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94TH CONGRESS } 1st Session }	HOUSE OF REPRESENTATIVES {	REPORT No. 94-124
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EMERGENCY HOMEOWNERS' RELIEF ACT

APRIL 7, 1975.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. REUSS, from the Committee on Banking, Currency and Housing, submitted the following

REPORT

together with

SUPPLEMENTAL VIEWS

[To accompany H.R. 5398]

The Committee on Banking, Currency and Housing, to whom was referred the bill (H.R. 5398) to authorize temporary assistance to help defray mortgage payments on homes owned by persons who are temporarily unemployed or underemployed as the result of adverse economic conditions, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows:

Page 2, strike out line 25 and all that follows down through line 7 on page 3, and insert in lieu thereof the following:

(2) the mortgagor and holder of the mortgage have indicated in writing to the Secretary and to any agency or department of the Federal Government responsible for the regulation of the holder that circumstances (such as the volume of delinquent loans in its portfolio) make it probable that there will be a foreclosure and that the mortgagor is in need of emergency mortgage relief authorized by this Act, except that such statement by the holder of the mortgage may be waived by the Secretary if in his judgment such waiver would further the purposes of this Act;

Page 3, line 13, after "the" insert "full".

Page 3, line 24, strike out "\$250 per month" and insert in lieu thereof the following:

the lesser of \$250 per month or the amount determined to be reasonably necessary to supplement such amount as the homeowner is capable of contributing toward such mortgage payment.



Page 4, line 13, strike out "may" and insert "shall".
Page 4, line 15, strike out "alien" and insert "a lien".

INTRODUCTION AND BACKGROUND OF BILL

The committee bill, H.R. 5398, reflects Congressional concern with high and prolonged unemployment levels and the effect of unemployment on home mortgage foreclosures.

Hearings on homeowner relief legislation were held by the Subcommittee on Housing and Community Development on February 6, 18, 19, and 20. The Subcommittee held a mark-up session on H.R. 34, the "Emergency Homeowners' Relief Act" on March 21. The Subcommittee made numerous changes in H.R. 34 and reported out a clean bill, H.R. 5398, which the full committee amended and ordered reported on March 25.

Your committee believes that early action on H.R. 5398 is essential in order that the legislation be funded and in place in the likely event of a significant rise in mortgage defaults caused by continued high levels of unemployment and the termination of unemployment compensation and other temporary benefits.

In the first quarter of 1975 the national economy was suffering the most severe recession since the Great Depression of the 1930's. The March unemployment rate was 8.7 percent which meant that about 8 million persons were out of work. An econometric model of Data Resources, Inc. (DRI) projects a near 10 percent peak in unemployment in the latter half of 1975. The overall decline in the economy is reflected in a severe drop in gross national product. GNP in the first quarter of 1975 is estimated at \$781 billion (in 1958 dollars), about 6 percent below the first quarter 1974 level of \$830.5 billion.

The composite of leading economic indicators watched by the Department of Commerce showed a drop from 181 in July 1974 (base year 1967=100) to 155 in January 1975. The February changes were mixed: the composite index was up about 1 percent from January, but five indicators were down, one was unchanged, and three were up. Among the significant declining indicators were: plant and equipment orders, down 2.8 percent; the average workweek, off 1 percent; and building permits, down 1.4 percent. On the other hand, new orders for durable goods increased 2 percent; and stock prices were up 10.4 percent.

Serious delinquencies on home mortgage payments (60 days or longer) tend to rise in periods of recession but lag behind increases in unemployment rates by 3 to 6 months. The sharp rise in unemployment began in September 1974 when the number of unemployed increased by about 400,000 over the previous month and the rate increased to 5.8 percent. As noted earlier, the rate in March 1975 was 8.7 percent. Thus it is likely that the number of delinquencies nationwide will rise significantly in the spring and summer of 1975. Already, in terms of dollar impact, delinquencies have risen rapidly. The most recent information available from the Federal Home Loan Bank Board shows an increase in seriously delinquent mortgage loans of insured savings and loans as a percentage of mortgage portfolios in dollar terms from 1.0 percent in January 1974 to 1.31 percent in January 1975.

