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MEETING WITH THE PRESIDENT ON

HOME OWNERSHIP

Saturday, Sept. 11, 1976
1:30 p.m.

Satur



THE WHITE HOUSE
WASHINGTON

MR. CANNON:

ATTACHED ARE 8 COPIES

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HOMEOWNERSHIP OPPORTUNITIES FOR MIDDLE AMERICA (HOMA)



1. Format: This program would provide either a grant or a tax credit to purchasers of first homes. Both new and existing homes would be eligible. There would be a maximum mortgage limit of \$38,000 and maximum price limit of \$40,000. The amount of the tax credit would be the lesser of (1) the difference between payments to principal and interest at the current market rate (9% assumed in this analysis) and payments to principal and interest at 6% or (2) the difference between principal and interest at 9% and 20% of the family's income. The subsidy on the maximum price house would phase out at about the \$18,000 income level.
2. Families Assisted: 1.1 million families in the relevant income range of \$14,000 to \$18,000 a year will purchase in any case. An additional 700,000 - 800,000 families could be made capable of home purchase, of which an estimated 250,000 would purchase in the first year.
3. Subsidy per Family: The average first year subsidy per family would be \$500 and, with normal income growth, the average subsidy over the life of the loan would be \$1325. Assuming a 5 1/2% growth rate in normal income, the \$14,000 family would phase out in 5 years and higher income families would phase out sooner.
4. Number of Incremental Purchasers per year: 250,000 additional families are likely to purchase in the first year. (GMB estimates 50,000)
5. First Year Outlays: About \$670 million (assuming 1.35 million purchasers annually, each with a \$38,000 mortgage).
6. Total Costs: \$1.8 billion over the period of subsidy for each year's assisted families.
7. Cost per Incremental Purchaser: (First Year): \$2,700 (\$670 million divided by 250,000)
(Total) - \$7,200 (\$1.8 billion divided by 250,000 incremental purchasers)
8. Risk to the Government: No default risk since FHA insurance is not required.
9. Ease of Administration: If assistance is provided as a tax credit, administration is extremely inexpensive but costs uncontrollable. If the assistance is provided by direct subsidies, administration is complex, but the number of recipients, hence costs, can be controlled.

10. Inequities: Benefits are focused on moderate income marginal purchasers, but only first time home purchasers in this class are benefitted and not existing homeowners or second time home purchasers with similar income.

11. Impact on Typical \$15,000 Income Family Buying a \$40,000 House with a \$38,000 Mortgage:

Downpayment (not including closing costs) of \$2,000.

Monthly mortgage payment reduced by \$56, from \$306 to \$250 in first year; reduced by \$42 in second year to \$264, if income increases by 5 1/2% to \$15,285, subsidy phases out after 4 years.

12. Pros:

1. The President can fairly represent that this program will bring homeownership within the grasp of an additional 800,000 young families seeking to purchase a first home.
2. Assures buyer and lender of first-time purchasers continued capacity to support mortgage regardless of income growth.
3. Accelerates opportunity for homeownership for young moderate income families with growing incomes.
4. Also allows those who buy anyway to purchase better housing and mitigates the financial strains facing such families.
5. The subsidy provided will phase out with normal income growth, hence few families will be subsidy recipients after 3-5 years in the program.
6. If interest rates again reach 7 1/2 percent, the subsidies being provided will be so small that the program will have phased itself out of existence.
7. By not differentiating between new construction and existing housing, but focusing on families who can afford only modest housing, it will encourage some young families to buy older housing in urban areas which is a bargain as compared to new construction.
8. Can be combined with any downpayment option.

9. If implemented as a tax credit, could be translated into a monthly subsidy by homeowner adjusting his withholding.

Cons:

1. Substantial outlays required.
2. Some families may not experience income growth, hence not work off subsidy as rapidly as anticipated.
3. May be criticized as welfare for the well-to-do (\$14,000 - \$18,000 incomes), although it serves a lower income band than any of the other alternatives.
4. Incentive to purchase maximum price (\$40,000) house, except that purchaser with normal income growth will have to assume full costs within 2-5 years.

