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THE PRESIDENT HAS SEEN

ACTION

THE WHITE HOUSE

WASHINGTON

June 17, 1975

MEMORANDUM FOR THE PRESIDENT

FROM JIM CANNON Jim

SUBJECT EMERGENCY HOUSING ACT OF 1975 (HR 4485)

I. BACKGROUND

The Congress has forwarded to you the Emergency Housing Act of 1975 (HR 4485). The last day for action is Tuesday, June 24, 1975.

The most objectionable features of this legislation include two mortgage interest subsidies programs, a $1000 home purchase incentive payment plan, a foreclosure relief program, and an extension of two undesirable housing programs. A more detailed summary is attached at Tab A. The outlay effect for FY '76 is estimated at well over $1 billion and the total cost is estimated at over $2.2 billion. HUD, OMB and the Domestic Council are in agreement that this bill should be vetoed.

II. CONGRESSIONAL SITUATION

In the House, Congressman Lud Ashley (D-Ohio) and Congressman Garry Brown (R-Mich) led a strong attack against the Conference Report. The House approved the Conference Report by a vote of 253-155, more than enough opposition votes to sustain a veto. However, a number of the members voting in opposition, including Congressman Brown, are counting on the Administration to propose some constructive alternatives. The Senate approved the Conference Report by a vote of 72-24.

Until recently, the National Association of Home Builders had been the major force behind this legislation with tacit support from the AFL-CIO. However, the AFL-CIO has decided to make a strong battle to override the anticipated veto. Congressman Ashley narrowly won re-election last year and is sensitive to labor pressure. His continued opposition to HR 4485 is critical in that many Democrats follow his lead on housing legislation.

As reported in this morning's Leadership meeting, to increase the probability of sustaining the anticipated veto, Congressman Ashley and Congressman Brown have urged the Administration to:

-- propose an acceptable foreclosure program as an alternative to the Congress' foreclosure approach, and

-- support legislation expanding activity under the Tandem Plan as an alternative to the Congress' interest subsidy programs.

Congressman Reuss, Chairman of the House Banking, Currency and Housing Committee, is seeking a vote to override the veto prior to the June 27 recess. Given the strong support of organized labor, Congressman Reuss believes that he can persuade the leadership to try to override. It is anticipated that Speaker Albert will try to bring strong pressure to bear on other Democrats in support of an override.

III. PROPOSAL

Secretary Hills believes that in order to sustain a veto, the Administration will have to propose positive alternatives to the Congress' foreclosure plan and interest subsidy programs.

HUD, OMB and the Domestic Council have reached agreement on an alternative foreclosure relief program which would be operated on the principle of co-insurance in lieu of the direct Federal loan approach proposed by the Congress.

The remaining issue is whether or not the President should propose an alternative to the interest subsidy programs proposed by the Congress. Secretary Hills believes that the Tandem Plan approach authorized in the Emergency Home Purchase Assistance Act of 1974 (Brooke/Cranston Act) is the most immediate, responsible and workable alternative. She proposes that you:

-- allow release of the remaining Tandem Plan authority;

-- support legislation extending the Tandem Plan for a year;

-- support legislation expanding HUD's Tandem Plan to cover multi-family dwellings and condominiums, as well as adding additional mortgage purchase authority.

IV. OPTIONS

1. Do nothing at this time

PROS

-- No increased outlays or additional Treasury borrowing will be necessitated.

-- Improved credit conditions and increase in new home sales do not support the need for additional subsidies.

-- Highlights Administration's determination to maintain budgetary control.

CONS

-- Increases probability of a veto override.

-- By failing to provide an alternative, undercuts friends of the Administration who have opposed the bill.

-- Postures the Administration as insensitive to the crisis in the ailing housing industry.

This option not recommended by anyone.

Approve __________ Disapprove BCY

2. Release the remaining Brooke-Cranston Act tandem authority to purchase up to $2 billion in residential mortgages

PROS

-- This does NOT cause a $2 billion outlay in that the purchased mortgages are later resold. The program could cost very little or actually run at a profit, as occurred in 1971, if massive savings inflows substantially decrease interest rates between the purchase and resale, as predicted by the Administration's economists. HUD has administrative devices, such as charging discount points, to minimize costs. Estimated maximum outlay for FY '76 approximately $60 million and up to $125 million in FY '77.

-- Is less expensive and intrusive on private market operations than the Congressionally posed alternatives. (Estimated outlays for FY '76 in excess of $1 billion).

-- Mitigates, somewhat, the danger of a veto override.

-- Demonstrates the willingness of the Administration to use its existing authority to assist housing, which is perceived as a crucial element to an overall economic recovery.

-- Utilizes an existing rather than a new program.