The trend in delinquencies on home mortgages in the months ahead primarily will reflect the employment and income levels of household heads, particularly married men. Unemployment rates for household heads rose from 3.0 to 5.8 percent between March 1974 and March 1975. For married men, the comparable rise was from 2.3 to 5.2 percent. Those unemployed 15 weeks numbered 1,991,000 in March 1975, more than 1 million more than a year earlier. If this group contains a substantial number of homeowners, delinquencies on home mortgages are likely to rise.

H.R. 5398 is intended to assist homeowners who have suffered a significant decline in income and are financially unable to meet their mortgage payments. It is temporary legislation and no new assistance could be made after July 1, 1976. The measure would have the added benefit of preventing a rash of distress sales of houses with a consequent destabilization of residential markets in certain areas. A number of local housing markets are particularly vulnerable due to a large overhang of unsold new homes. Assistance under the program would also permit financial institutions with large holdings of delinquent mortgages to maintain much-needed new mortgage lending activity.

WHAT THE BILL WOULD DO

H.R. 5398 would make it possible for homeowners who lose their jobs or suffer reductions in income because of the current recession to retain their homes. The bill authorizes the Secretary of HUD to make repayable emergency mortgage relief payments on behalf of such homeowners in order to maintain the payments on their mortgages.

The committee considered it desirable to place a dollar limit on the amount of assistance made available on behalf of any homeowner. Thus, the mortgage relief payments cannot exceed \$250 a month. To the extent needed, these payments can be applied toward all amounts required to be paid under the terms of a mortgage, including principal, interest, taxes, ground rents, hazard insurance, and mortgage insurance premiums. The bill provides, however, that homeowners will receive assistance only beyond their capacity to make mortgage payments out of other funds available to them, as determined in accordance with general guidance contained in HUD regulations. The committee also expects that mortgage holders will agree, to the maximum extent possible, to receive less than the full amount of the mortgage payments.

The provisions of H.R. 5398 are designed to spread available federal funds as widely as possible and to concentrate their use on homeowners most in need of them. While mortgage relief payments may be made for up to 24 months, the committee expects that only in rare cases will it be found necessary to continue payments for that period of time. The bill requires assisted homeowners to report immediately any change in their financial condition which would enable them to assume all or a greater portion of their mortgage obligations. Payments are not expected to be made beyond twelve months without a re-evaluation of need.

The bill states a number of general conditions for relief. The homeowner must have incurred a substantial reduction in income as a result of involuntary unemployment or underemployment due to adverse eco-

conomic conditions and must be financially unable to make full mortgage payments. There must also be a reasonable prospect that the homeowner will be able to make the adjustments necessary for a full resumption of payments. Further, the mortgage payments must be at least two months delinquent and the mortgaged property must be the principal residence of the mortgagor. It is intended that assistance be available to that limited class of homeowners who have already had foreclosure actions initiated against them if there has not yet been a judicial sale of the property provided, of course, that the requirements of the bill can be met.

These conditions are stated in a manner which the committee believes give guidance as to basic policy while allowing the Secretary considerable discretion in developing specific regulations covering such matters as allowances to be made for a homeowner's savings and liquid assets, account to be taken of prior payment records, the manner of determining whether unemployment or underemployment is attributable to adverse economic conditions, and the circumstances that would be looked to as indicating that the homeowners can reasonably be expected to save his home with the assistance provided. It was the committee's belief in this respect that the variety of individual circumstances is such that it is difficult to establish more detailed statutory requirements without creating rigidities that may be very difficult to remedy, particularly in a short-term, emergency program, and that may result in unintended problems and inequities. The committee expects, however, that the Secretary will not only move promptly in developing the necessary specific regulations but will include statements of progress made and problems encountered in the reports under section 5 of the bill. The committee intends that the program will be administered in a manner which favors prompt and affirmative decisions with respect to the approval of assistance on behalf of homeowners.

