exceed 100%) in first year. (With HUD changes.) 100,000 in later years 80,000 under ~~est~~ earlier estimate.	90,000 - 140,000 Lowers downpayment requir home if the second lien i be in excess of rate of i
5. First Year Outlays:	About \$~~665~~ 670 million	NONE	NONE
6. Total Costs:	\$1.~~7~~8 billion over the period of subsidy for each year's assisted families. Assuming a ~~7%~~ 5.5% growth rate in normal income, the \$14,000 family would phase out in 5 years and higher income families would phase out sooner.	NONE	NONE
7. Cost per Incremental Purchaser:	HUD estimate (First Year) - \$2,~~900~~ 700 (\$~~665~~ 670 million divided by 2~~3~~5 0,000) (Total) - \$7,~~391~~ 200 (\$1.~~7~~8 billion divided by 2~~3~~5 0,000 incremental purchaser OMB estimate (First Year) - \$~~12,800~~ 6,500 (\$~~670~~ million divided by 103,000) \$ 12,800 for 52,000 units (Total) - \$~~32,200~~ 17,480 (\$1.8 billion divided by 103,000) 32,700 for 52,000 units	(First Year) - NONE (Total) - NONE	(First Year) - NONE (Total) - NONE
8. Risk to the Government:	Essentially no default risk since FHA insurance is not required.	Increased FHA default risk	A significant increase i increasing loan-value ra rate would be increased
		... finance some this year (Section 245)	Requires HUD processing ...

4. Number of Incremental Purchaser per Year:	~~230,000~~ 250,000 HUD estimate 103,000 OMB estimate for comparable subsidy under 5.5% income growth. 52,000 OMB estimate for comparable subsidy under 7% income growth.	40,000 (under constraint than loan to value ration cannot exceed 100%) in first year, (with HUD changes) 100,000 in later years 80,000 under ~~ea~~ earlier estimate,	90,000 - 140,000 Lowers downpayment requirec home if the second lien is be in excess of rate of in
5. First Year Outlays:	About $670 million	NONE	NONE
6. Total Costs:	$1.8 billion 5.5% over the period of subsidy for each year's assisted families. Assuming a ~~7%~~ growth rate in normal income, the $14,000 family would phase out in 5 years and higher income families would phase out sooner.	NONE	NONE
7. Cost per Incremental Purchaser:	HUD estimate (First Year) - $2,700 ($670 million divided by 250,000) (Total) - $7,200 ($1.8 billion divided by 250,000 incremental purchaser OMB estimate (First Year) - $6,500 ~~12,800~~ ($670 million divided by 103,000) $12,800 for 52,000 units (Total) - $17,480 ~~32,200~~ ($1.8 billion divided by 103,000) 32,700 for 52,000 units	(First Year) - NONE (Total) - NONE	(First Year) - NONE (Total) - NONE
8. Risk to the Government:	Essentially no default risk since FHA insurance is not required.	Increased FHA default risk	A significant increase in increasing loan-value rati rate would be increased by
9. Ease of Administration:	If assistance is provided as a tax credit, administration is extremely inexpensive but costs uncontrollable. If the assistance is provided by direct subsidies, administration is complex, but the number of recipients, hence costs, can be controlled.	FHA underwriting. FHA will finance some this year (Section 245)	Requires HUD processing at the event of foreclosure.
10. Other Problems:		Lender resistance due to increased default risk and reduced cash flow.	Amortizing second life of to support loan (e.g., a h higher mortgage amount).
IMPACT on Typical $15,000 Income Family Buying a ~~$37,000~~ 40,000 House with ~~$35,000~~ 38,000 Mortgage:	Monthly mortgage payment reduced by $56, from $306 to $250, in first year; reduced by $42 in second year. ~~No impact after second year.~~ , $28 in third year and $13 in fourth Year for a total tax credit of $1,668 over four years	Monthly mortgage payment reduced by $75, from $286 to $211, in first year; payment rises by 3 percent per year over the mortgage term. with HUD changes, monthly mortgage payment reduced by $37 from $284 to $247 in first year and by $30 to $254 in second year. (assumes .6% PMI premium instead of usual .25%	Reduces downpayment by $2 monthly payment by $20, fr

