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THE WHITE HOUSE  
WASHINGTON

November 14, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: CARLA A. HILLS  
JAMES T. LYNN

FROM: JAMES E. CONNOR *[Signature]*

SUBJECT: Release of \$3 Billion in "Tandem"  
Mortgage Purchase Funds for Multi-  
Family Housing

The President reviewed your joint memorandum of November 6th on the above subject and approved the following:

"HUD Recommendation: \$3 billion of standby mortgage purchase authority should be released for multifamily mortgages."

Please follow-up with appropriate action.

cc: Dick Cheney

THE WHITE HOUSE  
WASHINGTON

November 10, 1975

MR PRESIDENT:

Staffing of the attached memorandum resulted in the following:

Messrs. Buchen, Marsh, Friedersdorf and Seidman -  
support HUD proposal

Additional comments were made by Phil Buchen and  
are attached at TAB A.

Jim Cannon - supports OMB proposal

Additional comments were made by Jim Cannon and  
they are attached at TAB B.

Jim Connor

HUD  
JRCM

NOV 6 1975

MEMORANDUM FOR: THE PRESIDENT  
FROM: Carla A. Hills *CRW*  
James T. Lynn  
SUBJECT: Release of \$3 Billion in "Tandem" Mortgage Purchase Funds for Multi-family Housing

BACKGROUND

- Since January 1, 1974, the Government National Mortgage Association (GNMA) has committed to purchase in excess of \$15.5 billion of mortgages at below-market interest rates. However, only \$457 million of this assistance has been committed for multifamily mortgages.
- On June 24, 1975, you vetoed an omnibus housing bill strongly supported by the Democratic congressional leadership, as well as the National Association of Home Builders and the AFL-CIO. As an alternative, you proposed congressional enactment of the Emergency Housing Act of 1975 which, for the first time, would enable GNMA to purchase "conventional" multifamily mortgages--i.e., those not insured or guaranteed by the Government. Your veto message stated "This Administration is committed to a prompt recovery of the housing industry and to getting the construction workers back to work--which are crucial elements in our overall economic recovery."
- Your veto was sustained by the House, and your alternative was speedily enacted by Congress and signed into law on July 2, 1975. On October 17, 1975, you signed the 1976 HUD-Independent Agencies Appropriation Act which approved an Administration request for \$5 billion of standby mortgage purchase authority.

### CURRENT STATUS OF THE HOUSING INDUSTRY

While the pace of general economic recovery has accelerated, the overall recovery in the housing sector is modest and fragile.

- The multifamily sector is lagging behind its average historical recovery pace. Multifamily starts for September were at a seasonally adjusted, annual rate of 261,000 units compared to the equilibrium rate of 600,000 units.
- The single-family sector is proceeding at close to its average historical pace for recovery from recessions, but is still 20 percent below the equilibrium rate of 1.2 million units.
- Unemployment in the construction sector is at 19 percent.
- The most recent market auctions have shown a decline in mortgage yields, but they are still at very high levels historically.
- Current rental vacancy rates, 6 to 6.5 percent, are at an 8-year high.

### ISSUE

Should a portion of the available \$5 billion of mortgage purchase authority be apportioned and allocated for multifamily housing at this time?

### ANALYSIS

#### Economic Impact

- HUD and OMB agree that use of purchase authority for multifamily projects at a 7.5 percent interest rate:
  - . Would target assistance to the most depressed sector of the housing industry.
  - . Would have limited effectiveness in overcoming rent controls, sewer moratoria, localized over-building and utility shortages where these factors are the effective constraint on building.
  - . Would stimulate some new construction that would not otherwise have occurred.

-- HUD believes:

- . The multifamily starts stimulated by release would be nearly all incremental because of the depressed state of the multifamily sector and because units already under construction will be ineligible for subsidy.
- . Up to 30,000 starts could occur before the fourth quarter of 1976.
- . This increased multifamily construction, combined with present massive single-family tandem support and the Section 235 single-family assistance which is to commence in January, increases the probability that an equilibrium rate of 1.8 million housing starts can be achieved during 1976.
- . Since multifamily completions are declining precipitously, we can expect significant shortages of rental units will become manifest in many markets unless new construction begins soon.

