The original documents are located in Box 17, folder "Housing (1)" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

[1975]

I am therefore calling for federal assistance for the construction of 500,000 additional homes. This program will expand housing opportunities, spur construction and help house the poor.

We did not meet our goals in 1975. But with lower interest rates and available mortgage money, we can have a healthy recovery in 1976.

March 4, 1975

MEMORANDUM FOR THE VICE PRESIDENT

FROM : JIM CANNON

SUBJECT: Housing

Here is an interesting aspect of the overall housing problem:

--In Chicago, 2,000 families holding FHA mortgages lost their homes through foreclosure in 1974.

--6,000 additional families with FHA mortgages are now delinquent and face foreclosure.

JC:pm

cc: Dick Dunham
Tod Hullin - Can you give me any up-to-date figures on FHA foreclosures and delinquencies throughout the country?

Domestic Policy File - HUD

United States Senate
SELECT COMMITTEE ON NUTRITION AND HUMAN NEEDS
(CREATED PURSUANT TO S. RES. 281, 90TH CONGRESS)
WASHINGTON, D.C. 20510

February 19, 1975

The Honorable Gerald R. Ford
The White House
Washington, D.C. 20500

Dear Mr. President:

I am deeply troubled by the number of families in Chicago and other metropolitan areas across the country who are in default on their FHA-insured mortgages and who may lose their homes as a result of foreclosures. In the Chicago area alone over 2,000 families holding FHA-insured mortgages lost their homes through foreclosure in 1974. At the end of the year about 6,000 more families were delinquent in their payments. Because of the recession the number of defaults and foreclosures is likely to increase in the coming months. It is a fact that a sudden loss of income by the head of a household is the primary reason for mortgage delinquency. And holders of FHA-insured mortgages tend to be from groups most likely to face involuntary unemployment in the present economy.

The Department of Housing and Urban Development is virtually powerless to force a mortgagee to forebear from foreclosure. Occasionally, HUD has urged mortgagees to aid mortgagors who are delinquent through no fault of their own or to refer them to the Department for assistance. But HUD has no power to force this action or to set minimum standards concerning the rights and privileges of the homeowner in case of delinquency.

I urge you, Mr. President, to use all the moral power at your command to persuade mortgagees across the nation to forebear on foreclosures during the present economic crisis. In addition, I urge you to support the bill introduced by Senators Mondale, Hart, and Brooke to re-establish a Homeowners Loan Corporation. This corporation could assist homeowners who face foreclosure because of financial setbacks. Your personal involvement is necessary if we are to stem the tide of foreclosures and the hardship that they bring for individuals and communities alike.

Sincerely,

Chuck Percy

Charles H. Percy
United States Senator

CHP:gt

CARLA HILLS' SWEARING IN CEREMONY

MONDAY, MARCH 10, 1975

CARLA, MR. HILLS, MR. JUSTICE WHITE, THE HILLS FAMILY, DISTINGUISHED GUESTS:

I AM IN GOOD COMPANY WELCOMING CARLA ANDERSON HILLS INTO THE CABINET AS SECRETARY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT. CARLA AND MR. JUSTICE WHITE, WHO WILL ADMINISTER THE OATH, HUD UNDER SECRETARY JIM MITCHELL AND I ARE ALL GRADUATES OF YALE LAW SCHOOL. BUT I HASTEN TO ASSURE EVERYONE THAT THERE IS NO CONSPIRACY INVOLVED HERE -- ONLY COINCIDENCE.

I AM PLEASED WE WILL HAVE THE BENEFIT OF CARLA'S EXPERIENCE AS SECRETARY OF HUD -- BECAUSE I CONSIDER HER THE BEST QUALIFIED PERSON FOR THIS VERY DEMANDING POSITION.

THE JOB FACING THE NEW SECRETARY IS IMMENSE. SHE ASSUMES THE VERY SERIOUS RESPONSIBILITY OF ADMINISTERING THIS IMPORTANT DEPARTMENT AT A TIME OF RECESSION IN THE HOUSING INDUSTRY. SHE HAS THE UNIQUE SKILLS AND DEDICATION WHICH ARE VITAL IN HELPING US MOVE THROUGH A VERY DIFFICULT TIME INTO PRODUCTIVITY AND VITALITY IN HOUSING AND URBAN DEVELOPMENT.

CARLA HAS A TOUGH ACT TO FOLLOW. HER VERY CAPABLE PREDECESSOR AT HUD, JIM LYNN, WAS INSTRUMENTAL IN ACHIEVING PASSAGE OF THE HISTORIC HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1974, WHICH I SIGNED INTO LAW LAST AUGUST. ONE OF CARLA'S MAJOR JOBS WILL BE TO IMPLEMENT THIS MASSIVE AND PROGRESSIVE PROGRAM.

SENATOR SPARKMAN CALLS THAT ACT THE MOST SIGNIFICANT IN THE FIELD OF HOUSING LEGISLATION SINCE 1934. IT WILL BE OF TREMENDOUS VALUE IN RESTORING TO OUR LOCALLY ELECTED OFFICIALS DECISION-MAKING AUTHORITY IN THE HOUSING AND COMMUNITY DEVELOPMENT FIELDS AND IN BROADENING THE OPPORTUNITIES FOR INDIVIDUAL HOME OWNERSHIP.

RESTORATION OF HEALTH TO THE HOUSING MARKET IS IMPERATIVE. I AM CONVINCED THAT OUR NEWEST CABINET OFFICER IS EQUAL TO THAT CHALLENGE AND THE OTHERS WHICH WILL CONFRONT HER.

SHE IS A DISTINGUISHED ATTORNEY AND AN AUTHOR, AND SERVED MOST ABLY AS ASSISTANT ATTORNEY GENERAL FOR THE CIVIL DIVISION OF THE JUSTICE DEPARTMENT. SHE EARNED UNANIMOUS PRAISE FOR HER ADMINISTRATIVE ABILITY AS WELL AS HER LEGAL TALENTS. HER INTELLECTUAL CREDENTIALS HAVE BEEN DEMONSTRATED BY HER ACHIEVEMENTS IN PROFESSIONAL AND CIVIC AFFAIRS.