ents e tes	FEDERAL GUARANTEE OF DOWNPAYMENT Federal guarantee of loan for one half of downpayment. This second loan would be secured by a second lien.	REDUCE FHA DOWNPAYMENT REQUIREMENT Legislative change to reduce downpayment required for FHA insurance Current: 3% for up to $25,000 10% for $25,000 - $35,000 20% for $35,000 - $45,000 Option: 3% for up to $25,000 5% for $25,000 - $40,000 10% for $40,000 - $50,000 20% for $50,000 - $60,000
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	NONE	NONE
t	90,000 - 140,000 Lowers downpayment required at purchase but raises total price of home if the second lien is amortized at mortgage rate which will be in excess of rate of inflation.	20,000 Reduces downpayment requirement for FHA only by an average of 3%.
	NONE	NONE
	NONE	NONE
	(First Year) - NONE (Total) - NONE	(First Year) - NONE (Total) - NONE
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		20,000
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n 245)	Requires HUD processing at time of guarantee and management in the event of foreclosure.	Simple change in FHA processing. Larger volume of FHA insurance would increase work load.
	Amortizing second life of mortgage will require a higher income to support loan (e.g., a higher monthly payment because of the higher mortgage amount).	Requires legislative change. Has greatest effect on homes in excess of $30,000. Could result in FHA becoming more competitive with private mortgage insurance.
in rtgage + to	Reduces downpayment by $2,000, from $4,000 to $2,000; raises monthly payment by $20, from $282 to $302.	Could lower downpayment by up to $2,500, from $4,000 to $1,500.

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The third important barrier to homeownership, is the size of the monthly payments. To deal with this problem, I will order expanded use of existing authorities to lower payments in the early years of homeownership and gradually increase them as family income goes up.

[Sept. 1976]

For the American families who want to own a home -- where the downpayment has been the principal barrier -- for those who have proved they can hold a job and pay their bills, I shall ask Congress next year to change the FHA law to reduce downpayment requirements.

(Optional Descriptive Paragraph)

Under my proposal, if you make $275 a week, your downpayment for a good house would be lowered one-third, from about $1,750 to about $1,250.

[Sept. 1976]

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM LYNN/JIM CANNON

SUBJECT: Accelerated Homeownership Program

ISSUE

On August 27, you stated that one of the prime issues of the campaign that you intended to emphasize is an accelerated homeownership program. The purpose of this memorandum is to brief you on the options available to you. You should know that there is some question about the need for a Government program to promote homeownership. Home purchases are at a record level, and single-family starts are at longrun equilibrium.

DISCUSSION

An individual's decision to buy a house is affected by two financial considerations:

1. Ability to save enough capital to afford a downpayment.

2. Ability to make monthly payments on interest and principal.

Any expansion of homeownership would necessitate lowering one of these two costs. Various Federal programs like FHA mortgage insurance, VA housing benefits, mortgage purchase by GNMA and FNMA, as well as others, currently serve to reduce these costs. They serve either a nondifferentiated group of recipients like FHA programs or a special group like veterans.

An ad-hoc task force comprised of HUD, OMB, and the Domestic Council has reviewed the various possibilities of reducing both downpayments and monthly mortgage payments, through such devices as tax incentives, direct subsidies, and Federal underwriting and guarantees. Much consideration was given to limiting benefits to first homebuyers. The task force has determined four options (two affecting monthly mortgage payments and two affecting downpayment) to be worthy of further consideration.

Because of many unknowns, the precise effects of these policies is difficult to predict. In the past, we have undertaken some policies that have had dramatically different outcomes than expected.

This paper briefly describes four viable initiative options selected by the ad-hoc task force with their advantages and disadvantages. If you decide to go forward with one or more of these proposals, or a variant of them , the next question is our timing. The last section of this paper indicates the advantages and disadvantages of timing options.