-- OMB believes:

- . A large number of the assisted starts would have occurred anyway since there is no way of preventing such projects from receiving this subsidy. The stimulus to construction especially in 1976 is likely to be small.
- . High vacancy rates cast doubt on whether additional multifamily units can be absorbed by the housing market.
- . Interest subsidies going to some projects would put unsubsidized projects at a competitive disadvantage and may put some in financial jeopardy.
- . A recent HUD study could not establish a statistical relationship between tandem assistance and housing starts.

Political Factors

-- HUD and OMB agree that:

- . The National Association of Home Builders, traditionally supporters of single-family mortgage purchase assistance, has expressed a strong preference for multifamily tandem assistance.

- Failure to release any Tandem assistance would tempt Congress to mandate release of the mortgage purchase funds or to vote some new financing mechanism, particularly for Section 8 subsidized housing.
- It was generally perceived at the time you signed the Emergency Housing Act that you intended to use these funds to stimulate the housing industry and assist building trades employment. These expectations were reinforced when the Administration transmitted a budget amendment for standby authority which was subsequently approved by the Congress.
- No explicit pledge was made by you to use this standby authority at a particular time in support of the housing industry.

#### Budget Impact

-- HUD and OMB agree that:

- Assuming 10 percent market yields on 40-year project mortgages prepaid in 20 years and a HUD purchase price of 94, the net outlay impact of the proposed release would be an estimated \$510 million.
- The actual outlays would depend on the market yields at the time of resale of the mortgages and the amount of commitments that result in purchase by HUD.

-- HUD believes:

- Because of the long lead time in multifamily construction, the outlay impact would be deferred until fiscal years 1978 and 1979 (FY 1978--\$340 million; FY 1979--\$170 million).

-- OMB believes:

- That deliveries of mortgages could be earlier than HUD projects, hence estimates an outlay pattern of \$25 million in FY 1977, \$357 million in FY 1978 and \$128 million in FY 1979.
- Release of the mortgage purchase authority would require very difficult cutbacks in other areas in order to adhere to the announced Budget goals of \$395 billion in outlays for fiscal year 1977 and a balanced Budget in three years.

RECOMMENDATION

HUD Recommendation. \$3 billion of standby mortgage purchase authority should be released for multifamily mortgages. Release of funds at this time will assist in averting precipitate and inflationary congressional initiatives next year. These funds will stimulate starts in the badly depressed multifamily housing sector and thereby stimulate employment in the building trades. Failure to release funds will be regarded as contrary to the public perception of statements made at the signing of the Emergency Housing Act of 1975.

You have scheduled a meeting with the leaders of the housing industry for the week of November 10 and Secretary Hills believes it would be desirable to have announced our decision with respect to the use of these funds prior to that meeting.

Secretary Hills assures that there is sufficient legal authority to administratively exclude Section 8 housing from coverage under the Tandem plan.

OMB Recommendation. No release of mortgage purchase authority should be granted. The factors slowing the recovery of the multifamily sector of the housing industry are unlikely to be overcome by mortgage purchase assistance. Also, any release would jeopardize Budget goals for fiscal year 1977 and beyond.

TAB A

THE WHITE HOUSE

WASHINGTON

November 7, 1975

MEMORANDUM FOR: JIM CONNOR *P.*

THROUGH: PHIL BUCHEN

FROM: DUDLEY CHAPMAN *DC*

SUBJECT: Memo of November 6, 1975, from  
Carla A. Hills & James T. Lynn  
re: Release of \$3 Billion in  
"Tandem Mortgage Purchase Funds  
for Multi-family Housing"

This office agrees with HUD for the following reasons:

(1) Providing some funds would fulfill the President's implicit commitment in proposing and signing his alternative to a much more expensive housing bill.

(2) While the impact would not be very large, it appears undisputed that there would be some benefits in employment, needed housing construction and relief from high interest rates before the election.

(3) The only substantive objection to HUD's proposal is its budget impact; but realistically, this limited action could help to avert even larger spending programs by Congress which would almost certainly follow total inaction by the Administration. In effect, therefore, this action may help rather than harm the budget.

TAB B

THE WHITE HOUSE

WASHINGTON

November 8, 1975

MEMORANDUM FOR :

JIM CONNOR

FROM :

JIM CANNON

SUBJECT :

Memo of November 6, 1975 from  
Carla A. Hills & James T. Lynn  
re: Release of \$3 Billion in  
"Tandem Mortgage Purchase Funds  
for Multi-family Housing"

By mooting the 235 suit, we just put major Federal money  
into housing.

In principle, it seems to me this is a subsidy for the  
lower middle class and the middle class.

I support the OMB proposal.