GRADUATED PAYMENT/FIXED RATE MORTGAGE



1. Format: Initial mortgage payments would be reduced and later payments increased at a set rate of increase.
2. Number of families assisted:
3. Subsidy per Family: None
4. Number of Incremental Purchasers per year: 40,000 additional families may purchase in the first year; more in later years as FHA demonstrates the viability of GPs to PMI's and conventional lenders, rising to up to 100,000 per year.
5. First Year Outlays: None
6. Total Costs: Depends on ultimate foreclosure rate.
7. Cost per Incremental Purchaser: (First Year) - None
(Total) Depends on ultimate foreclosure rate.
8. Risk to the Government: Increases FHA default risk by up to 40%, requiring .5 to .6 premium.
9. Ease of Administration: Requires FHA underwriting, but FHA is already financing some GP mortgages this year pursuant to Section 245.
10. Inequities: Benefits primarily those with reasonable cash equity and reasonable expectations of income growth.
11. Impact on Typical \$15,000 Income Family Buying a \$40,000 House with a \$36,000 Mortgage:

Monthly mortgage payment reduced by \$37 from \$284 to \$247 in first year and by \$30 to \$254 in the second year; payments would continue to rise by 3% per year over the first ten years of the mortgage term, then level off. (Assuming both loans at 8 1/2% with .6 premium on GP and .25 PMI premium on the level payment mortgage).
12. Pros:
 1. Accelerates opportunity for homeownership for those with expectations of rising income by providing lower payments in early years of the mortgage, thus mitigating initial income constraints on homeownership.

Pros: (cont'd)

2. Involves no direct subsidies.

Cons:

1. Requires higher (at least 7%) downpayment to avoid outstanding balance exceeding house price, so cannot be combined with a downpayment option.
2. Increased default risk since, during early years of mortgage, amount owed will exceed original principal amount.
3. Lenders may shy away due to higher risks and reduction in their cash flow.
4. Many consumers will be wary if uncertain about their future income growth.
5. Will probably require FHA insurance, another impediment to lender and consumer acceptance, as well as an additional workload burden and risk to HUD.

REDUCE FHA DOWNPAYMENT REQUIREMENT

1. Format: Legislative change to reduce downpayment required for FHA insurance

Current

3% for up to \$25,000
10% for \$25,000 - \$35,000
20% for \$35,000 - \$45,000

Option

3% for up to \$25,000
5% for \$25,000 - \$40,000
10% for \$40,000 - \$50,000
20% for \$50,000 - \$60,000

2. Number of Families Assisted: 275,000 - expected FHA volume of 255,000 plus incremental purchases

3. Subsidy per Family: None

4. Number of Incremental Purchasers per year: 20,000 (10,000 - 30,000) - Reduces downpayment requirement for FHA purchasers only by an average of 3%, but increases required monthly payment to amortize resulting larger mortgage amount.

5. First Year Outlays: None

6. Total Costs: None

7. Cost per Incremental Purchaser: (First Year) - None

(Total) - None

8. Risk to the Government: An increase in foreclosure losses, but even these increased losses should be covered by the current .5% premium.

9. Ease of Administration: Simple change in FHA processing, but any resulting larger volume of FHA insurance would increase HUD workload hence staff needs.

10. Inequities: Benefits primarily families with little wealth but relatively high incomes, who purchase homes over \$30,000 in cost.

11. Impact on Typical \$15,000 Income Family Buying a \$40,000 House.

Lowers downpayment (not including closing costs) from \$2750 to \$1500 or by \$1250, but increases monthly payments by \$10 from \$286 to \$296.

12. Pros:

1. FHA may demonstrate value of higher loan to value ratio loans and lead the private sector into greater acceptance of such loans.
2. Can be combined with an interest reduction program more significantly to increase homeownership opportunities by providing those who benefit from the subsidy but have low equity with low downpayment financing.