PROGRAM OPTIONS

Monthly Mortgage Payments

1. Tax credit (or direct subsidy) to reduce monthly payments of first homebuyers to a 6 percent effective interest rate or to 20 percent of a persons income (which ever is higher). This program would:

   -- have a maximum mortgage limit of $38,000.

   -- Phase out above the $18,000 income level.

   -- Benefit 1.33 million families.

   -- Increase first home purchases by between 50,000 and 250,000 per year.

   -- Cost about $665 million the first year, $1.3 million the second year, and $1.9 billion per year for the life of the program thereafter.

   -- Cost $6,100 to $30,000 per incremental purchaser.

2. Graduated payments to reduce initial mortgage payments. Later payments would increase at a graduated rate to match rising incomes. (This program is already a demonstration program in some parts of the country.) The program would:

   -- Require acceptance by lending institutions and FHA underwriting.

   -- Benefit 1.5 million families.

   -- would require little or no budget outlays.

   -- Increase first home purchases by between 20,000 and 250,000 per year.

DOWNPAYMENT

3. Federal guarantee of second loan for one-half of the down-payment on any mortgage, up to a maximum guarantee of 7-1/2 percent and $5,000. The program would:

-- Require acceptance by lending institutions.

-- Benefit 1.5 million families.

-- Result in outlays for default of $300-500 million.

-- Assist 40,000 to 140,000 home purchasers.

-- Cost $2,000 to $12,000 per incremental purchaser.

4. Reduce FHA downpayment requirement from $-0- ($25,000 mortgage) to 50 percent ($50,000 mortgage), and increase FHA mortgage limit to $60,000. This program would:

-- Assist 275,000 to 1.0 million families.

-- Increase homeownership by 10,000 to 140,000 per year.

-- Have no outlay effect.

The following are the most important advantages and disadvantages of each of the options:

1. Monthly payment subsidy (tax credit or direct).

Pros

. Accelerates homeownership for first homebuyers, usually young moderate-income families with growing incomes.

. Assures recipients continued capacity to support mortgages until they reach an $18,000 income level.

. Phases out the subsidy with normal income growth, with few families as subsidy recipients for more than 3 to 5 years.

. Aids a lower income level than other alternatives.

Cons

- Substantial outlays will be required.

- Some families may not experience income growth and thus could be recipients of the program for a considerable period of time.

- May be criticized as welfare for the well-to-do ($14,000 to $18,000 income).

- There are many unknowns as to the number of home-buyers benefited (estimated range of 52,000 to 250,000 for the first year) with implied costs ranging from $6,100 to $30,000 per incremental purchaser.

- Will either warp the tax system or require considerable administration.

- Could be viewed as inequitable by recent first home purchasers and by renters who pay full taxes while new home buyers have up to 100% tax reduction.

2. Graduated payment/fixed-rate mortgage.

Pros

- Accelerates opportunity for homeownership for those with expectations of rising income by providing lower payments in early years of the mortgage.

- Involves no direct subsidies.

- FHA is already financing some graduated payment mortgages.

Cons

- Requires higher (at least 7 percent) downpayment to avoid outstanding balance exceeding house price (negative equity), so cannot be combined with a downpayment option.

- Increased default risk since, during early years of mortgage, amount owed could exceed original principal amount.

- Requires agreement with and cooperation from lenders.

- Some consumers will be wary if uncertain about their future income growth.

- Will probably require FHA insurance, another impediment to lender and consumer acceptance, as well as an additional workload burden and risk to HUD.

3. Federal guarantee of downpayment.

<u>Pros</u>

- Substantially reduces equity required.

- Does not depend on FHA.

- Can be combined with other subsidies.

- Can be limited to first home purchasers.

<u>Cons</u>

- Requires higher monthly payment.

- Requires cooperation/agreement with traditional lenders.

- Can be criticized as favoring middle-income families.

4. Reduce FHA downpayment and extend mortgage limit.

<u>Pros</u>

- Substantially reduces equity required for homes over $40,000.

- Can be combined with other subsidies.