OF COURSE, CARLA WILL NOT BE ALONE IN THE TASK FACING HER. SHE HAS AN EXCELLENT TEAM TO WORK WITH AT HUD. I'M SURE THEY SHARE MY OPTIMISM ABOUT THE FUTURE OF THIS DEPARTMENT AND JOIN ME IN WELCOMING ABOARD THE NEW SECRETARY OF HOUSING AND URBAN DEVELOPMENT.

END OF TEXT

Subject File
Housing

THE WHITE HOUSE

WASHINGTON

March 14, 1975

MEMORANDUM FOR JAMES CANNON

FROM TOD HULLIN

SUBJECT Summary of Key Housing Legislation before the House of Representatives

I. H. R. 4485, the Emergency Middle Income Housing Act of 1975 - sponsored by Congressman Reuss (D. Wisc.).

Summary: H. R. 4485 would 1) subsidize home mortgages down to 6% for three years and 2) use GNMA tandem plan to acquire below market interest rate mortgages not to exceed 7%. The bill's objective is to support up to 400,000 units of new or rehabilitated housing. Eligible families are those within 120 percent of median income and below. Eligible dwellings are those with appraised values of up to $42,000.

Administration Position: H. R. 4485 is opposed for the following reasons:

1. The principle objection to H. R. 4485 is that it costs too much. The bill makes available $300 million in subsidies annually with a total borrowing authorization of $12 billion.

2. Current trends indicate a mid-year turnaround in housing with over $20 billion in subsidized credit already in the market, further Federal subsidy would be inflationary.

3. Implementation would be extremely costly, time consuming and difficult to monitor.

4. Similar programs are already authorized under the Emergency Home Purchase Assistance Act and GNMA Tandem Plans.

5. It is unclear that H. R. 4485 would assist the Housing industry.

Status: H. R. 4485 is a clean bill substitute for H. R. 29 and was reported out of Committee Thursday. The bill will go to Rules on Tuesday and is expected to go to the Floor on Thursday.

Note: S. 1108 a companion bill to H. R. 29 has been introduced in the Senate by Proxmire. The bill would key subsidy assistance to certain economic indicator "triggers". Hearings on S. 1108 begin Monday.

II. H. R. 34, the Emergency Homeowners Relief Act - sponsored by Congressman Ashley (D. Ohio)

Summary: H. R. 34 would assist homeowners who suffered a 20% decline in income by allowing HUD to make mortgage payments for these individuals for up to two years with maximum payment of $375 per month.

Administration Position: The Administration opposes H. R. 34 for the following reasons:

1. Costs could be $200 million per month, exclusive of operating costs - OMB.

2. The bill would be administratively infeasible.

3. H. R. 34 would end mortgagee incentives to forbear on defaulting loans.

Status: H. R. 34 is still pending in the House Subcommittee of the House Banking Committee, but is expected to move shortly after the Floor action on H. R. 4485. Mark-up is scheduled for Tuesday.

THE WHITE HOUSE

WASHINGTON

Fyi to max

DOMESTIC COUNCIL CLEARANCE SHEET

DATE: March 14, 1975

JMC action required by: Info only

TO: JIM CANNON

VIA: DICK DUNHAM RD

JIM CAVANAUGH

FROM: TOD HULLIN

SUBJECT: Summary of Key Housing Legislation before the House

COMMENTS:

Jim C. I guess this is for the Congressional liason types D

Right

THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C. 20410

March 20, 1975

MEMORANDUM FOR: L. William Seidman
Assistant to the President
for Economic Affairs

James M. Cannon
Assistant to the President
for Domestic Affairs

FROM: Carla A. Hills
Secretary of Housing
and Urban Development

SUBJECT: Analysis of Proposals for Stimulation
of Housing Production

INTRODUCTION

The housing industry is generally perceived as being in a period of crisis. There is an unsold housing stock of over 400,000 new single family homes and 250,000 unsold condominiums. Last year, new housing starts were far below the over 2 million rate of the three preceding years. The first two months of 1975 have not demonstrated an immediate likelihood of recovery. January starts were at an annual rate of only 987,000, and housing permits were at a rate of 661,000. In February, the rate of starts fell to a new low of 977,000, off 48% from the February 1974 figure. Permits for future construction dropped to a new low in February of 673,000 (at an annual rate), 49% off the February 1974 pace. The current low level of starts impacts on the economy as a whole and upon unemployment. Over 15% of workers in the construction industry are now unemployed. This exceptionally high level of unemployment in construction and related industries is contributing to general unemployment, and that problem in turn affects consumer confidence in the housing market.