Cons:

1. Requires legislative change.
2. Can be criticized for benefitting only families with relatively high incomes who can already afford the increased monthly costs of homeownership.
3. Very small number of families actually will be assisted to achieve homeownership.
4. Could make FHA more competitive with rather than a complement to the private sector's mortgage insurance industry.
5. 90 - 95% loans already available in private sector in many instances.

FEDERAL GUARANTEE OF DOWNPAYMENT

1. Format: Federal Government would guarantee an unsecured loan for one half of downpayment.

2. Number of Families Assisted: 1.48 million (if restricted to first time purchasers with incomes under \$20,000).

3. Subsidy per Family: None

4. Number of Incremental Purchasers per year: 75,000 (50 - 100,000)

Lowens downpayment required at purchase but raises total price of home since the second loan must be amortized simultaneously at the mortgage rate.

5. First Year Outlays: None

6. Total Costs: Defaults on guarantees for 1.48 million purchasers are estimated at \$318 million, primarily during the first five years (based on 12% default rate and 5% guarantee). (In addition, FHA losses could be increased by as much as \$61 million as a result of additional losses resulting from decreased loan to value ratios on 85,000 eligible FHA loans).

7. Cost per Incremental Purchaser: (First Year) - None

(Total) -\$4240 (or \$5053 including FHA losses)

8. Risk to the Government: Expected default rate resulting from higher loan to value ratio is 12%. Expected average loss per guarantee is \$216. In addition, decreased loan to value ratio on 85,000 eligible FHA loans is expected to increase FHA losses by \$61 million.

9. Ease of Administration: Will require some HUD processing at time of guarantee.

10. Inequities:

11. Impact on Typical \$15,000 Income Family Buying a \$40,000 House with a \$36,000 Mortgage:

Reduces downpayment (not including closing costs) from \$4,000 to \$2,000 or by \$2,000; but raises monthly payment by \$16 from \$290 to \$306.

12. Pros:

1. Substantially reduces equity required.
2. Can be combined with interest subsidy to achieve maximum effect.
3. Government need not bear full risk of loss for all assisted purchasers.
4. Does not rely on FHA, so not staff intensive.

Cons:

1. Requires higher monthly payments so assisted only families with low wealth but relatively high incomes.
2. 90 - 95% loans already available for good risk borrowers.
3. May drive PMIs to increase downpayments required to limit risk from higher loan-to-value ratios, thereby mitigating effect of program (average PMI per case losses could be increased by up to \$360).

HOMEOWNERSHIP OPPORTUNITIES FOR MIDDLE AMERICA (HOMA)



1. Format: This program would provide either a grant or a tax credit to purchasers of first homes. Both new and existing homes would be eligible. There would be a maximum mortgage limit of \$38,000 and maximum price limit of \$40,000. The amount of the tax credit would be the lesser of (1) the difference between payments to principal and interest at the current market rate (9% assumed in this analysis) and payments to principal and interest at 6% or (2) the difference between principal and interest at 9% and 20% of the family's income. The subsidy on the maximum price house would phase out at about the \$18,000 income level.
2. Families Assisted: 1.1 million families in the relevant income range of \$14,000 to \$18,000 a year will purchase in any case. An additional 700,000 - 800,000 families could be made capable of home purchase, of which an estimated 250,000 would purchase in the first year.
3. Subsidy per Family: The average first year subsidy per family would be \$500 and, with normal income growth, the average subsidy over the life of the loan would be \$1325. Assuming a 5 1/2% growth rate in normal income, the \$14,000 family would phase out in 5 years and higher income families would phase out sooner.
4. Number of Incremental Purchasers per year: 250,000 additional families are likely to purchase in the first year. (OMB estimates 50,000)
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THE SECRETARY OF THE TREASURY
WASHINGTON

September 11, 1976

Memorandum to The Honorable James M. Cannon
Director, Domestic Council

Subject: Homeownership Tax Incentives

I have just been informed that a set of proposals to encourage homeownership will be the subject of memoranda for the President this weekend. Some of the suggested schemes include subsidies in the form of tax incentives. I would like to record my strong opposition to the proposed tax devices. The proposals in question are titled "Homeownership Opportunities for Middle America (HOMA)" and "Tax Exempt Savings" on a spreadsheet which was provided us by Lynn May of your staff. I have two overriding reasons for opposing the tax aspects of these proposals:

. As I have repeatedly emphasized, the amount of complexity now cluttering up the tax code threatens seriously to undermine the self-assessment tax system. These proposals would add yet another layer of complex provisions affecting millions of taxpayers and would allocate tax advantages in an arbitrary way which would certainly be perplexing to many taxpayers, especially those who have already sacrificed to buy a home.