- FHA may demonstrate viability of lower downpayment to private mortgage insurers.

- Lowest cost and lowest risk to the Government compared with other options.

<u>Cons</u>

- Will not reach many families unless FHA processing is substantially improved.

- Can be criticized for benefiting mainly middle-income families.

- Will partially compete with private mortgage insurers.

OTHER CONSIDERATIONS

Another question to be considered is the timing of the release of your accelerated homeownership program. Congress goes out of session on October 2. It is conceivable that submission of new legislation by your Administration or even a concrete proposal might be seized upon by the Congress to quickly pass a housing bill that would embarrass your Administration. Even if this does not happen, there is sure to be criticism of your proposal, outlining its inconsistency with past Administration opposition to congressional proposals for accelerated homeownership.

Another consideration is that there are several contingent questions regarding the above options that will require some time to develop answers. They include:

1. Acquiring more data from polling on whether monthly payments and/or downpayments are the most significant impediments to homebuying.

2. Determining if FHA underwriting can be improved and made more efficient to make it acceptable to builders.

3. Refining estimates of the number of incremental purchasers for each program.

4. Determining what terms lenders will require for non-FHA mortgages.

These questions should be resolved by the end of September.

File: Home Ownership

OFFICE OF MANAGEMENT AND BUDGET
ROUTE SLIP

TO Mr. Lynn May

Take necessary action	☐
Approval or signature	☐
Comment	☐
Prepare reply	☐
Discuss with me	☐
For your information	☐
See remarks below	☐

FROM Dan L. McGurk

DATE Sept. 7, 1976

REMARKS

OMB proposal:
Would increase ceiling on FHA loans and lower the downpayment.

Hills has not seen this but will be briefed on it this afternoon.

We don't want to discuss this specific document this p.m.

A.M.

OMB FORM 4
REV AUG 70

Lynn May

<u>President Ford and Home Ownership</u>

<u>Background</u>

The biggest impediment to more Americans owning their own home today is inflation. Inflation not only drives up the cost of building new homes, but also increases the interest rates that all new homebuyers must pay on their mortgages, and reduces the availability of mortgage credit.

President Ford has sought to reduce inflation through sound economic policies and by resisting -- and vetoing, where necessary -- Congressional legislation that would have required large increases in Federal spending. As the rate of inflation has declined, funds available for home purchases have soared: net savings flows into thrift institutions have risen from less than $2 billion in all of 1974 to over $22 billion in the first six months of 1976.

In addition, President Ford's leadership has brought this country out of the worst recession in forty years. The recovery has increased personal income substantially, thereby adding to the number of American families who qualify as worthy credit risks to buy a home. In the long run, increased disposable income is fundamental to increased home ownership.

As a result, the rate of housing starts for single family homes have increased 57% between December 1974 and July 1976; and the index of home sales volume has increased 44% in about the same period.

Direct Assistance

Since President Ford took office, his Administration:

- o Released tandem authority of $8 billion to assist the purchase of over 225,000 homes at below market interest rates.
- o Released budget authority of $7.9 billion to assist over 200,000 homebuyers through homeownership subsidy (section 235).
- o Assisted in $130 billion of mortgage acquisition for over 1.1 million homes through insurance and mortgage guarantees.
- o Signed several bills extending and expanding mortgage insurance, mortgage purchase authority, mortgage limits and reducing downpayment requirements for insured loans.
- o Proposed the Financial Institutions Act, which would improve the financial mechanisms to make more mortgage funds available and smooth out credit cycles.

Expanded Homeownership Plan

America is much more a country of homeowners than any other nation in the world. One of the reasons for that is the Federal Housing Authority which has for years facilitated homeownership through mortgage insurance. The time has come to take another forward step in helping more Americans own their own home.

 NO

The President is submitting legislation to increase the size of mortgages that the FHA will guarantee, and to sharply ~~drastically~~ reduce the downpayment required to qualify for FHA insurance. The downpayment will be reduced by between 20 and 50%, thereby expanding significantly ~~drastically~~ the number of Americans who can utilize FHA insurance to buy a home.