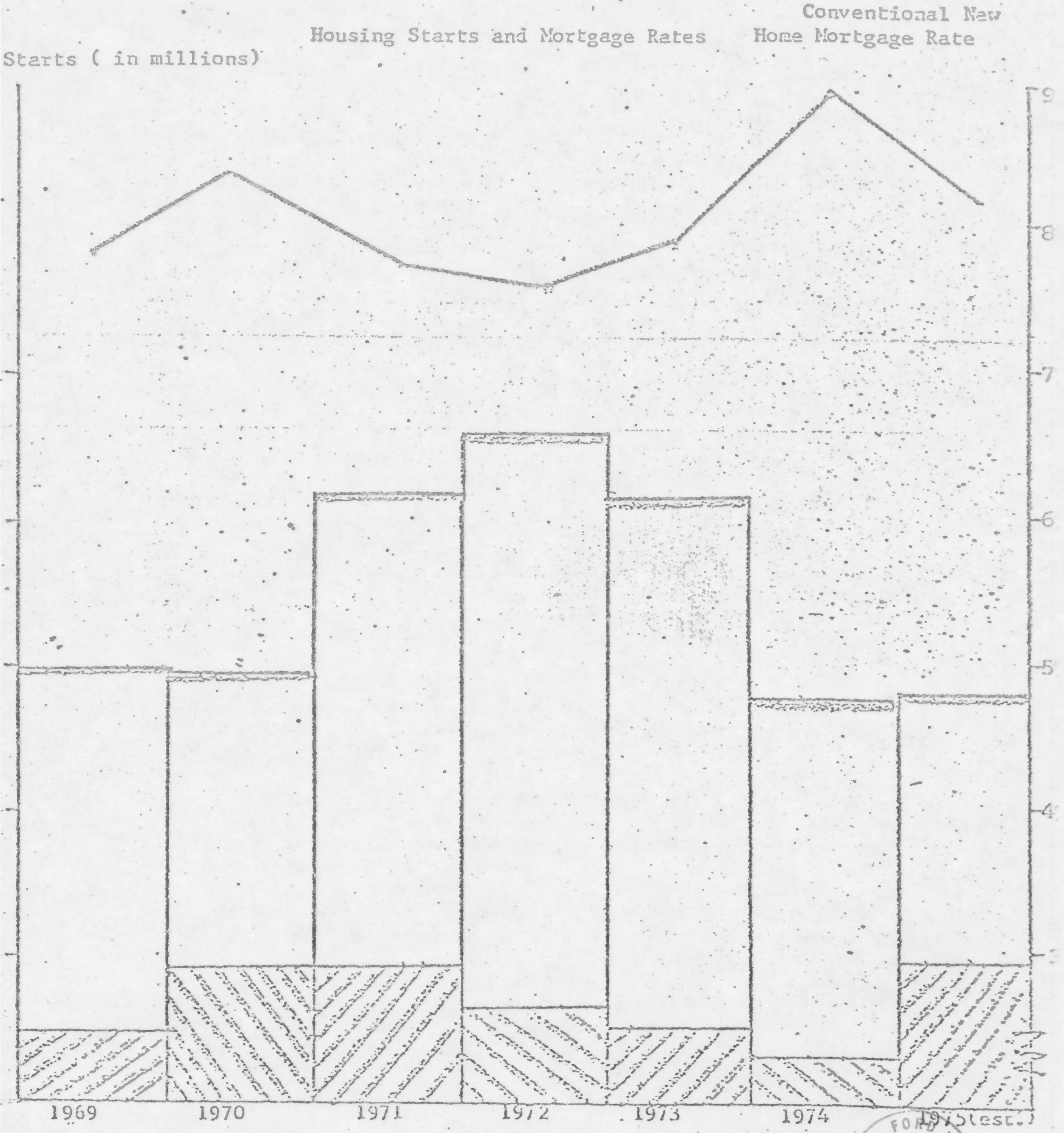
These conditions have been termed an "emergency situation" by those interested in housing. Several proposals have been and are presently pending before various Committees of the Congress to meet this so-called "emergency situation." These solutions are directed at getting housing production up and people in the housing industry back to work in the immediate future.[1/] The Administration should have a constructive response to the rising clamor for action. If we cannot develop an alternative of our own, Congress will construct an emergency housing program that will probably be unpalatable to the Administration, and the President will be portrayed as being unresponsive and obstructionistic for vetoing it, without offering any constructive alternative.

To date, our response has relied upon predictions that the housing picture will improve markedly toward the latter part of 1975 and continue to improve throughout the next two calendar years. Housing production is normally explained as a function of credit availability, mortgage interest rates and consumer purchasing power. Savings inflows have reversed and have increased to very substantial amounts, making credit more readily available. In addition, interest rates have fallen over the past few months. As a result, we have forecast starts at an annual rate of 1.6 to 1.7 million by the end of this year. Total housing production for 1975, if these forecasts are accurate, will be at approximately 1.4 million units. Chart A indicates both past and projected trends in housing starts and mortgage rates.

Despite this projected improvement during the coming calendar year, Congress is unlikely to step back from its clear intention to act immediately on the current "emergency" in housing. The total projected housing production for 1975 of 1.4 million units barely exceeds the dismal 1974 production level of 1.35 million units. Although the projected improvement in the housing picture will reduce unemployment in the construction industry from its current level of 15 percent, unemployment would still be 9 - 9.5 percent by year's end, a projected rate probably unacceptable to either the industry or Congress.

1/ Several other problems in the housing area including the needs of lower income groups for adequate housing, long-term mortgage credit availability at reasonable rates for middle income home purchasers, and mortgage delinquency and foreclosures are additional areas which various legislative proposals have addressed. These problems and their proposed solutions are not, however, the subject of this communication.

Chart A


Housing Starts and Mortgage Rates
Starts (in millions)
Conventional New
Home Mortgage Rate
9
8
7
6
5
4
1969
1970
1971
1972
1973
1974
1975(est.)

More importantly, January and February start and permit figures cast some doubt on the optimism of our projections. Even though mortgage funds are widely available and interest rates are declining, the housing industry remains severely depressed and the expected upturn is not materializing.

Our forecasts of improvements in the housing industry were based on econometric models which emphasize the relationship between financial market trends and housing starts. These may be significantly and adversely affected by one or all of the following conditions:

1. Consumer Confidence. The estimated housing production for next year is based primarily on the available home mortgage rates. The fact that mortgage rates have fallen, but housing starts have not risen dramatically, reflects in part a serious lack of consumer confidence in the housing market. Consumer decisions may be postponed because of uncertainty about unemployment, energy availability, increases in costs of living, or whether normal anticipation about appreciation in home values will hold true in an uncertain economic future. Lack of consumer confidence may be the single greatest retardant to the expected housing segment recovery.

   [illegible] confidence

2. Decreasing Disposable Personal Incomes. One of the important factors in housing production is consumer purchasing power, which has been undergoing a marked decline as indicated in Chart B.

3. Renewed Inflation. To the extent that lenders perceive renewed inflation, they may be reluctant to make long-term mortgages at the lower market rates, upon which our projections are based.

   possible

4. Financing the Federal Deficit. If the Treasury finances anticipated budget deficits in a manner which competes with savings flow, disintermediation can result with consequent high interest rates and credit scarcity, and with such an upward pressure on interest rates will come a downward trend in housing starts.

5. Unemployment. A continued high level of unemployment, particularly in middle income segments of the population who are traditionally the major consumers of housing, will also affect the demand for new housing.