It should be noted that under the bill, the Secretary would be given specific authority to delegate administrative functions and to accept certifications, as appropriate to facilitate prompt and efficient implementation of the program. The committee anticipates, for example, that actual processing of assistance requests, as well as servicing and collection activities, may be generally handled through lenders, subject to the Secretary's regulations and audit procedures. Also, if appropriate, the Secretary could delegate functions to other Federal agencies, to FNMA, to State or local government agencies, or to private agencies, and could provide such reimbursement for services rendered as may be needed.

The committee expects that this legislation will be administered in a manner that will tend to limit the number of payments by encouraging mortgage holders whenever appropriate to forbear rather than instituting foreclosure proceedings. The bulk of outstanding mortgage loans are currently held by lenders who now have substantial capacity to exercise forbearance, and many lenders will continue to have such capacity even if delinquency and foreclosure rates rise. The committee believes that every effort should be made to encourage and assist lenders—including particularly those subject to Federal supervisory or regulatory jurisdiction—to use this capacity and to exercise restraint

in collection and foreclosure policies. The committee expects that the Federal Home Loan Bank Board will continue to pursue its policy of March 12, 1975, of waiving its lending restrictions with respect to institutions carrying an excessive volume of scheduled items resulting from loan repayment leniency and foreclosure forbearance during periods of adverse economic conditions.

With the purpose of encouraging mortgage holders and homeowners to work out accommodations without Federal payment assistance, the committee has included in the bill a provision under which—subject to a possible waiver as described below—payments would not be made in any cases unless the mortgage holder has specified in writing the circumstances which make it probable that it cannot forbear—as, for example, the ratio of delinquent loans it is carrying—and that demonstrate the need for Federal assistance. These statements could be made on a form prescribed by the Secretary. They need not be reviewed on a case-by-case basis and it is not intended that Federal concurrence in the statements be a condition of relief to individual homeowners. It is expected, however, that the Secretary—and particularly the Federal Home Loan Bank Board and other Federal agencies having regulatory jurisdiction—will use the statements as a means of monitoring the program, identifying those institutions which may not be acting responsibly or that may be deliberately adopting a tougher line than they would otherwise take because of the availability of the Federal payments, and encouraging more liberal forbearance policies wherever appropriate. It is, further, intended that full information on these efforts will be included in the periodic reports provided for in section 5 of the bill.

The committee recognizes that there may be isolated instances where the holder of a mortgage has threatened foreclosure but refuses to submit a statement as to the circumstances that give rise to the need for such action. Should this occur, it feels that it would be inequitable flatly to deny relief to an otherwise deserving homeowner. Accordingly, it has given the Secretary specific authority to waive the statement requirement in those circumstances where the Secretary determines such a waiver would further the purposes of the bill.

The committee wishes to emphasize that mortgage relief payments are repayable by the homeowner to HUD. The bill is flexible with respect to the terms of the repayment as different approaches may be appropriate according to the individual circumstances. For example, the bill does specifically permit the Secretary to defer repayment until the home is sold or the mortgage retired. A maximum interest rate of 8 percent may be charged by the Secretary of HUD, which should be sufficient to make the program self-supporting. The committee bill requires the Secretary to obtain adequate security for the loan. While the bill permits this security to be in the form of a lien on the homeowner's mortgaged property, the committee expects the Secretary to select the most appropriate form of security in the circumstances.

The bill authorizes \$500,000,000 to be appropriated for the making of repayable mortgage relief payments. This level of authorization could assist approximately 300,000 families in saving their homes. On the basis of 1974 delinquency and foreclosure experience, fewer than 100,000 homeowners would need or be eligible for assistance under

H.R. 5398 over a period of one year. H.R. 5398, therefore, provides sufficient funds to accommodate a significant increase over the next year in mortgage delinquencies caused by unemployment.

Section 5 of the bill requires the Secretary of HUD to make periodic reports to the Congress concerning particularly hard hit housing market areas where serious defaults and foreclosures threaten to become widespread. The provision is necessary because of the considerable time lag between unemployment, actual defaults and foreclosures, and the availability of information on these defaults and foreclosures using traditional data collection techniques.