. The Administration is strongly committed to a balanced budget in Fiscal 1979. We can ill afford to commit the Administration to tax expenditure programs of the magnitude being proposed here without the fullest consideration of the overall budget, including previously advanced tax initiatives. The "HOMA" proposal, for example, appears to have an estimated FY '79 cost of \$1.2 billion.

Furthermore, I see a number of specific problems with these proposals. Since the "HOMA" proposal is apparently under the most serious consideration, I shall confine my further comments to it. This proposal suffers from the following defects:



. The amount of subsidy which would be distributed to people who would purchase homes without the program is extremely large. Accepting the quantitative estimates provided on the spreadsheet, approximately 83 percent of the total government expenditure or \$4.5 billion over the life of the program would be paid out to households who would have purchased homes in any case.

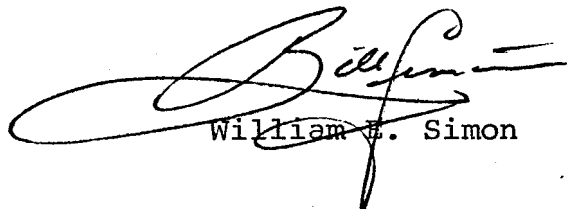
. No consideration appears to have been given to the short run effect of this proposal on the prices of existing homes. Can we not expect a substantial part of its effect to be "dissipated" in higher market prices for existing houses?

. Since construction of single family dwellings most suited to owner occupancy is more predominant outside central cities, the locational effect of this incentive would be in the direction of movement to the suburbs. This will aggravate problems of central cities.

. An effect of the proposal will be to shift demand away from rental housing. This will further depress the portion of the building industry which is engaged in building multi-unit structures.

. There will be many problems developing clear and fair rules for administering the HOMA proposal. For example, how are we to identify "purchasers of first homes"? How do we deal with situations where one spouse of a married couple has previously been a joint owner of a home? Is the housing unit defined to include such tenure forms as co-ops and condominiums?

Finally, I am disturbed by the procedures under which these tax initiatives have been advanced within the Administration. Treasury has primary responsibility for tax policy. Significant tax proposals which are to be forwarded for Presidential consideration, should be given full analysis and review by the Office of Tax Policy. In this case only the most informal, indirect, and last-minute communication brought these measures to my attention.