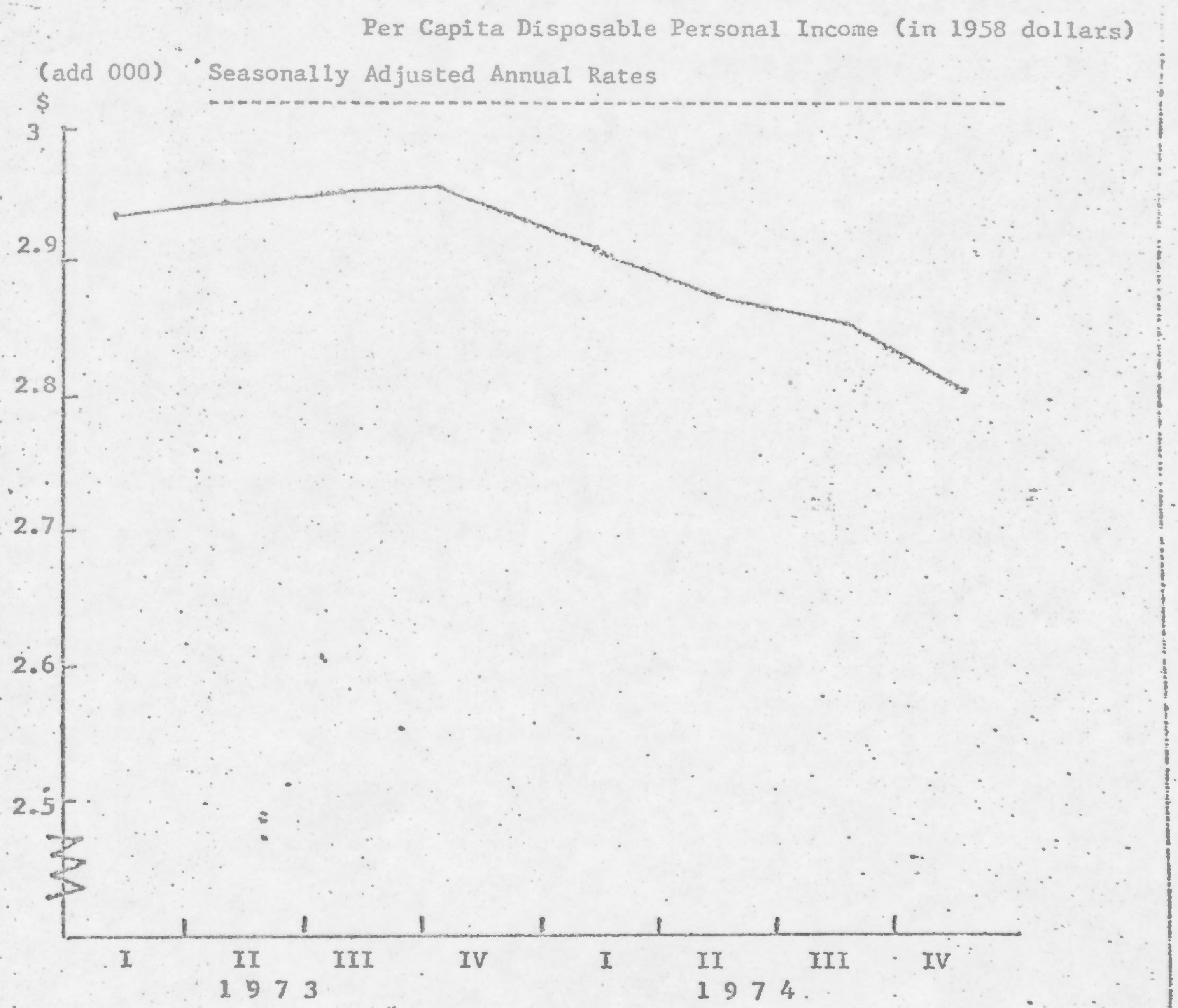
6. Foreclosures. It is also expected that the percentage of delinquent mortgage loans will increase as a result of recent increases in unemployment. A substantial number of foreclosed units on the market will have a depressing effect on new home production, as was the case with mobile homes last year.

7. Inventory Problem. Since 1972, the inventory of new unsold housing units has fallen only slightly from a record high of 440,000 to 400,000. Unless this inventory is decreased in the months ahead, new construction may be severely hampered both by the unwillingness of lending institutions to make new obligations and because unsold stock will be competing with new production for limited consumer dollars.

Conclusion -- The Likelihood of Congressional Action.

Although we predicted an improvement in the housing market, that improvement will be gradual at best, and the recently released February statistics have led some economists to suggest that the expected upturn may occur later than we had anticipated. Congress is unlikely to consider the increasingly distant and speculative possibility of such a limited improvement a reason for inaction in view of what it obviously considers a crisis situation in the industry. Congress should be expected to produce a legislative package to ameliorate the immediate housing industry crisis. With that in mind, it would be best for the Administration to consider which of the various pending alternatives is most palatable and to favor enactment of that alternative rather than the competing legislation presently pending on the Hill. While it cannot be guaranteed that passage of an Administration favored measure will forestall passage of other measures the Administration opposes, it would enhance the political viability of such opposition.

Chart B


Per Capita Disposable Personal Income (in 1958 dollars)
(add 000)
Seasonally Adjusted Annual Rates
$
3
2.9
2.8
2.7
2.6
2.5
I
II
III
IV
I
II
III
IV
1 9 7 3
1 9 7 4

PROPOSALS FOR FEDERAL ACTION TO STIMULATE HOUSING PRODUCTION

The primary legislative proposals directed at getting housing production up and thus reducing unemployment currently under consideration in the House and Senate are outlined below.

1. Permanent Counter-Cyclical Mortgage Interest Subsidy Mechanism (Proxmire Proposal).

   Senate Banking, Housing and Urban Affairs Committee Chairman Proxmire has introduced S.773 which would, after three months of housing starts at an annual rate below 1,750,000 and unemployment above 6 percent, mandate the Federal Government to subsidize mortgage interest rates of middle income families down to 6 percent for the first three years of the mortgage. Thereafter, HUD could increase the rates by 1/2 percent every six months to the level needed to eliminate losses. HUD would be expected to purchase the 6 percent mortgages and to resell them at par on the private market. If the private market would not purchase the mortgages at par, HUD would sell them to the Federal Financing Bank and make up the difference between what it cost the Bank to borrow the funds to purchase the mortgages and the yield of the mortgages. Seventy-five percent of the units assisted would have to be newly constructed, but there are no income limits on the families being assisted. Proxmire contemplates assisting a million home mortgages a year.