It is estimated that under this bold program about ______ additional families will be able to qualify for FHA home insurance for appropriate quality of houses where they have the income stability but have been unable to save up a downpayment in these inflationary times. Coupled with continued pressure to moderate inflation, this plan will permit a greatly expanded segment of lower and middle America to enjoy the benefits of homeownership.

Reducing downpayment requirements under section 203(b) of the Housing Act could increase the number of defaults significantly, and thereby be costly to the Treasury. On the other hand, President Ford has great faith in America, and in the recovery and anti-inflation policies of his Administration. In conjunction with these sound economic programs, he is confident that the mortgage insurance premium charged by FHA will adequantly cover the anticipated losses. Only if he is unsuccessful in convincing Congress to assist him in reducing inflation and aiding a strong and long-lasting recovery will there be any increased losses. The advantage of extending the benefits of homeownership to millions more Americans is worth the risk.

MARKET OPINION RESEARCH

September 8, 1976

MEMORANDUM TO: Alan Greenspan

FROM: Bob Teeter

SUBJECT: ISSUE PROPOSALS

My suggestion that we look at a program to make homeownership easier comes from the following conclusions:

First of all, there are no overriding issues that are affecting the President's support. Virtually all voting decisions are related to the voter's perception of the candidate, and the issues the President chooses to talk about and what he says about them are the means by which he can affect his perception. I have suggested that we take three or four of his past proposals, re-package them in more political terms, and then try to focus on them. Crime, catastrophic healt insurance and national defense should be included on this list along with foreig affairs.

Secondly, the President is currently seen as being strongly for [redacted] reducing inflation by holding down government spending. This is a key element of his current support and whatever we do with any other issue should not contradict or diminish this. Moreover, I think we should consider using vetoes aggressivel as a major plus and we are testing this possibility in a national poll this week end.

Thirdly, I think there is a need for us to come up with at least one major proposal where the President is seen as being <u>for</u> something that will help peop not just opposed to other proposals. It should be something designed to appeal to younger (18-34) and younger middle-aged (35-44) non-college educated voters, particularly those with family incomes between $7,500 and $20,000. Almost none of these people are Republicans, but well over half are available to a given Republican candidate in any election. If we aim at the under 35 group, the issu should not be one that deals with taxes or government spending as this group pay few taxes, are not very aware of those they do pay, and don't see inflation as t major problem older voters do.

Two possibilities I think we should look at are a program to promote homeownership among young families and/or a program to assist families in providing college, or some type of post secondary education, for their children.

A homeownership proposal should be aimed at the 18-30 year olds with family incomes under $15,000, most of whom have no post secondary education. This type of proposal also would have an advantage in that it could be sold as a job creation program and one that would help to stimulate an important segment of the economy. The evidence available seems to indicate that the down payment, rather than the monthly payment, is the problem for most of these people. We are addressing this question in our national poll this week-end.

A proposal to help middle income families send their children to college (possi-bly a tax deduction for college tuition) would have the advantage of appealing to a group that is somewhat older, more sure to vote, and of appealing to what always has been a strong middle class value. Education appears to be re-emergin as an important priority for families after several years of being down in the polls. Most people think that education is the means for upward social mobility in our society.

Attached is some background data on homeownership and attitudes toward it as measured in surveys of registered voters. Please note the difference between voters under 30 to 35 and the rest of the electorate in terms of current home-ownership, its importance as a goal, and the government's responsibility to do something about it. In each case, this group's interest is about double that of the total electorate.

I realize that you have some severe budget and policy restrictions but I still think we need to explore these two and possibly some other ideas that would appe to this younger, non-Republican segment of the electorate. I think we need some thing of this type to go with in the September 20 to October 5 period. Also, it is important to remember that we are not looking at issues where there is any tremendous demand in the polls, but rather something that can affect the Preside perception.