William F. Simon



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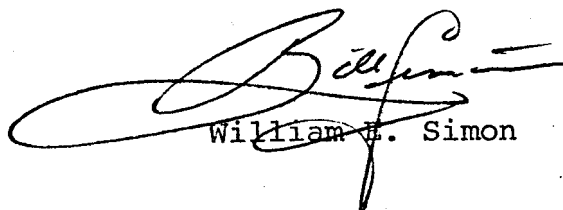
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1. FORMAT:	<p>HOMEOWNERSHIP OPPORTUNITIES FOR MIDDLE AMERICA (HOMA)</p> <p>This program would provide a tax credit to purchasers of first homes. Both new and existing homes would be eligible. There would be a maximum mortgage limit of \$38,000. The amount of the tax credit would be the lesser of (1) the difference between payments to principal and interest at the current market rate (9% assumed in this analysis) and payments to principal and interest at 6% or (2) the difference between principal and interest at 9% and 20% of the family's income. This program would phase out at about the \$18,000 income level.</p>	<p>BROCK-ASHLEY</p> <p>GNMA would pay 2% interest on the mortgage initially, and any additional interest due to the variable rate provisions. This would accumulate with interest in the borrower's GNMA loan account which is to be repaid when the house is sold or by arrangement with GNMA.</p>	<p>GRADUATED PAYMENT/</p> <p>Initial mortgage pay increased at a set r payments should bett initial income const</p>
2. Number of Families Assisted:	1.33 million	1.7 million	1.5 million
3. Subsidy per Family:	The average subsidy per family in the first year of about \$500 and of about \$650 over the life of the loan.	There is no direct subsidy involved in the program. There are, however, indirect costs involved in all direct loan programs.	NONE
4. Number of Incremental Purchaser per Year:	230,000	The GNMA loan would reduce monthly payments enough such that 250,000 to 300,000 additional families would be able to afford a \$35,000 house without spending more than 25% of their income on housing. The GNMA loan would reduce current costs but increase total costs because the GNMA loan must be repaid with accumulated interest. Thus, there may be market resistance to this program, since it substantially reduces or eliminates a homeownership equity accumulation, one of the primary perceived benefits of homeownership.	80,000 (under constr exceed 100%)
5. First Year Outlays:	About \$665 million	The average GNMA loan would be about \$500 after one year. If 1.7 million loans were issued, total lending under the program would reach \$850 million.	NONE
6. Total Costs:	\$1.7 billion over the period of subsidy for each year's assisted families. Assuming a 7% growth rate in normal income, the \$14,000 family would phase out in 5 years and higher income families would phase out sooner.	Total lending for the first year participants will reach about \$5 billion after 5 years. Lending to participants entering in years 2-5 will be about \$10 billion. As currently conceived, total lending under the program will increast at an exponential rate. In theory, however, all of these outlays would be recovered as recipients ultimately repaid their GNMA loans.	NONE
7. Cost per Incremental Purchaser:	<p>(First Year) - \$2,900 (\$665 million divided by 230,000)</p> <p>(Total) - \$7,391 (\$1.7 billion divided by 230,000 incremental purchasers)</p>	<p>(First Year) - There are no direct costs to the government, but in terms of budget impact, total lending would be about \$2,800 per incremental purchaser in the first year. After 25 years, GNMA would have lent about \$250,000 per incremental first year purchaser.</p> <p>(Total) -</p>	<p>(First Year) - NONE</p> <p>(Total) - NONE</p>
8. Risk to the Government:	Essentially no default risk since FHA insurance is not required.	There is a particularly high risk of default associated with second mortgages such as the GNMA loans which may be higher than the original principal of the first mortgage, by the time it becomes due.	Increased FHA default

QUATED PAYMENT/FIXED RATE MORTGAGE

ial mortgage payments would be reduced and later payments
eased at a set rate of increase. Increasing mortgage
ents should better match rising incomes. This mitigates
ial income constraints on homeownership.

TAX EXEMPT SAVINGS

Contribution made to, and interest earned on, a savings account
would be deductible from taxable income if the savings in that
account are used for a downpayment by first time home purchasers.
Limits would be \$20,000 income, \$10,000 total savings, \$2,500
per year in addition to savings.

DOWNPAYMENT VOUCHER/GRANT

\$1,000 cash payment to buyer

million

1.5 million families

1.46 million

\$2,500

\$1,000

00 (under constraint than loan to value ration cannot
ed 100%)

75 - 100,000

60,000

Raises loan-to-value from .86 to .89 based on in-house
research, this would increase housing demand by 60,000
units per year.

\$938 million

\$1.4 billion

Year 1: \$938M a year
Year 2: \$1.88B a year
Year 3: \$2.86B a year
Years 4-8: \$3.75B

All costs are borne in the first year a family is a
subsidy recipient.

t Year) - NONE

(First Year) - \$37,500 to 50,000

(First Year) - \$23,000

1) - NONE

(Total) - \$37,500 to 50,000

(Total) - \$23,000

ased FHA default risk

NONE

NONE

FEDERAL GUARANTEE OF DOWNPAYMENT

Federal guarantee of loan for one half of downpayment. This second loan would be secured by a second lien.