   Overall, the subsidy proposed in S.773 goes furthest toward replacing the private credit mechanisms with subsidized Government intervention. The potential Government outlay and borrowing is enormous. It has been estimated that Government borrowing would amount to $30 billion a year. Substantial administrative costs may be involved and the size of the potential indirect subsidy involved all but insures very substantial losses on the sale of mortgages. Because it offers relatively low subsidized interest rates, the proposal could have a severely disruptive effect on the mortgage market. Moreover, the program duplicates to a major extent the more flexible existing authority under the Emergency Home Purchase Assistance Act.

2. Emergency Mortgage Interest Rate Subsidy (Reuss Proposal).

The House Banking and Currency Committee last week approved H.R.4485 which would authorize, subject to appropriations, a direct Government subsidy for interest on home mortgages. For the first three years, the subsidy would be in an amount that would reduce interest payments on the mortgage to 6 percent; in the fourth year, the subsidy would be reduced by half; and in the fifth year, it would be terminated. In the alternative, the borrower could elect a subsidy to reduce interest to 7 percent over the life of the mortgage. Families assisted could have incomes of up to 120 percent of median area income. Covered dwellings could not have an appraised value in excess of $38,000 (and $42,000 in certain high cost areas) at the time of purchase and at least 80 percent of affected homes would have to be newly constructed or substantially rehabilitated units. Similar measures are under consideration in the Senate.

This proposal has several serious disadvantages. The House Committee estimates cost to the Federal Government as up to $1.5 billion annually over the next three or four years. Costs of this magnitude will require increased Federal borrowing which will result in upward pressure on interest rates.

The proposal would require the creation of a complex administrative mechanism in HUD, requiring a delay in its effective implementation. Involving HUD in monitoring housing prices, appraised values and the incomes of consumers would result in expensive case-by-case, labor intensive analysis of the family situation of each eligible home purchaser. Moreover, the phase-out of the mortgage subsidy may well be a trap for unwary housing buyers, possibly leading to foreclosures and inventory management problems in future years.

Unlike the Proxmire bill, the Reuss proposal at least has an income limit, which should operate to focus the program on those who have greater need for assistance and would otherwise be less likely to purchase homes.

Like the Proxmire proposal, the Reuss bill does not guarantee any quick recovery in the housing industry. There is no clear demonstration that a decrease in interest rates alone will be sufficient to get the stalled industry procuding at full tilt once again.

3. The Home Purchase Incentive Option (Brooke Proposal).

Senator Brooke has introduced S.948 which provides for a $1,000 home purchase incentive payment to be paid to the purchaser of a single-family dwelling (with $500 increments in the payment for each additional family dwelling in the structure up to 4 families). The proposal is limited to unsold and previously unoccupied stock completed as of the effective date of the Act and purchased within the first 4 months thereafter; previously begun construction if completed and purchased within 6 months after enactment; and any housing begun within 6 months and completed within one year after enactment, if purchased within that year. Coverage is limited to homes which comply with local code standards, are below the median cost for such a dwelling in the market area and which do not equal or exceed a minimum size for such dwelling determined by the Secretary.

The Brooke proposal is properly focused on giving an immediate and short-term boost to the housing industry and overcoming problems of consumer confidence. It puts to use the "rebate" psychology which the auto industry found so successful in recent months. The proposal is, however, ill-advised nonetheless. First, it does not appear that the proposal is targeted at those market segments most in need of such market incentives, low and moderate income consumers of housing. Second, it threatens to involve costly administrative burdens in that a determination must be made, in each case, as to whether the subject residence is of a proper cost and size. Third, a substantial portion of the Federal subsidy would be applied to a significant stock of housing already constructed and thus would not provide a direct incentive to new construction and employment.

4. Tax Credit for Purchase of a Residence (Long Proposal).

The Senate Finance Committee has recently reported out a proposal for granting a tax credit to anyone who purchases a new or existing home during the remainder of the 1975 calendar year. Under this proposal, a tax credit of 5% of the purchase price up to a maximum of $2,000 would be available to purchasers of a new or existing principal residence between March 13, 1975, and December 31, 1975.

In its current form, this proposal has serious drawbacks. The inclusion of existing residences will siphon off much of the stimulus for the purchase and construction of new homes. We project that the proposal would induce the construction of only 87,000 new homes but at a cost of well over $4 billion. The rationale of an "emergency program" is to encourage new construction and get people back to work. Before a family buys a new house it often has to sell its existing house, but our experience has indicated that if there is consumer interest and available credit for the new home, ways are found to sell existing residences. Moreover, a rebate on the purchase of all homes may have a significant inflationary effect on housing prices.

The Long proposal is also both inequitable and inefficient because it provides a tax loophole to upper income taxpayers, whose home purchase decisions are not likely to be influenced by the availability of the credit. It is not targeted at the market segment most in need of a stimulus to purchase new homes, moderate and low income consumers.

The Long proposal does, however, have one significant advantage over alternative proposals. It is relatively simple and inexpensive to administer because it is based on the existing income tax structure and reporting requirements.

A Political Prognosis.

Congress will undoubtedly pass one or more of these emergency measures by late Spring or early Summer and the Administration will be faced with a politically unpopular option of vetoing that measure. The President would be in a better position to oppose emergency housing legislation at that time if he had previously indicated a willingness to accept a more modest proposal to deal with the perceived emergency situation but which would minimize cost impacts and long-term disruptions to the financial markets while still providing some meaningful stimulus to housing production. A scaled-down version of the Long tax credit proposal (which incorporates the basic thrust of Senator Brooke's proposal as well) would be such a mechanism, although there is no assurance that Congress will see the tax credit as a substitute for a direct interest subsidy. At least, Administration support for and passage of such a measure might ameliorate the pressure for additional legislation and would make the President's decision to veto later legislation more easily justifiable to the public.

An Alternative Proposal.

The tax credit proposal we suggest as the least offensive of the alternatives available to the Administration would be constructed as follows:

A tax credit of 5% of the purchase price of a home, up to $1,500, would be available to any taxpayer on his 1975 income tax return, if the home were purchased between March 13, 1975, and December 31, 1975. The credit would only cover new residences (construction completed between December 31, 1974, and January 1, 1976) to be used as a principal place of residence, as defined by the tax code.

