The original documents are located in Box C7, folder "Presidential Handwriting, 11/27/1974" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

November 27, 1974

Dick:

Bill Seidman called to inform us that Secretary Lynn will be meeting with AFL-CIO leaders (Georgean, Kirklan and Sheckter) on Dec. 13th to discuss their program. Seidman thought the President might want to know this before his meeting with Meany.

Also, he will be standing by in case President wants him during the meeting.

k

11/27/

We discussed but no action requested today.

THE WHITE HOUSE

WASHINGTON

November 27, 1974

DC:

Bill Seidman called today to indicated that the President wants the letter he received from Meany on November 22nd. I've attached it.

Baroody was in process of sending to Seidman. He will hold off on doing anything until he has further directions from you.

k

·✗ AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

815 SIXTEENTH STREET, N.W.
WASHINGTON, D.C. 20006

(202) 637-5000

Bill Baroody

November 22, 1974

The President
The White House
Washington, D.C.

Dear Mr. President:

Spreading effects of the continued depression in residential construction are rapidly weakening the entire economy. I wish to call to your attention a number of significant elements in the housing situation and measures which can be taken under existing authority to reverse the trend toward further deterioration.

As in four previous periods during the past twenty years, tight money policies have led to a sharp decline in home building, followed by a general economic decline and increased unemployment. This time money has been tighter, interest rates higher and the housing decline steeper. Interest rates on home mortgage loans are in a 9 to 10 percent range, and higher for rental housing mortgages. Housing starts during the past three months have been at a seasonally adjusted annual rate of 1.1 million, a 56 percent decline from the peak rate in January 1973 and 40 percent below the rate for the comparable three months of 1973.

Unemployment is at 12.2 percent in the construction trades and 6 percent in the total labor force. The outlook is for increases in unemployment. A continuing decline in building permit issuances foreshadows a further decline in housing starts. Furthermore, as earlier starts are completed, the number of housing units under construction continues to be reduced. Besides the reduction in construction activity, the effects are being felt in increased lay-offs of workers in wood products, glass and home appliance industries, and in other industries suffering from weakened consumer demand.

In addition to the curtailment of unassisted housing market demand due to tight money, phase-out since January 1973 of traditional assisted housing programs has contributed significantly to the housing and general economic downturn. Assisted low- and moderate-income housing starts under Federal programs totalled 430,000 in 1971, 339,000 in 1972, 181,000 in 1973 and will be down to about 120,000 in 1974. The housing and general economic decline in 1970-71 was more moderate than the present one because increased assisted housing starts partly offset the decline in unassisted starts.

Housing policies being pursued place almost total reliance upon the new Section 8 Housing Assistance Payments program, despite the availability of contract authority to support a few hundred thousand assisted housing units that could be built under the older programs. Most of the authority is for Section 235 homeownership assistance, which is being phased out by administrative action. This program had produced over 140,000 new housing starts in 1971. It will produce less than 5,000 in 1974 and probably none in 1975, as old commitments are used up. If the program is reactivated, builders would also be encouraged to produce homes in the lower price ranges which can be sold to non-subsidized home buyers, as well as to those receiving subsidy.

Section 236 rental assistance projects are being approved in only a few exceptional cases, although many more places could be found where the use of authorized funds would facilitate construction to provide needed lower-income projects.

Under the Housing and Community Development Act of 1974, there is a provision that contracts for at least half of $150 million of new annual assistance contract authority for public housing shall be entered into for conventional public housing. The $75 million would support construction of 35,000 -- 40,000 low-income units. A policy is being followed however, to fulfill the statutory requirement by using $75 million in contract authority to meet prior commitments for which funding had already been available instead of approving new projects.

Problems which were related to housing started under the aforementioned three programs in 1970-72 could be avoided under tightened program administration that has been adopted in HUD. Proper counselling of occupants, which is now authorized, would also help to assure the success of these programs.

There has also been no move to initiate the revised Section 202 program of direct loans for housing for the elderly which was enacted as part of the Housing and Community Development Act of 1974. In its revised form, the program could serve lower income elderly occupants than an earlier version which was operative in the sixties and was very successful.

Proposed regulations for the new Section 8 Housing Assistance Payments program will first become effective in December. There has been indicative experience under a similar program, however, since April 1974. In that month HUD, by regulation, initiated a revised Section 23 leased housing program which really provided the model for Section 8. By the end of September, although 314 new-project applications involving 35,842 units had been received, only 46 projects with a total of 2,952 units had been approved.