CONS

-- Although costs are speculative, could increase Treasury borrowing and have a maximum outlay impact of from $60 to $125 million in FY 76 and FY 77. The ultimate budget cost depends on the differential between the purchase price and sale price.

-- Could be interpreted as a weakness in the Administration's resolve to control spending.

-- Leaves the Administration with no other resources to assist housing should another downturn occur.

-- Does not provide an Administration legislative alternative to the interest subsidy provisions of the Emergency Housing bill.

Recommended by Jack Marsh.

Approve ___________ Disapprove GRF

3. Release the remaining tandem authority to purchase and resell $2 billion in residential mortgages and support legislation to extend and expand the standby tandem authority

PROS

-- This does NOT cause a $2 billion outlay in that the purchased mortgages are later resold. The program could cost very little or actually run at a profit, as occurred in 1971, if massive savings inflows substantially decrease interest rates between the purchase and resale, as predicted by the Administration's economists. HUD has administrative devices, such as charging discount points, to minimize costs. Estimated maximum outlay for FY 76 approximately $60 million and up to $125 million in FY 77.

-- Provides the greatest potential for ensuring that a veto of the Emergency Housing bill is sustained.

-- Is less expensive and intrusive on private market operations than the Congressional posed alternatives. (Estimated outlays for FY 76 in excess of $1 billion).

-- Demonstrates the Administration's commitment to a recovery in the housing sector, which is perceived as a crucial element to an overall economic recovery.

-- Gives the Administration an alternative legislative program to the Congressional package.

-- The new authority would be discretionary.

-- Provides additional standby authority, in case there is another severe downturn in housing.

-- Permits tandem authority to be used to assist the multi-family sector which is the most seriously depressed.

<u>CONS</u>

-- Although costs are speculative, could increase Treasury borrowing and have a maximum outlay impact of from $60 to $125 million in FY 76 and FY 77. The ultimate budget cost depends on the differential between the purchase price and sale price.

-- Could be interpreted as a weakness in the Administration's resolve to control spending.

-- May ultimately result in pressure being brought to bear on the Administration to release some of the additional standby tandem authority.

Recommended by Secretary Hills, Max Friedersdorf, Phil Buchen, Robert Hartmann, Jim Cannon.

<u>Secretary Hills</u>: Even if the veto is sustained, the Secretary believes that in absence of the actions she recommends, the Congress will quickly pass legislation combining foreclosure relief and a mortgage interest subsidy which will be extremely difficult to successfully veto.

Robert Hartmann: It is crucial that the President's next veto be sustained, and that when and if he gets overridden, that the AFL-CIO NOT be the agent that tamed the President when the veto-proof Congress failed. I therefore favor Option 3 if, indeed, it offers the best way to avoid an override.

Approve GRF Disapprove __________

NOTE:

Director Lynn recommends that you indicate your willingness to support legislation expanding and extending the Tandem Plan BUT that a determination on releasing the remaining Tandem authority be withheld at least until the latest housing starts and housing permits figures are released later this week.

Approve __________ Disapprove __________

A

Summary of Enrolled Enactment of H.R. 4485, the Proposed "Emergency Housing Act of 1975"

The bill consists of three titles -- Title I, "Emergency Middle-Income Housing Act of 1975", which authorizes various subsidies designed to stimulate home purchases and construction; Title II, which provides for a system of relief payments to mortgagors threatened with foreclosure, and Title III, which contains miscellaneous amendments affecting existing housing and community development laws and programs.

Title I -- Emergency Middle-Income Housing

Title I of the bill would authorize three mechanisms for providing financial assistance with regard to home mortgages for middle-income families (those with incomes which, generally, do not exceed 120 percent of the area median). First, it would authorize the Secretary of Housing and Urban Development to make interest reduction payments on behalf of middle-income families. Such payments would equal the difference between the amount of principal, interest, and mortgage insurance premium due under the mortgage and the amount of principal and interest due on a 6 percent mortgage. These payments would phase out gradually after the first three years and after six years no interest reduction payments would be made.

Title I would also authorize GNMA to purchase home mortgages whose interest rates do not exceed 7 percent, to issue and guarantee mortgage-backed securities based on these mortgages, and to sell such securities to the Federal Financing Bank or to any Federal Reserve bank.

Finally, Title I would authorize the HUD Secretary to make home purchase incentive payments in the amount of $1000 to middle-income families to be applied to the downpayment on a home, construction of which began on or after March 26, 1975. Such incentive payments could not be made with respect to a family receiving assistance pursuant to other parts of Title I or pursuant to the Emergency Home Purchase Assistance Act of 1974.