The proposal would cover condominiums, cooperatives and mobile homes. The credit would be limited to families with an adjusted gross joint income of no more than $20,000. Although our proposal involves a $20,000 limit, an option worthy of further consideration is a phasing out of the income limitation as by dropping the 5% credit by 1% at $1,000 intervals in income, finally phasing it out at $25,000. This could ameliorate any perceived inequities to the income cap.

If it is determined that the immediate availability of the rebate would be either politically or economically preferable, a provision could be included allowing the credit to be carried back to the previous year's return. In that case, a taxpayer could, merely by filing an amended 1974 return, receive an immediate cash payment of the credit, thereby emulating the immediacy feature of Senator Brooke's proposal. We have, however, proceeded on the assumption that in order to prevent an immediate drain on the Treasury no such carry back would be permitted.

The cost effectiveness of our suggested alternative is, perhaps, best demonstrated by a comparison with the Long tax credit proposal. We have run this proposal through an econometric model of the housing market developed at the Harvard-MIT Joint Center for Urban Studies. Because the model would not accommodate the Long proposal without substantial modifications, the figures for that proposal have been developed by our own economists. (All figures are at an annual rate.)

1. Eligible Purchasers.

Long Proposal	HUD Proposal
New and existing principal residence, including mobile homes.	New principal residence only, including mobile homes.

Analysis. Removing existing residences from the tax credit proposal will substantially decrease the cost, with no reduction in the stimulus to housing production. The current Long proposal is estimated to induce 87,000 additional new starts, and 40,000 mobile home starts (at an annual rate). The estimated resulting net decrease in tax revenues, by category of home, is as follows (in billions of dollars):

$1.330	. . . . new conventional construction
.135	. . . . mobile homes
$1.465	. . . . total new construction
.670	. . . . unsold, unoccupied inventory
2.700	. . . . existing residences
$4.835	. . . . total

If the $2,000 credit were limited to new homes only, the loss in tax revenues would be reduced to $2.8 billion.[2/]

2/ The comparative statistics do not include mobile home starts except where indicated.

Although the lack of liquidity for sales of existing homes that might result could marginally affect the demand for new homes, the Harvard-MIT group predicts a strikingly beneficial effect on new starts resulting from removing existing stock from the application of the credit. They predict that a $2,000 credit with no income cap could produce as much as 456,000 additional starts. The incentive to purchase new homes created by the tax credit would be significantly reduced by the coverage of existing dwellings since much of the demand generated would be siphoned off into the latter category of housing.

Moreover, removing existing stock from the tax credit would substantially ameliorate any potential inflationary effects of the proposal. For example, the purchaser of a new home might well reduce the price of his existing home in view of the effective reduction in the cost of the new home resulting from the credit, thereby creating a downward market pressure on prices generally. Similarly, a developer might reduce costs of existing stock to free up resources to take advantage of the increased demand for new housing.

Lower or static prices in existing stock would have a dampening effect on any tendency for the prices of new housing to increase as a result of the tax credit.

2. Ceiling on the Amount of the Tax Credit.

Long Proposal	HUD Proposal
The credit would be 5% of the purchase price up to $2,000.	The credit would be 5% of the purchase price up to $1,500.

Analysis. This limitation would substantially decrease Federal costs without a proportionate decrease in the number of additional housing starts, thereby increasing the cost effectiveness of the tax credit scheme. A decrease in the maximum amount of the credit to $1,500 would reduce the number of additional annual starts by 19,000 to 437,000 and reduce the Federal cost by $720 million to $2.08 billion.

3. Income Limitations.

Long Proposal	HUD Proposal
No limit.	$20,000 of adjusted gross income.

Analysis. The income limitation would further significantly reduce the Federal cost, while maintaining the stimulative effect, by eliminating the credit for those upper income families whose decision to purchase is far less likely to be determined by the availability of the credit. This modification also avoids the inequity involved in giving a tax subsidy for home purchases to upper income families. Estimated Federal costs would be reduced by $860 million to $1.22 billion, while additional starts would be reduced by only 11,000 to 426,000.

Other Advantages of the Tax Credit Option.

The tax credit approach has other significant advantages over most of the alternatives presently under consideration in Congress.

a. Administrative Simplicity. Because the proposal is implemented through the existing tax system rather than requiring an entirely new HUD administrative mechanism, the administrative costs of the program are apt to be significantly less than many of the alternatives. Unlike the Reuss, Proxmire and Brooke proposals, no case-by-case HUD administrative processing would be required on each claim for a subsidy.

b. Definite Phase-Out. The December 31, 1975, cut-off date avoids the possibility of long-term cost impacts. The one-year duration of the program may also serve to even-out production levels between 1975 and 1976. There would be an incentive for some of the housing production which would otherwise occur in early 1976 to be moved back into 1975, thus minimizing inflationary pressures in 1976, when the housing market is likely to be in a recovery period. The proposal is not a long-term solution to the cyclical nature of the housing industry but merely a means of mitigating the effect of that cycle over the next year, allowing for a more long-term solution, such as the Financial Institutions Act, to be acted upon in the interim.

c. Inflationary Impact. Because of its limited duration and exclusion of existing housing, the proposal is not apt to have a significant inflationary impact on the housing market.

Aggregate Benefits.

The aggregate benefit of our proposed alternative is perhaps best demonstrated by comparing it with the effects of Senator Long's tax credit bill. (The figures in the chart below are adjusted to reflect the fact that the proposal will have an effect for only the final three quarters of 1975.)

Additional Housing Starts for 1975

Long Bill	Alternative Proposal
65,250	319,500
(30,000 Mobile Homes)	(93,750 Mobile Homes)

Total Cost

Long Bill	Alternative Proposal
$3.5 Billion ($101 Million for Mobile Homes)	$915 Million ($129 Million for Mobile Homes)

Cost Efficiency
Cost Per Additional Housing Start

Long Bill	Alternative Proposal
$53,640 Per Single Family Dwelling ($3,367 Per Mobile Home)	$2,864 Per Single Family Dwelling ($1,376 Per Mobile Home)

Accordingly, HUD's proposal is far more cost effective than Senator Long's bill. While a basis for comparison between the proposals, the cost per start figure is misleading. First, our estimate of the additional new starts is based on an econometric model projection and any additional starts beyond that estimate resulting from the credit would be at a cost in revenues of $1,500 or less, further reducing the average cost per additional new start. Second, the credit will benefit the housing industry not only in stimulating additional new starts but also in terms of the housing starts which would have occurred even without the tax credit. For example, when a family which intended to purchase a $20,000 home receives the benefit of a $1,000 tax credit, it is quite likely that much of that credit will be applied to increasing the quality or some other aspect of the purchased home. The proposal creates a significant incentive to devote the additional disposable income provided by the tax credit to housing costs because any additional dollars (up to $30,000) spent on housing are subject to the 5% Government rebate. The proposal is projected to increase disposable income by at least $5 billion. Accordingly, significant additional revenues for the housing and related industries can be expected as a result of the tax credit proposal above and beyond the additional starts projected.