This experience, plus a history of long start-up periods for new housing programs, indicates strongly that unless the older assisted housing program are reactivated, only a relatively negligible volume of low- and moderate-income housing will be placed under construction in the next 6 to 12 months. The continuation of present housing policies will add to the despair of millions of low- and moderate-income families living in substandard and inadequate housing. It will also make for a continuation of the depression in residential construction, with high construction unemployment whose effects are spreading throughout the economy.

Government mortgage assistance measures instituted in January and May 1974 have failed to revive unassisted residential construction. Under those mortgage purchase programs, by early November, about $6.7 billion of commitments to purchase FHA and VA 7-3/4 percent home loans had been issued by the Government National Mortgage Association and $3 billion had been made available through the Federal Home Loan Mortgage Corporation and savings and loan associations for 8-3/4 percent conventional mortgages. Although close to $10 billion in commitments had been issued, an aggregate amount of only $1.1 billion in mortgages had actually been purchased, representing about 36,000 home purchases. Home sales continued to be slow. The unsold inventory of new homes was 415,000 at the end of September, equal to 11 months of new home sales at the current rate of sales.

The foregoing record and early program experience indicate that funds made available under the recently approved Emergency Home Purchase Assistance Act of 1974 will probably provide only limited additional support to the housing market. The Act authorizes Government National Mortgage Association purchases of conventional home mortgages of up to $42,000 and for FHA-insured multifamily projects at a formula interest rate that is presently 8½ percent. Although $3 billion of the authorized $7-3/4 billion has been made available, only $679 million in commitments had been issued by mid-November and practically none of it had been drawn down to finance home purchases. In addition to an 8½ percent interest rate, the regulations require fees for loss reserves, commitment and loan origination that will total $2,100 on a $35,000 mortgage, which will be reflected in higher home prices. With such financing only about one-fifth of American families who have incomes of over $20,000 can afford to buy the median priced new home selling at about $36,000. And these families generally occupy satisfactory housing with mortgages at significantly lower interest rates.

High mortgage and construction financing interest rates make it impossible to produce rental housing at rents that most households can afford. A drastic decline in rental housing construction, added to the low rate of home construction, is producing housing shortages in many localities. Rents are now increasing at a 7.2 percent annual rate and the increases are becoming steeper and more widespread, creating inflationary pressures.

If housing is to be produced for sale or rental to a mass middle-income market, mortgages with 6 percent interest rates are needed. If it is intended that a given, higher number of housing units should be produced, the demands for capital, labor, materials and land, and the impact upon prices would be the same, whether the mortgage funds are made available at 8½ percent or at 6 percent.

I urge, therefore, that existing authority be used to make mortgage credit available on more reasonable terms, particularly at lower interest rates, under the Government National Mortgage Association special assistance mortgage plans, to enable families to acquire the homes they need.

I also urge you to utilize the authority vested in you under the Credit Control Act of 1969, to authorize the Federal Reserve Board to exercise selective regulation of credit extension in various sectors of the economy, in order to relieve the inequitably depressed construction sector and restore economic balance and growth.

A continuation of a level of housing construction far below that which is required to accommodate the increase of households and replacements of units lost from the supply fosters both recession and inflation. Low- and moderate-income housing construction can be raised to much higher levels, as authorized under present law. If unemployed human and material resources can be put to work to provide housing, it will not be inflationary, but it will combat the economic recession which is becoming a depression. It will also combat the social disaffection of low-income families who are again being asked to depend upon the trickle-down of housing, a theory which did not work in past decades and which is contrary to national housing policies adopted in 1949 and 1968.

In conclusion, therefore, I strongly recommend that you direct the Secretary of Housing and Urban Development to reactivate fully the Section 235 and 236 housing assistance programs, to utilize the conventional public housing program wherever it is feasible, and to implement fully the Section 202 elderly housing program, combined with Section 8 assistance payments, as well as implement the new Section 8 program.

Sincerely yours,

George Meany

President

THE WHITE HOUSE

WASHINGTON

November 27, 1974

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN
WILLIAM J. BAROODY

FROM: JERRY H. JONES

The attached was received in the President's outbox with the following notation:

-- 11/27/74 We discussed but no action requested today.

cc: Don Rumsfeld