The Secretary would be required to allocate to applicant lenders aggregate amounts of mortgages to be assisted and to afford, to the maximum extent practicable, to eligible families a choice among the programs authorized by this title.

The total amount of mortgages assisted could not exceed amounts approved in appropriations acts up to $12 billion. Of the total amount approved, not more than 20 percent could be allocated for use with respect to existing units or units placed under construction prior to March 26, 1975, and not more than 15 percent could be used with respect to units with appraised values exceeding $38,000. Mortgagors receiving the income tax credit for purchase of a home pursuant to the Tax Reduction Act of 1975 would not be eligible for assistance under this title. A mortgagor receiving the benefit of a home purchase incentive payment or an interest reduction payment would be obliged to repay all or part of the subsidy if he sold his home within 7 years unless he purchased another home within 18 months after such sale.

No aid under Title I would be available after June 30, 1976, except pursuant to contracts or commitments made before that date.

Title II -- Emergency Mortgage Relief Payments

Title II of this bill would authorize the Secretary of Housing and Urban Development to make mortgage relief payments on behalf of a homeowner who has been delinquent for at least 2 months in his mortgage payments, if his income has been so substantially reduced because of involuntary unemployment or underemployment due to current adverse economic conditions that he cannot make full mortgage payments. Such mortgage relief payments would not exceed the lesser of $250 per month or the amount reasonably necessary to supplement the amount the homeowner is able to pay on his mortgage. Such payments could be made for as many as 12 months, and could be extended once for as many as 12 additional months. Such payments would be in the nature of loans and would be repayable to the Secretary with no more than 8 percent interest charged thereon. The Secretary would be authorized to defer repayment of such payments until disposition of the property or until completion of the period of amortization for the mortgage.

Mortgage relief payments could be made only with respect to a property that is the principal residence of the mortgagor and only if there is reasonable prospect that the mortgagor will be able to make the adjustment necessary for a full resumption of his mortgage payments.

The bill would authorize $500,000 to be appropriated for Title II. Mortgage relief payments would not be made after July 1, 1976, except to mortgagors receiving the benefit of payments on that date. Title II would also require the Secretary to report to Congress at 60-day intervals (until July 1, 1976) on delinquency and foreclosure rates around the country and on other related issues. Title II would also require various Federal agencies to take appropriate action to waive or relax any requirements in order to cause or encourage forebearance in residential mortgage loan foreclosures.

<u>Title III -- Miscellaneous</u>

Title III would:

- extend the Section 312 rehabilitation loan program for two years (until August 22, 1977) and would authorize appropriations of $35 million for each of those two years;

- amend Section 5(c) of the U.S. Housing Act of 1937 to increase the set-aside of contract authority for projects to be owned by public housing agencies in the Housing and Community Development Act of 1974 from $150 million to $300 million, and to provide that none of the public housing funds set aside for Indian housing in the Housing and Community Development Act of 1974 could be used for commitments made prior to such Act to finance public housing for Indians;

- extend insuring authority under the Section 235 homeownership assistance program for one year (until July 1, 1977);

- extend by seven months the period during which owners of FHA-insured houses that have serious structural defects could request assistance from HUD to repair such defects under Section 518(b) of the National Housing Act;

- authorize HUD to permit certain State housing agencies to establish higher admission eligibility limits and to lower rent-to-income ratios to not less than 20 percent of a tenant's income in non-FHA insured, Seate-financed projects assisted under Section 236 of the National Housing Act;

-- amend Section 202(h) of the Flood Disaster Protection Act of 1973 to delay until January 1, 1976 the effective date of the prohibition in such Act against the making of loans by Federally-supervised lending institutions in flood-prone areas not participating in the National Flood Insurance Program in the case of loans made to finance acquisition of a previously occupied residential dwelling; and

-- extend coverage of the Emergency Home Purchase Assistance Act to conventionally financed multifamily housing (including condominiums and units therein), provided the mortgage amount did not exceed 70 percent (80 percent in the case of an individual condominium unit) of the value of the property or the mortgage was insured.

THE WHITE HOUSE

WASHINGTON

June 18, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JIM CANNON

FROM: JAMES CONNOR

SUBJECT: EMERGENCY HOUSING ACT OF 1975 (HR 4485)

Your memorandum of June 17, 1975 to the President on the above subject has been reviewed and the following was noted:

Option 1 - Do Nothing at this time - Disapproved

Option 2 - Release the remaining Brooke-Cranston Act tandem authority to purchase up to $2 billion in residential mortgages - Disapproved.

Option 3 - Release the remaining tandem authority to purchase and resell $2 billion in residential mortgages and support legislation to extend and expand the standby tandem authority - Approved.

Please follow-up with appropriate action.

cc. Don Rumsfeld