1.55 million

NONE

90,000 - 140,000

Lowers downpayment required at purchase but raises total price of home if the second lien is amortized at mortgage rate which will be in excess of rate of inflation.

NONE

NONE

(First Year) - NONE

(Total) - NONE

A significant increase in foreclosure rates. For example, by increasing loan-value ratio by 8 percent (.86 to .93) foreclosure rate would be increased by 11 percent. (elasticity of 1.4).

REDUCE FHA DOWNPAYMENT REQUIREMENT

Legislative change to reduce downpayment required for FHA insurance

Current

3% for up to \$25,000
10% for \$25,000 - \$35,000
20% for \$35,000 - \$45,000

Option

3% for up to \$25,000
5% for \$25,000 - \$40,000
10% for \$40,000 - \$50,000
20% for \$50,000 - \$60,000

275,000 (expected FHA volume plus incremental purchases)

NONE

20,000

Reduces downpayment requirement for FHA only by an average of 3%.

NONE

NONE

(First Year) - NONE

(Total) - NONE

An increase in foreclosure rate. Losses should be covered by the .5% premium.

4. Number of Incremental Purchaser per Year:	230,000	The GNMA loan would reduce monthly payments enough such that 250,000 to 300,000 additional families would be able to afford a \$35,000 house without spending more than 25% of their income on housing. The GNMA loan would reduce current costs but increase total costs because the GNMA loan must be repaid with accumulated interest. Thus, there may be market resistance to this program, since it substantially reduces or eliminates a homeownership equity accumulation, one of the primary perceived benefits of homeownership.	80,000 (under constraint exceed 100%)
5. First Year Outlays:	About \$665 million	The average GNMA loan would be about \$500 after one year. If 1.7 million loans were issued, total lending under the program would reach \$850 million.	NONE
6. Total Costs:	\$1.7 billion over the period of subsidy for each year's assisted families. Assuming a 7% growth rate in normal income, the \$14,000 family would phase out in 5 years and higher income families would phase out sooner.	Total lending for the first year participants will reach about \$5 billion after 5 years. Lending to participants entering in years 2-5 will be about \$10 billion. As currently conceived, total lending under the program will increase at an exponential rate. In theory, however, all of these outlays would be recovered as recipients ultimately repaid their GNMA loans.	NONE
7. Cost per Incremental Purchaser:	(First Year) - \$2,900 (\$665 million divided by 230,000) (Total) - \$7,391 (\$1.7 billion divided by 230,000 incremental purchasers)	(First Year) - There are no direct costs to the government, but in terms of budget impact, total lending would be about \$2,800 per incremental purchaser in the first year. After 25 years, GNMA would have lent about \$250,000 per incremental first year purchaser. (Total) -	(First Year) - NONE (Total) - NONE
8. Risk to the Government:	Essentially no default risk since FHA insurance is not required.	There is a particularly high risk of default associated with second mortgages such as the GNMA loans which may be higher than the original principal of the first mortgage, by the time it becomes due.	Increased FHA default risk
9. Ease of Administration:	If assistance is provided as a tax credit, administration is extremely inexpensive but costs uncontrollable. If the assistance is provided by direct subsidies, administration is complex, but the number of recipients, hence costs, can be controlled.	GNMA would have to become a mortgage originator, and servicer or would have to pay mortgage bankers to provide this service.	FHA underwriting. FHA will
10. Other Problems:		The homeowner's real equity in the home is substantially reduced by the GNMA second lien. His mobility also is reduced because he must repay the loan if he sells his home. Given the potential exponential growth rate of total lending under the program, the indirect cost of additional interest on all Treasury borrowing is likely to be substantial. Finally, GNMA could become a large holder of single family homes if default rates are as high as may be reasonably expected.	Lender resistance due to reduced cash flow.
IMPACT on Typical \$15,000 Income Family Buying a \$37,000 House with \$35,000 Mortgage:	Monthly mortgage payment reduced by \$36, from \$286 to \$250, in first year; reduced by \$15 in second year. No impact after second year.	Monthly mortgage payment reduced by \$44, from \$286 to \$242, in each year. Total mortgage debt increases continually, by over \$5,500 per year.	Monthly mortgage payment reduced in first year; payment rises by term.