The overall cost of the program is projected to be $1.14 billion.[3/] The additional housing starts (not including mobile homes) produced will, however, increase residential construction by $9.6 billion for the year and will probably also increase the purchases of furniture and major appliances by a significant amount, increasing the GNP for the rest of 1975 by close to $9.75 billion. In terms of Federal tax receipts, this could give the Government up to $1 billion of increased income for the year. There may also be a significant reduction of unemployment in the construction industry, which would, in turn, mean decreased unemployment compensation payments for the rest of 1975. On a conservative estimate of 1.3 man-years per new start, over 415,000 additional jobs in the housing industry

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3/ Mobile homes account for approximately $129,000,000 of this amount.

would be created by this proposal. Accordingly, the final cost of HUD's proposal, if any, is apt to be minimal. Balanced against that minimal cost are over 300,000 additional new housing starts for 1975 and, hopefully, a major impetus to renewed consumer confidence in the housing market, which is the ingredient so clearly lacking today.

Carla A Hills

Carla A. Hills
Secretary

cc:

Arthur F. Burns
John Dunlop
Alan Greenspan
Tod Hullin
James T. Lynn
Bill Simon
Jim Connor
Frank Zarb

THE WHITE HOUSE

WASHINGTON

Has c
Carried to
Cannon

DOMESTIC COUNCIL CLEARANCE SHEET

DATE: March 21, 1975

JMC action required by: ____________

TO: JIM CANNON

VIA: DICK DUNHAM

JIM CAVANAUGH

FROM: TOD HULLIN

SUBJECT:

Talking points for President's meeting with Secretary Hills

COMMENTS:

I have reviewed the talking points provided by OMB and do not object to any of them. My comments focus on issues not raised by OMB which I felt needed elaboration.

Hendriks & Jim Cannon want this tonight!

Jim,

You may or may not want to send this to the P. or talk to him about the last point on p. 2

D

[illegible]
Jim

THE WHITE HOUSE

WASHINGTON

March 21, 1975

MEMORANDUM FOR JIM CANNON

FROM TOD HULLIN

SUBJECT SUGGESTED TALKING POINTS FOR THE PRESIDENT'S MEETING WITH SECRETARY HILLS

I. <u>ISSUE - THE TAX REBATE BILL:</u> At the present time, the Senate version of the tax rebate bill includes a provision which provides for:

-- A tax credit equal to 5% of the purchase price up to a maximum credit of $2000;
-- No income limit
-- No mortgage limit.

This provision was introduced by Senator Long and has become known as the "Long Proposal". Secretary Hills has proposed an alternative to the "Long Proposal" which will provide for:

-- A tax credit to 5% of the purchase price up to a maximum credit of $1,500 on new homes only;
-- A $20,000 gross income limit with an alternative of phasing out the 5% credit by dropping 1% per $1000 for income over $20,000, finally phasing out the credit to an income level of $25,000.

Basically, the Secretary believes that:

-- the Congress will pass some kind of housing bill;
-- the President probably will not be able to sustain a veto of that bill;
-- the President should strive to make one of the housing proposals pending before the Congress as acceptable as possible;
-- the HUD alternative tax credit proposal is the least objectionable and will strengthen the Administration's opposition to the other Congressional housing bills.

The Secretary has provided a new economic analysis which reflects very favorably on the HUD proposal. OMB, however, disputes this new economic analysis.

Suggested Response: The President should explain his view of the entire tax bill pending before the Congress and outline his reasoning for opposing the tax credit for new home purchasers.

II. ISSUE: HOUSING LEGISLATION PENDING BEFORE THE CONGRESS: The Congress is considering a number of separate pieces of legislation to address what they perceive to be the immediate crisis facing the housing construction industry. Senator Proxmire has proposed legislation which would mandate the Federal government to subsidize mortgage interest rates for middle income families down to 6% for the first three years of the mortgage. Senator Brooke has proposed legislation which provides for a $1000 home purchase incentive payment to be paid to the purchaser of a single family dwelling. Congressman Reuss has introduced legislation which would authorize a direct government subsidy which would reduce interest payments to 6% for three years on home mortgages.

The Administration has opposed all of these measures.

Suggested Response: The President should indicate that he's encouraged by the dropping interest rates and increased inflows into S&Ls and that he believes, as do most economists, that the housing industry will turn around during the middle of the year. These legislative proposals are attempts to respond to a situation that hopefully will not persist too much longer.

If the housing industry does not recover as anticipated, the President already has the tools under the Emergency Housing Act of 1974 and the FHA/VA Tandem authority to address that problem. The President may want to seek the Secretary's guidance as to how best to stop these legislative proposals in the Congress or to position the Administration to sustain a veto.

III. ISSUE - COMMUNITY DEVELOPMENT BLOCK GRANTS: The Housing and Community Development Act of 1974 signed by the President last August authorized for the first time a major community development block grant program and eliminated a number of categorical grant programs. This legislation is a major accomplishment for the President and is the cornerstone of his urban policy. The successful implementation of this program is a substantive and political necessity.

Suggested Response: The President should outline his strong support for the block grant concept and urge the Secretary to expedite its implementation, and analyze its progress and any problems that may be encountered.

IV. ISSUE - SUBSIDIZED HOUSING: The Housing and Community Development Act of 1974 also authorized a lower income housing assistance program referred to as the "Section 8 program". This program authorizes the Federal government to pay the difference between (1) the fair market rent and (2) a portion of such rent -- between 15-25% of gross income -- affordable by the tenant. This program applies to 200,000 units in FY 75 and 400,000 units in FY 76 of existing,substantially rehabilitated or new housing. This program is the Administration's major subsidized housing program and its successful implementation is of great importance to the President substantively and politically.