Section 5 also requires the Secretary to monitor default trends with respect to multifamily cooperative and rental projects with special attention to FHA projects which have been experiencing increasing difficulty lately. This requirement was adopted from H.R. 2700, legislation sponsored by Representative Joe Moakley. While the focus of this bill is on relief to homeowners, it was pointed out in hearings that many of the same economic factors which impact adversely on homeowners threatened with foreclosure also impact on the owners of rental or cooperative projects causing similar hardships to the tenants or cooperative shareholders.

STATEMENTS REQUIRED IN ACCORDANCE WITH HOUSE RULES

In compliance with clause 2(1)(3) and 2(1)(4) of rule XI of the Rules of the House of Representatives, the following statements are made:

With regard to subdivision (A) of clause 3, relating to oversight findings, the committee finds, in keeping with clause 2(b)(1) of rule X, that this legislation is in full compliance with the provision of this rule of the House, which states:

In addition, each such Committee shall review an study any conditions or circumstances, which may indicate the necessity or desirability of enacting new or additional legislation within the jurisdiction of the committee . . .

The objectives of this legislation are three in number: namely, (1) to assist homeowners in retaining their homes, (2) to prevent disruption of residential markets and construction activity because of distress sales of homes, and (3) to maintain normal mortgage lending activity of financial institutions.

With respect to subdivisions (C) and (D) of clause 3, the committee advises that no estimate or comparison has been prepared by the Director of the Congressional Budget Office relative to any of the provisions of H.R. 5398, nor have any oversight findings or recommendations been made by the Committee on Government Operations with respect to the subject matter contained in H.R. 5398.

In compliance with clause 2(1)(4) of rule XI of the House of Representatives, the committee makes the following statement in compliance with this rule:

H.R. 5398 could have little or no inflationary impact upon the national economy or the homebuilding industry. It would provide loans to enable distressed homeowners to retain their equity in exist-

ing assets. Thus, it would not add directly to effective demand for new goods and services, although it would release some funds that might otherwise be used in a desperate attempt by homeowners to retain possession of their homes. The main economic consequences are likely to be:

1. Enabling a number of homeowners to retain ownership of their properties by incurring a new debt;
2. Preventing the destabilization of certain local housing markets, with potentially serious declines in housing values and construction activity;
3. Easing a liquidity squeeze on some lending institutions with substantial holdings of delinquent mortgages.

In compliance with clause 7(a) of rule XIII of the House of Representatives, the following statement is made: H.R. 5398 authorizes \$500 million to be appropriated, to remain available until expended. Outlays would occur over a three-year period. Outlays for fiscal year 1976 are estimated at \$150 million; for 1977, \$250 million; and for 1978, \$100 million. The amounts are repayable with interest. A small number of repayments may occur within this three-year period, but the bulk of the repayments will take place during later periods. Cost estimates have not been submitted by a Government agency.

In compliance with clause 2(1)(2) of rule XI of the House of Representatives, the following statement is made relative to the record vote on the motion to report H.R. 5398. A total of 29 votes was cast for reporting, with one voting present.



SECTION-BY-SECTION SUMMARY OF THE BILL

Section 1. Short title

The first section of the bill provides that it may be cited as the "Emergency Homeowners' Relief Act".

Section 2. Findings and purpose

Subsection (a) sets forth Congressional findings that (1) the Nation is in a severe recession and that the sharp downturn in economic activity has driven large numbers of workers into unemployment and has reduced the incomes of many others; (2) as a result the capacity of many homeowners to continue to make mortgage payments has deteriorated and may further deteriorate in the months ahead; and (3) many of these homeowners can retain their homes with temporary financial assistance until economic conditions improve.

Subsection (b) sets forth the purpose of the bill as being the prevention of widespread mortgage foreclosures and the distress-sale of homes resulting from the temporary loss of employment and income by authorizing emergency advances to homeowners to defray mortgage expenses.

Section 3. Emergency mortgage relief payments

Subsection (a) authorizes the Secretary of HUD to make repayable emergency mortgage relief payments on behalf of homeowners who are delinquent in their mortgage payments.

