FOR IMMEDIATE RELEASE OCTOBER 18, 1974

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF
JAMES T. LYNN
SECRETARY OF HOUSING AND URBAN DEVELOPMENT
THE BRIEFING ROOM

11:23 A.M. EDT

MR. HUSHEN: President Ford today signed into law the Emergency Home Purchase Assistance Act of 1974. As you may recall in his remarks to the Joint Session of Congress, he asked that Congress enact such legislation before it adjourned, and he is pleased to see that it has, and he signed it into law today.

We have Secretary Lynn of Housing and Urban Development to open with a brief statement, and then respond to the questions you may have regarding this legislation.

SECRETARY LYNN: Thank you.

I also have with me today my Under Secretary, Jim Mitchell, and Mr. Dan Carney, who is the head of Ginnie Mae, who will administer this program.

Today President Ford signed the Emergency Home Purchase Assistance Act which the Congress quickly enacted after the President's urgent plea for further recovery for the housing industry. This measure,which will enable HUD's Government National Mortgage Association to purchase conventional mortgages as well as FHA VA-assisted mortgages, will initially make available an additional $3 billion in mortgage funds this fiscal year.

These funds would finance about 100,000 homes.

I will take your questions.

Q Secretary Lynn, when you say $3 billion initially, how immediately is that going to be made available?

SECRETARY LYNN: We had a little discussion at the signing ceremony, and the President made it very clear to me he would like us to begin next Tuesday. I shook his hand and said, "Yes, Mr. President." So we will have a program next Tuesday. Yes, ma'am.

Q Will you be working against the units or the dollars?

MORE

(OVER)

SECRETARY LYNN: We have to work against dollars in this program, yes.

Yes, sir.

Q Mr. Secretary, is there still some money in the pipeline left over from previous aid programs this year?

SECRETARY LYNN: Yes.

Q Secondly, how do people go about getting these low interest loans? Where do they go to look for it?

SECRETARY LYNN: On the first point, you are reminding us that we offered a program of $6.6 billion of tandem assistance for FHA-VA mortgages back in January, and then we added another program of tandem FHA-VA in May, $3.3 billion in conventional mortgages on a one-shot opportunity basis through an agency connected with the Federal Home Loan Bank system called Freddie Mac, and there was also a forward commitment program -- or I should say a below-market rate advance program of the Federal Home Loan Bank System -- to its member institutions for $4 billion.

Our first $6.6 billion is about gone. We are still taking commitments, or will begin taking commitments, just very shortly as that first $6.6 billion is gone on our second $3.3 billion of FHA-VA. The $3 billion on the one-shot conventional program of the Federal Home Loan Bank System was completely committed between the date of announcement, May 10, and July 16.

Of the $4 billion in advances below interest, current interest rate advances, I believe better than half of that now has been advanced.

On the second point as to how do people learn about this, I think the way individuals will learn about it mainly is through the offerings of the developers that have the housing or through the mortgage bankers or other lending institutions that make the money available.

In other words, what this law will permit is a developer to get a commitment now, either on construction that he has just completed or is about to complete, or construction he is going to commence in the future -- that when he is done, when that house is finished, if there isn't mortgage money around some place that is more attractive than we are offering that purchaser, that buyer that is looking for the house is assured of these mortgage funds.

MORE

So, I think the way the buyer will find out about it in the main will be through the advertisements of the developers who, I am sure, will make good use of this program.

Q Mr. Secretary, is this going to do anything for the already built homes that are in the process of changing hands?

SECRETARY LYNN: On existing housing, we have a very difficult situation because if you look at the total amount of mortgage money that is rolled over every month in the United States on the sale and purchase of existing homes, almost any program level that the Federal Government could provide would only be a small fraction. Nonetheless, we are going to sit down with the realtors, I believe, next Saturday to see whether or not there is some way of coming up with an equitable program that would make sense in those areas that have suffered the most by way of decline of activity in the sale of existing housing.

Q What are even possibilities in that area? What is an example of things that will be discussed?

SECRETARY LYNN: Well, the law, of course, is one that permits a commitment program for conventional mortgages. The issue is whether or not we should extend the benefits of that program not only to the sale of housing that is new but has not been sold, housing under construction, or housing that will go under construction but also cover the sale of a home that has already been occupied once, twice or three times.