Profile of Home Ownership

Nearly three-fourths (73%) of the American electorate own their own homes. As might well expect, there is a trend of increasing home ownership by age with this pattern tending to level out above the age of thirty-five. Among voters of the 18-24 age range, their housing pattern is nearly evenly divided between owning a home (48%) and renting (46%). Voters aged 25-34 are somewhat more often home-owners (65%) although they have not yet reached the average level of home ownership.

The distribution of home ownership across all age groups is fairly even at 17% or 18% with the exception of the 18-24 year old voters who comprise a lower 12% of all homeowners. Over half (58%) of all renters are between the age of 18 and 35, with renting declining as one grows older although it takes a slight jump up beyond the age of sixty-five.

Other differences in home ownership patterns are worth noting. Whites (75% own homes) are more often home-owners than blacks (51%) and voters who are Jewish (62% home ownership) are less likely to own homes than their Protestant (75% home ownership) or Catholic (74% home ownership) counterparts.

The most important variable to defining a profile of the home owner is total family income. Below $10,000 yearly family income, only slightly more than one-half of the voters own their own homes while over $10,000, the home ownership rate jumps quickly, to 73% for voters whose total family income range from $10,000 to $15,000 and 88% for voters whose family income exceeds $15,000 a year.

Are you a home-owner or do you rent?

	December 1975 U.S. National		
	Home-owner	Renter	Don't Know
Total	100%	100%	100%
Age			
18-24 years	12	33	64
25-34 years	17	25	5
35-44 years	18	13	9
45-54 years	18	10	--
55-64 years	17	8	--
Over 65	18	11	18
Income			
0-$4,999	11	23	50
$5,000-$9,999	21	41	33
$10,000-$14,999	27	20	--
Over $15,000	39	14	16
Education			
Less than high school	28	33	22
High school	37	36	33
Some college	18	18	44
College graduate/Post-graduate	17	12	--
Religion			
Catholic	29	27	32
Protestant	60	54	55
Jewish	3	5	--
Union Membership			
Union household	32	27	18
Non-union household	67	71	77
Race			
White	92	79	100
Black	8	21	--
Sex			
Male	51	47	50
Female	49	53	50
Number of Cases	(1090)	(390)	(22)

Are you a home-owner or do you rent?

		December 1975 U.S. National		
	Total	Home Owner	Renter	
Total	100%	73	26	1
Age				
18-24 years	100%	48	46	5
25-34 years	100%	65	35	--
35-44 years	100%	78	21	1
45-54 years	100%	83	17	--
55-64 years	100%	86	14	--
65 and Over	100%	81	17	2
Income				
0-$4,999	100%	54	42	2
$5,000-$9,999	100%	57	71	1
$10,000-$14,999	100%	73	27	--
Over $15,000	100%	88	11	--
Education				
Less Than High School	100%	69	30	1
High School	100%	73	26	1
Some College	100%	71	26	2
College Grad/Post-Graduate	100%	79	21	--
Religion				
Catholic	100%	74	24	2
Protestant	100%	75	24	1
Jewish	100%	62	36	-
Union Membership				
Union household	100%	76	23	1
Non-union household	100%	71	27	2
Race				
White	100%	75	23	2
Black	100%	51	49	-
Sex				
Male	100%	74	25	1
Female	100%	71	27	1

When held constant for levels of income, age loses much of its power as a main determinant of home ownership. Voters under the age of thirty-five whose family income exceeds $15,000 own homes nearly as often as those voters from thirty-five to fifty-four. Above the age of fifty-four, the distribution of home ownership is more evenly balanced across income levels. Age is an important predictor of home ownership in serving as a surrogate for the availability of sufficient funds to purchase one's own home. Young people, in trying to establish themselves usually do not enjoy sufficient yearly income so that they may immediately purchase a home. Rather, the years between 18 and 35 are most often spent saving money for a home and building one's income to a level which would make the purchase of a home financially feasible.

Education, in being highly correlated as the income displays a similar pattern of home ownership. Renters more often have less than a high school education which can keep them constrained to the lower income levels.