Subsection (b) specifies that emergency mortgage relief payments shall not be approved with respect to any mortgage unless (1) the holder of the mortgage has notified the mortgagor in writing of its intention to foreclose; (2) the mortgagor and holder of the mortgage have indicated in writing to the Secretary and to any agency or department of the Federal Government responsible for the regulation of the holder that circumstances (such as the volume of delinquent loans in its portfolio) make it probable that there will be a foreclosure and that the mortgagor is in need of emergency mortgage relief authorized by this Act, except that such statement by the holder of the mortgage may be waived by the Secretary if in his judgment such waiver would further the purposes of this Act; (3) payments under the mortgage have been delinquent for at least two months; (4) the mortgagor has incurred a substantial reduction in income as a result of involuntary unemployment or underemployment due to adverse economic conditions and is financially unable to make the full mortgage payments; (5) there is a reasonable prospect that the mortgagor will be able to make the adjustments necessary for a full resumption of mortgage payments; and (6) the mortgaged property is the principal residence of the mortgagor.

Subsection (c) provides that mortgage relief payments on behalf of a homeowner may be in an amount up to the amount of the principal, interest, taxes, grounds rents, hazard insurance, and mortgage insur-

ance premiums due under the mortgage, but that such payments shall not exceed the lesser of \$250 per month or the amount determined to be reasonably necessary to supplement such amount as the homeowner is capable of contributing toward such mortgage payment.

Subsection (d) provides that mortgage relief payments may be made by the Secretary for up to twelve months, and may be extended once for up to twelve additional months. The Secretary must require the mortgagor to report any increase in income which will permit a reduction or termination of mortgage relief payments during this period.

Subsection (e) requires that the mortgage relief payments be repayable by the homeowner upon such terms and conditions as the Secretary shall prescribe, except that interest on the payments may not exceed 8 percent per annum. The Secretary may defer repayment of the mortgage relief payments until the disposition of the property or the completion of the period of amortization for the mortgage. He must require such security for the repayment of mortgage relief payments as he deems appropriate and may secure such repayment by a lien on the mortgaged property. The Secretary may make such delegations and accept such certifications with respect to the processing of mortgage relief payments as he deems appropriate to facilitate the prompt and efficient implementation of this Act.

Section 4. Authorization and expiration date

Subsection (a) authorizes appropriations of up to \$500 million. Any amounts so appropriated shall remain available until expended.

Subsection (b) prohibits the making of mortgage relief payments after July 1, 1976, except with respect to mortgagors receiving the benefit of payments on such date.

Section 5. Reports

This section requires the Secretary of HUD, sixty days after enactment of this Act and within each sixty-day period thereafter prior to July 1, 1976, to make a report to the Congress on (1) the current rate of delinquencies and foreclosures in the housing market areas of the country which should be of immediate concern if the purpose of this Act is to be achieved; (2) the extent of, and prospect for continuance of, voluntary forbearance by mortgagees in such housing market areas; (3) actions being taken by governmental agencies to encourage forbearance by mortgagees in such housing market areas; (4) actions taken and actions likely to be taken with respect to making assistance under this Act available to alleviate hardships resulting from any serious rates of delinquencies and foreclosures; and (5) the current default status and projected default trends with respect to mortgages covering multifamily properties with special attention to mortgages insured under the various provisions of the National Housing Act and with recommendations on how such defaults and prospective defaults may be cured or avoided in a manner which, while giving weight to the financial interests of the United States, takes into full consideration the urgent needs of the many low- and moderate-income families that currently occupy these multifamily properties.

SUPPLEMENTAL VIEWS OF CONGRESSMAN JOHN H. ROUSSELOT

I have no quarrel with the basic objective of H.R. 5398, which is to assist homeowners who find themselves unemployed or underemployed through no fault of their own in meeting their mortgage payments. Although the bill does not explicitly recognize this fact, the "severe recession" and "sharp downturn in economic activity" to which the findings refer are largely the result of inflation and high interest rates caused by Federal mismanagement of the economy, so that it is entirely proper that the Federal government provide temporary assistance to homeowners in a manner which does not further aggravate the economic problems themselves.