00 (under constraint than loan to value ration cannot ed 100%)	75 - 100,000	60,000	Raises loan-to-value from .86 to .89 based on in-house research, this would increase housing demand by 60,000 units per year.
	\$938 million	\$1.4 billion	
	Year 1: \$938M a year Year 2: \$1.88B a year Year 3: \$2.86B a year Years 4-8: \$3.75B		All costs are borne in the first year a family is a subsidy recipient.
t Year) - NONE L) - NONE	(First Year) - \$37,500 to 50,000 (Total) - \$37,500 to 50,000	(First Year) - \$23,000 (Total) - \$23,000	
sed FHA default risk	NONE	NONE	
derwriting. FHA will finance some this year (Section 245)	Run through tax system; so minimal administrative cost		Would impose significant operational capacity to administer the program (e.g., would have to certify incomes of participants (\$20,000 income limit, and if constraints such as requiring purchase of decent safe and sanitary housing were imposed, would have to verify that constraints were met.)
resistance due to increased default risk and cash flow.	Creation of a new tax loophole with a large constituency. Slow implementation, most recipients will take several years to accumulate enough in their downpayment account to make a purchase. Also, deduction amount need not correlate with housing expenditures.	Equal subsidy would be paid to families of different wealth. May have slight inflationary impact on price of housing since subsidy reduces purchase price.	
mortgage payment reduced by \$75, from \$286 to \$211, in ear; payment rises by 3 percent per year over the mortgage	Downpayment effectively reduced by \$1,000, from \$4,000 to \$3,000, through tax saving.	Lowers downpayment by \$1,000 from \$4,000 to \$3,000.	

90,000 - 140,000

Lowers downpayment required at purchase but raises total price of home if the second lien is amortized at mortgage rate which will be in excess of rate of inflation.

NONE

NONE

(First Year) - NONE

(Total) - NONE

A significant increase in foreclosure rates. For example, by increasing loan-value ratio by 8 percent (.86 to .93) foreclosure rate would be increased by 11 percent. (elasticity of 1.4).

Requires HUD processing at time of guarantee and management in the event of foreclosure.

Amortizing second life of mortgage will require a higher income to support loan (e.g., a higher monthly payment because of the higher mortgage amount).

Reduces downpayment by \$2,000, from \$4,000 to \$2,000; raises monthly payment by \$20, from \$282 to \$302.

20,000

Reduces downpayment requirement for FHA only by an average of 3%.

NONE

NONE

(First Year) - NONE

(Total) - NONE

An increase in foreclosure rate. Losses should be covered by the .5% premium.

Simple change in FHA processing. Larger volume of FHA insurance would increase work load.

Requires legislative change. Has greatest effect on homes in excess of \$30,000. Could result in FHA becoming more competitive with private mortgage insurance.

Could lower downpayment by up to \$2,500, from \$4,000 to \$1,500.

MYGunk will have clean version for the Pres.