The issue to me is where do we have our greatest amount of difficulty? In other words, who nees the help the most; and, number two, even where we were to identify areas that have been hard hit even on mortgage money for existing sales, and existing sales are well down, how any feasible level of funding from the Federal Government's standpoint could help appreciably.

I have a completely open mind on this. The realtors have promised to do some computer runs based on information they are gathering around the country, and I promised them a full hearing on this matter next Saturday.

Q Mr. Secretary, two questions. Do you plan to seek amendments to cover these two points the President, in his statement, was concerned about, that it doesn't cover apartments and condominium projects and that the interest formula is too rigid? And also, could you comment on a longer range handle you still hope to get on inflation in housing?

MORE

SECRETARY LYNN: Yes. On the first point, my present feeling would be that we should have an amendment of the law to cover multi-family projects for rental and condominium units. On whether or not we would also go for an amendment on the interest rates, I would want to see what happens under the program during the recess period: in other words, looking particularly as to how the formula works in future yields in the Treasury rate.

As is well known, I would have preferred to have had much more flexibility in the interest rates. But as to whether they are going back or not, I think we ought to adopt a "wait and see" attitude to see what happens to Treasury yields and program effectiveness.

On your second point, as to longer-term objectives, I have been encouraged by two things in the market. One is the lowering of short-term rates and some softening of long-term rates. As that happens, it seems to me, it eases the construction loan situation for builders and it also has another effect; and that is, better in-flows and stopping disintermediation to the savings and loan and mutual institutions.

I noticed an article yesterday that pointed out in California there was a net in-flow during the first ten or fifteen days for the first time in a long time in the California savings and loans and mutuals. I have also had other reports that that trend is occurring elsewhere in the United States.

Of course, since the thrift institutions have been our basic source of mortgage funds this would end over a period of time the need for the kinds of programs that we have been doing to afford a cushioning effect.

I also feel, though, that for the longer-term, we have to take some action that will get rid of these wild swings in the availability of credit for housing. Having some variation in the credit that is available is probably a good thing, but not the kind of wild things we have been seeing since 1966.

What I propose doing -- and I know Secretary Simon is with me -- is sitting down with the savings and loans, the other thrift institutions and other people interested in housing -- the realtors, the mortgage bankers, the homebuilders -- and seeing where we can come to agreements on giving more flexibility to the savings and loans and to the other thrifts as to what kinds of businesses they can go in, but at the same time looking at a good way of offsetting, from a tax standpoint, the disadvantages that are inherent in a mortgage as opposed to other securities.

MORE

Mortgages do need assistance. Now, we have provided assistance to them in various ways over the years, but your approaches have to change also as time goes by. I would like to think that by, say, another month, two months, or three months at most, that we will be able to come to general agreement with those groups so when Congress convenes at the beginning of the next session, we could see prompt legislation that would help us get rid of these wild swings.

Q Is this an endorsement of variable rate mortgages?

SECRETARY LYNN: No, it is not. I think that we should demonstrate or experiment with variable rate mortgages. I was a little dismayed that when the Housing Act was passed, the Housing and Communities Development Act, which was signed by the President on August 22, that the Congress did not give us authority to even experiment with variable interest rates.

They did give us authority to vary the monthly payments that a buyer can pay. We will use that experimental authority,particularly with younger families, to start out with smaller monthly payments and increase it. But the Congress was very explicit in not giving us even experimental authority on variable rates.

My feeling is we should experiment with them, see which kinds of plans make sense and whether up or down, or whether or not that kind of an approach makes sense.

I have heard both diametrically opposed views, some people saying that it is a very good thing for both the home-buyer, and of course, it is good for the savings institution. I have had other people say it is too sophisticated a device and the home-buyer will end up not being as well off as he is under our present arrangements. I think we should experiment.

Q Mr. Secretary, in the housing crisis conference yesterday, industry leaders said that while these bills were good, they were not really going to solve their problems but suggested what they really need was Fed action to ease the situation and interest rates and they also called for reinstatement of currently suspended programs of aid to low-income housing. Can you comment on both of those suggestions?

SECRETARY LYNN: Yes. So far as Fed action is concerned, I have to indicate full agreement with the Fed's policy of "moderate restraints on the growth of the money supply."