MARKET OPINION RESEARCH

Profile of Home-owners and Renters by Age, Income and Education

		Home-owners					Renters				
	Total	Under $5,000	$5,000-$9,999	$10,000-$14,999	Over $15,000	# of Cases	Under $5,000	$5,000-$9,999	$10,000-$14,999	Over $15,000	# of Cases
Age											
18-24 years	100%	7	20	24	40	(117)	22	51	16	11	(120)
25-34 years	100%	1	12	37	49	(164)	7	36	38	17	(88)
35-44 years	100%	1	13	34	51	(175)	20	41	16	23	(44)
45-54 years	100%	4	16	30	50	(170)	23	37	27	13	(30)
55-64 years	100%	16	30	19	32	(165)	39	39	4	18	(28)
Over 65	100%	38	36	16	10	(160)	67	22	5	8	(36)

		Home-owners					Renters				
	Total	Less Than High School	High School	Some College	Graduate	# of Cases	Less Than High School	High School	Some College	Graduate	# of Cases
Age											
18-24 years	100%	17	38	38	5	(134)	83	40	21	5	(129)
25-34 years	100%	8	40	24	29	(177)	12	40	24	25	(95)
35-44 years	100%	16	42	20	22	(189)	33	42	12	13	(52)
45-54 years	100%	26	42	15	15	(194)	33	41	21	3	(39)
55-64 years	100%	40	36	8	14	(185)	58	16	6	19	(31)
Over 65	100%	53	24	10	13	(190)	61	20	12	7	(41)

Importance of Owning Your Own Home

When presented with a list of ten personal needs and goals, having your own home/buying a new home" is mentioned by 11% of the electorate as one of the three most important to the, following "personal health" and "having a closer relationship to God." It was more often indicated by those under the age of thirty-five who are also less likely to own their own homes. This goal is nearly equally often mentioned by voters of all educational strata, all religions of union membership and non-union membership status and of both sexes. The only other difference exists in the racial variable as 18% of the blacks designate "owning your own home/buying a new home" as important to 11% of the whites.

December, 1974 #4796 U.S. National

Here's a list of some personal needs, hopes and goals that other people have mentioned to us. Which is most important, second most important, third most important?*

	Total	Having Your Own Home/ Buying a New Home: Combined	Most Important	Second Most Important	Third Most Important	Number of Cases
Total	100%	11%	2%	4%	5%	(2010)
Age						
17-20 years	100%	22	8	5	9	(114)
21-24 years	100%	18	4	7	7	(190)
25-29 years	100%	22	2	10	9	(230)
30-34 years	100%	11	3	2	7	(213)
35-44 years	100%	9	2	5	2	(303)
45-54 years	100%	5	1	3	2	(322)
55-64 years	100%	7	2	4	2	(281)
Over 65	100%	9	1	2	6	(347)
Education						
Less than high school	100%	11	3	4	5	(607)
High school	100%	13	2	5	5	(718)
Some college	100%	11	3	4	5	(385)
College graduate/Post-graduate	100%	10	1	5	4	(290)
Union Membership						
Union household	100%	12	2	4	6	(657)
Non-union household	100%	11	2	4	4	(1319)
Religion						
Catholic	100%	10	1	4	5	(471)
Protestant	100%	12	2	4	5	(1222)
Jewish	100%	1	--	1	--	(80)
Race						
White	100%	11	2	4	5	(1752)
Black	100%	18	5	7	5	(228)
Sex						
Male	100%	13	2	5	6	(1002)
Female	100%	10	2	4	4	(1008)

*The list included ten items of which "having your own home/buying a new home" ranked number nine in importance.

Importance of Committing Government Action to the Goal of "Helping Young People Buy Their Own Homes"

The goal of "helping young people buy their own homes" is one of some importance to the American voters, but not an immediate priority for government action. Voters over the age of thirty-five believe this to be nearly as important as those under thirty-five do. This fact indicating that while home ownership is more important as a personal goal to younger voters, the concept of government action to help those younger people reach their goal of owning a home is one which is just as well accepted by voters of all age levels.