1. FORMATS:	HOMEOWNERSHIP OPPORTUNITIES FOR MIDDLE AMERICA (HOMA) This program would provide a tax credit to purchasers of first homes, both new and existing homes would be eligible. There would be a maximum mortgage limit of \$38,000. The amount of the tax credit would be the lesser of (1) the difference between payments to principal and interest at the current market rate (9% assumed in this analysis) and payments to principal and interest at 6% or (2) the difference between principal and interest at 9% and 20% of the family's income. This program would phase out at about the \$18,000 income level.	GRADUATED PAYMENT/FIXED RATE MORTGAGE Initial mortgage payments would be reduced and later payments increased at a set rate of increase. Increasing mortgage payments should better match rising incomes. This mitigates initial income constraints on homeownership.	FEDERAL GUARANTEE OF DOWNPAYMENT Federal guarantee of loan for one half of downpayment. This second loan would be secured by a second lien.	REDUCE FHA DOWNPAYMENT REQUIREMENT Legislative change to reduce downpayment required for FHA insured <table><tr><th>Current</th><th>Option</th></tr><tr><td>3% for up to \$25,000</td><td>3% for up to \$25,000</td></tr><tr><td>10% for \$25,000 - \$35,000</td><td>5% for \$25,000 - \$40,000</td></tr><tr><td>20% for \$35,000 - \$45,000</td><td>10% for \$40,000 - \$50,000</td></tr><tr><td></td><td>20% for \$50,000 - \$60,000</td></tr></table>	Current	Option	3% for up to \$25,000	3% for up to \$25,000	10% for \$25,000 - \$35,000	5% for \$25,000 - \$40,000	20% for \$35,000 - \$45,000	10% for \$40,000 - \$50,000		20% for \$50,000 - \$60,000
Current	Option													
3% for up to \$25,000	3% for up to \$25,000													
10% for \$25,000 - \$35,000	5% for \$25,000 - \$40,000													
20% for \$35,000 - \$45,000	10% for \$40,000 - \$50,000													
	20% for \$50,000 - \$60,000													
2. Number of Families Assisted:	1.33 million	1.5 million	1.55 million	275,000 (expected FHA volume plus incremental purchases)										
3. Subsidy per Family:	The average subsidy per family in the first year of about \$500 and of about \$650 over the life of the loan.	NONE	NONE	NONE										
4. Number of Incremental Purchaser per Year:	230,000	80,000 (under constraint than loan to value ratio cannot exceed 100%)	90,000 - 140,000 Lowers downpayment required at purchase but raises total price of home if the second lien is amortized at mortgage rate which will be in excess of rate of inflation.	20,000 Reduces downpayment requirement for FHA only by an average of 3%										
5. First Year Outlays:	About \$665 million	NONE	NONE	NONE										
6. Total Costs:	\$1.7 billion over the period of subsidy for each year's assisted families. Assuming a 7% growth rate in normal income, the \$14,000 family would phase out in 5 years and higher income families would phase out sooner.	NONE	NONE	NONE										
7. Cost per Incremental Purchaser:	(First Year) - \$2,900 (\$665 million divided by 230,000) (Total) - \$7,391 (\$1.7 billion divided by 230,000 incremental purchasers)	(First Year) - NONE (Total) - NONE	(First Year) - NONE (Total) - NONE	(First Year) - NONE (Total) - NONE										
8. Risk to the Government:	Essentially no default risk since FHA insurance is not required.	Increased FHA default risk	A significant increase in foreclosure rates. For example, by increasing loan-value ratio by 8 percent (.86 to .93) foreclosure rate would be increased by 11 percent. (elasticity of 1.4).	An increase in foreclosure rate. Losses should be covered by the 5% premium.										
9. Ease of Administration:	If assistance is provided as a tax credit, administration is extremely inexpensive but costs uncontrollable. If the assistance is provided by direct subsidies, administration is complex, but the number of recipients, hence costs, can be controlled.	FHA underwriting. FHA will finance some this year (Section 245)	Requires HUD processing at time of guarantee and management in the event of foreclosure.	Simple change in FHA processing. Larger volume of FHA insurance would increase work load.										
10. Other Problems:		Lender resistance due to increased default risk and reduced cash flow.	Amortizing second lien will require a higher income to support loan (e.g., a higher monthly payment because of the higher mortgage amount).	Requires legislative change. Has greatest effect on homes in excess of \$30,000. Could result in FHA becoming more competitive with private mortgage insurance.										
IMPACT on Typical \$15,000 Income Family Buying a \$39,000 House with \$35,000 Mortgage:	Monthly mortgage payment reduced by \$36, from \$286 to \$250, in first year; reduced by \$15 in second year. No impact after second year.	Monthly mortgage payment reduced by \$75, from \$286 to \$211, in first year; payment rises by 3 percent per year over the mortgage term.	Reduces downpayment by \$2,000, from \$4,000 to \$2,000; raises monthly payment by \$20, from \$286 to \$306.	Could lower downpayment by up to \$2,500, from \$4,000 to \$1,500.										