MORE

I am very pleased to see that within that policy, the actions taken by the Fed over the last three or four weeks have led to a decline in short-term rates. I was also very pleased to see Dr. Burns' testimony where he was predicting that short-term rates were going to fall further.

I believe he gave that testimony about a week ago.

I do not believe that you can handle a specific problem such as housing by turning on and turning off the money supply gradually because one of the things that is going to hurt housing most in the long-term would be not getting a handle on inflation, and the policy of the Fed to apply moderate restraints on the growth of the money supply is an essential approach to getting a handle on inflation.

MORE

Now, on the second point, with respect to turning on the older programs for lower income, I can say to you we still are having housing starts under the old programs because, as you know, there is a lag effect between application, time of commitment by HUD and then the final start and the construction.

Just now we are starting construction on a number of the projects that were approved long before or about the time of the suspension of the program.

We have also been approving some applications since. We have a new program, as you know, Section 8, to give substantial assistance to lower income families that we will be taking commitments on, and we are already taking commitments on its predecessor, revised Section 23.

But again, because of the lag effect, that will not affect starts for many, many, many months.

Now, turning on the old programs would to me be very difficult. Let's take Section 236. When people say turn on the old program, I don't know what they mean because the old program has disappeared under the statute.

The old program was an interest subsidy subsidizing the difference in interests between whatever the market rate was and say a 1 percent interest rate. Congress itself recognized that that kind of an interest subsidy doesn't give you the assistance, when you look at cash flow, to the lower income families that you want to help, that we all want to help, or that we all want to achieve.

So, when they amended the law, they now have a four-subsidy program in Section 236. It is an interest subsidy. It is a subsidy for utility expenses, a subsidy for real estate expenses, and it is a subsidy beyond those for the families with 30 percent of their income who still can't make it in that project.

So, with that kind of program, if I were to turn that on again, all I would be doing is adding one more, far more complicated and less equitable program in addition to Section 8, so I can't see turning on Section 236 as a way of helping the home building industry.

The lag times would be terrible. Beyond that, I think the programmed defects are bad enough that we shouldn't turn them on and in the interest of the taxpayers and helping the people of lower income that we want to help.

MORE

On Section 235, which is a single family program, I just feel quite apart from the programmatic defects of that program, which helps families say between $6,000 and $9,000 and $10,000 achieve the American dream -- a single family home. Those program defects show up in the courts of appeals decisions upholding our suspension.

I think at this particular time I have no way of explaining turning on that program. When families that are making $12,000, $14,000, $16,000 or $18,000 a year are finding it increasingly difficult, and some of them finding it impossible, to realize the American dream, the single family home, it seems to me totally incongruous and inequitable to take their dollars as taxpayers and use those dollars to have somebody that is making money between $6,000 and $9,000 buy a new home.

I think we have to help lower income families achieve better housing -- getting out of rat infested slums, getting out of the rural shacks -- but it seems to me the way we ought to approach that is under Section 8.

Q I would like to know whether you all are devising some means so that this money will be spread equitably across the country --

SECRETARY LYNN: Yes.

Q -- and also, what is the rate going to be?

SECRETARY LYNN: Number one, we are trying to devise a way of allocating the money around the country at least initially so people would have first priority in various parts of the country on the basis of prior activities and mortgage activities, isn't that right, Dan?

Secondly, on the rate we would calculate that the mortgage interest rate, the rate stated in the mortgage on a program in October, if you use the formula that is in the statute, would be the maximum we would be permitted to do because it is based on August 20 to September 20 yield rates, would be, I think, 9 percent, isn't it, Jim?

MR. MITCHELL: (Under Secretary of HUD) Yes, sir.

SECRETARY LYNN: That is 8-1/2 plus the 50 basis points that the statute provides. In November, one of the problems with this program is you have to change the darn thing every month if you are at the ceiling in any given month.

MORE

I don't know what the November rate would be at this point because we would be using the figures from September 21 to October 20, and we are not quite done with that period.

In addition to the mortgage rate, of course, we will have to have fees such as commitment fees and fees to take care of the risk that is involved.

Thank you very much.

THE PRESS: Thank you.

END (AT 11:40 A.M. EDT)