However, the importance of government action to the achievement of home ownership by young people varies by several major demographic groups. A patterned difference is revealed among educational levels such that voters who have less than a high school education are most likely to see this as a more important priority for the government than the voter who has completed a college education. This relationship may well be a function of the differing income levels of the educational groups with the lower educated voters having fewer available funds to devote to the purchase of a home, thereby having greater need for government assistance. Blacks view this problem as a more important priority for government action which again should be related to the different income levels of these two groups. Unlike their Protestant and Jewish counterparts, Catholics exceed the average in the importance they assign to government action on this problem.

December 1974 U.S. National

How would you rate the importance of the following problem on a scale where 0 means the problem has very little importance and the government should work on many other problems first and 10 means the problem is of greatest importance and the government should take immediate action.

	Help Young People Buy Their First Home			
	Greatest Importance/ Immediate Action	Little Importance/ No Government Action	Average* Ranking	Number of Cases
Total	15%	9%	6.28	(2010)
Age				
17-20 years	11	9	6.37	(114)
21-24 years	21	7	6.69	(190)
25-29 years	18	10	6.52	(230)
30-34 years	14	8	6.08	(213)
35-44 years	11	12	5.63	(303)
45-54 years	16	7	6.35	(322)
55-64 years	16	9	6.37	(281)
Over 65	16	7	6.39	(347)
Education				
Less than high school	20	7	6.88	(607)
High school	19	8	6.52	(718)
Some college	11	12	5.60	(385)
College graduate/Post-graduate	4	9	5.35	(290)
Union Membership				
Union household	19	7	6.57	(657)
Non-union household	14	10	6.12	(1319)
Religion				
Catholic	18	6	6.69	(471)
Protestant	13	11	5.96	(1222)
Jewish	5	10	5.73	(80)
Race				
White	14	9	6.25	(1752)
Black	27	6	7.28	(228)
Sex				
Male	16	8	6.40	(1002)
Female	15	10	6.16	(1008)

*The list included thirteen problems of which "help young people buy their first home" ranked twelfth in importance.

The Responsibility to Provide Better Housing

By a slight plurality (32%), the voters of the United States designate the responsibility of providing better housing to the federal government. Other agencies which should take a major role include the state government (28%), the local government (21%) and private enterprise (15%). Although the assignment of responsibility for the solution of the problem is relatively even across the various institutions, that it should be a government rather than private enterprise function is abundantly clear.

However for the voters under the age of thirty-five to whom "better housing" may well mean their own home and for the college-educated voters, the state government is designated as the one to maintain the major role in solving the problem. Again, the differences between the assignment of responsibility to the various institutions are slight. These young voters will need to be convinced that the federal government is the appropriate agency to help them with these problems, although a well-defined program should be able to accomplish that task as the selection of the state government as the helping agency was only slightly the more popular choice.

U.S. National December, 1975

Who should have the major role in solving this problem -- the federal government, your state government, your local government, or a private agency or private enterprise?

		Provide Better Housing					
	Total	Federal Govt.	State Govt.	Local Govt.	Private Agency/ Private En-terprise	Don't Know	Numbe of Cas
Total	100%	32%	28%	21%	15%	6%	(749
Age							
18-24 years	100%	25	35	25	10	5	(140
25-34 years	100%	28	38	13	14	4	(127
35-44 years	100%	39	24	24	17	2	(128
45-54 years	100%	34	25	18	18	5	(125
55-64 years	100%	31	23	20	18	7	(109
65 and over	100%	31	21	21	17	12	(121
Education							
Non-college	100%	34	27	20	13	7	(491
College	100%	26	30	23	21	4	(251
Union Membership							
Union	100%	34	26	25	12	4	(230
Non-union	100%	30	30	19	17	6	(507
Religion							
Protestant	100%	32	26	21	17	6	(452
Catholic	100%	33	32	19	13	4	(199
Jewish	100%	22	26	41	11	--	(27
Race							
White	100%	29	29	23	17	6	(668
Black	100%	56	20	11	17	5	(81
Sex							
Male	100%	35	28	19	17	3	(401
Female	100%	27	28	23	13	9	(349