The bill is clearly not a giveaway. Rather, it would authorize a \$500 appropriation to provide loans of up to \$250 per month to eligible homeowners. Additional assurance that the program will not be abused is provided by the Hyde amendment, which *requires* the Secretary of HUD to obtain "appropriate" security, such as a lien on the mortgaged property, for the loans which are made to homeowners.

Nevertheless, potentially serious administrative problems remain, which, if they are not corrected, may result in excessive expense and delay, or in failure of the legislation to achieve its purpose of providing emergency advances to homeowners without imposing an unwarranted burden on taxpayers. Among the most troublesome of these potential problems are the following:

1. Section 3(b)(2) of the bill, as amended in full Committee mark-up, requires the holder of the mortgage to indicate to the Secretary in writing,

. . . that circumstances (such as the volume of delinquent loans in its portfolio) make it probable that there will be a foreclosure and that the mortgagor is in need of emergency mortgage relief . . . except that such statement by the holder of the mortgage may be waived by the Secretary if in his judgment such waiver would further the purpose of the Act.

The purpose of the amendment was to prevent mortgagors in similar circumstances from being discriminated against on the basis of the relative soundness of the financial institutions with which they have dealt. However, the provision is now so vague that it is difficult to determine whether, or under what conditions, such a report by the holder is required. More serious is the possibility that the Secretary may have to make a determination in each case of the adequacy of the statement or of the advisability of a waiver.

2. Section 3(b)(3) establishes a delinquency period of "at least two months" as a prerequisite for payment of benefits. Since most mortgage holders usually forbear for three to six months, this provision may have the perverse effect of *reducing* the actual period of forbearance and of *increasing* the number of foreclosures. Such a result,

though unintended, would be extremely unfortunate and would create great hardship for the very homeowners whom this bill is designed to assist.

3. Section 3(b) (4) requires as a condition of assistance that,
 . . . the mortgagor has incurred a substantial reduction in income as a result of involuntary unemployment or underemployment due to adverse economic conditions and is financially unable to make full mortgage payments.

Even if Congress ultimately provides a clear definition of what constitutes (1) "substantial reduction in income;" (2) "involuntary unemployment or underemployment;" (3) "adverse economic conditions;" and (4) "financially unable to make full mortgage payments;" determination of eligibility on a case-by-case basis may be extremely costly and burdensome. Without such definitions, the administrative problems are likely to be staggering. While it is true that under section 3(e) HUD may delegate the performance of this processing function to lenders, this does not necessarily resolve the problem and may even compound it.

4. Section 3(c) establishes the level of monthly payments as "the lesser of \$250 per month or the amount determined to be reasonably necessary to supplement such amounts as the homeowner is capable of contributing toward such mortgage payments." If such a calculation must be made by HUD on a case-by-case, month-by-month basis, a new and terribly costly bureaucracy may be required to perform this function.

It may be said that Congress should not be greatly concerned with the issues which I have raised because the definitions and standards may be established by HUD regulations in due course. However, experience should have taught us not to take this for granted.

A case in point involves the administration of the 1974 amendments to section 518(b) of the National Housing Act, which provides for Federally-assisted correction of defects in certain FHA-insured programs, such as section 203 housing purchased between 1968 and 1972. HUD regulations issued last fall required servicers of mortgages to enclose with their monthly statements to mortgagors brochures describing the new program. Unfortunately, in making the regulations for the program, HUD failed to consider that many servicers do not bill on a monthly basis and that most servicers could not determine without extraordinary effort and expense which mortgages were created under section 203 during the years in question and were therefore eligible for assistance. At last word the servicers had understandably refused to bear the clerical and mailing costs involved and HUD had refused to change its regulation.

If this is any indication of the kind of response which can be expected of HUD if this bill is enacted, then a great deal of careful work remains to be done on the Floor and in Conference before Congress can rest assured that the purposes of the bill will be faithfully implemented.

JOHN H. ROUSSELOT,
Member of Congress.