Suggested Response: The President should mention his support of this program and urge that it be implemented as rapidly as possible while at the same time using sound underwriting standards.

THE WHITE HOUSE

WASHINGTON

MEETING WITH SECRETARY OF HOUSING AND URBAN DEVELOPMENT CARLA HILLS

Monday, March 24, 1975
11:00 a.m. (60 minutes)
The Oval Office

From: James E. Connor

I. PURPOSE

To meet with Secretary Hills in order to discuss several broad issues of mutual concern.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: This is your first private session with Secretary Hills. You previously saw her at the last Cabinet Meeting on March 12th and you were present at her swearing-in on March 10th in the East Room.

This will be the third in a series of meetings with your new cabinet officers. It is intended to enable you and the Secretary to get to know one another better, and to enable each of you to indicate general policy areas and approaches you consider important.

B. Participants: Secretary of Housing and Urban Development Carla Hills and James Connor.

C. Press Plan: Announcement to the Press. Press Photo opportunity at opening of meeting and David Hume Kennerly photo.

D. Discussion

1. The Secretary has been especially concerned with the tax rebate proposals. She would like to discuss the situation with you.

At the present time, the Senate version of the tax rebate bill provides for:

... A tax credit equal to 5% of the purchase price up to a maximum credit of $2000.
... No income limit.
... No mortgage limit.

This provision was introduced by Senator Long. Secretary Hills has proposed an alternate to the "Long Proposal" which will provide for:

... A tax credit of 5% of the purchase price up to a maximum credit of $1,500 on new homes only;
... A $20,000 gross income limit with an alternative of phasing out the 5% credit by dropping 1% per $1000 for income over $20,000, finally phasing out the credit to an income level of $25,000.

Basically, the Secretary believes that:

... The Congress will pass some kind of housing bill;
... the President probably will not be able to sustain a veto of that bill;
... the President should strive to make one of the housing proposals pending before the Congress as acceptable as possible;
... the HUD alternative tax credit proposal is the least objectionable and will strengthen the Administration's opposition to the other Congressional housing bills.

The Secretary has provided a new economic analysis which reflects very favorably on the HUD proposal. OMB, however, questions this new economic analysis.

2. <u>Housing Legislation Pending Before The Congress:</u>

The Congress is considering a number of separate pieces of legislation to address what they perceive to be the immediate crisis facing the housing construction industry.

Secretary Hills is familiar with these proposals and may want to describe them to you. Basically they are:

Senator Proxmire has proposed legislation which would mandate the Federal government for subsidize mortgage interest rates for middle income families down to 6% for the first three years of the mortgage.

Senator Brooke has proposed legislation which provides for a $1000 home purchase incentive payment to be paid to the purchaser of a single family dwelling.

Congressman Reuss has introduced legislation which would authorize a direct government subsidy which would reduce interest payments to 6% for three years on home mortgages.

The Administration has opposed all of these measures.

You may want to indicate that you are encouraged by the dropping interest rates and increased inflows into S&Ls and that you believe as do most economists, that the housing industry will turn around during the middle of the year. These legislative proposals are attempts to respond to a situation that is not expected to persist too much longer.

If the housing industry does not recover as anticipated, you already have the tools under the Emergency Housing Act of 1974 and the FHA/VA Tandem authority to address that problem. You may want to seek the Secretary's guidance as to how best to stop these legislative proposals in the Congress or to position the Administration to sustain a veto.

Staff has suggested two areas you might wish to raise:

... Community Development Block Grants

... Future Role of Federal Government in Housing

1. Community Development Block Grants:

The Housing and Community Development Act of 1974 authorized for the first time a major community development block grant program and eliminated a number of categorical grant programs. This legislation is a major accomplishment and is the cornerstone of your urban policy.

You might wish to outline your strong support for the block grant concept, and urge the Secretary to expedite its implementation, and analyze its progress and any problems that may be encountered.

2. Future Role of the Federal Government in Housing:

The rapid growth of the Federal role in housing and community development raises two key problems which you may wish to discuss with the Secretary:

... the need to ensure effective management over the current host of programs
... the need to develop a strategy for the government's role in housing during the remainder of the 70's and the 80's.

III. TALKING POINTS

1. Carla, I've been meeting with my new Cabinet officers in order to discuss broad policy questions. I'd like to get your views and to let you know my own.

2. I understand that you wanted to talk about the Senate tax rebate proposal for housing. Let's start with that.

3. I know that there is a great deal of concern on the Hill with the state of the housing industry. What do you think of the proposals that are up there now? How can we be in a position to ensure that we are in a position to resist bad legislation?

4. You know that the Housing and Community Development Act of 1974 authorized a major block grant program. How are we coming in eliminating categorical programs? I hope you will be able to pay close attention to that program and ensure that we implement it quickly and effectively.

5. Carla, your department has grown rapidly in the last several years. Whenever that happens it becomes important to make sure that the programs both new and old are managed effectively. I think that if you can get a good hold on management and make your people conscious of the need for it that you will have made a great contribution.

6. The other problem with rapid growth is that we tend to lose sight of where we are going. The Federal role in housing has grown enormously. But do we know where we are going? What should the role be for the rest of the 70's and into the 80's? Where should the government role stop and the private sectors begin? I would like you personally to work on those questions for the administration and to develop the kind of long range plan that we need.

7. I want you to know that you will have access to me when you need it. I've asked Jim Connor to meet with you regularly. If you need answers quickly or want to see me let him know.

Phone List 4/1/75

THE WHITE HOUSE

WASHINGTON

March 31, 1975

MEMORANDUM FOR: JIM CANNON

FROM: WARREN HENDRIKS

SUBJECT: Fair Housing Month

The attached request for a proclamation designating April as Fair Housing Month was received from Carla Hills this morning.

The President's policy in issuing proclamations has been limited to those requests which have been passed by a joint resolution of the Congress. There have been exceptions but few in number and they are discouraged whenever possible. OMB and the Congressional Liaison Office have been the most ardent supporters of this policy.

I'm told by Tod Hullin, as well as Bill Greener, who was Assistant Secretary for Public Affairs under Jim Lynn, that the proclamation is undoubtedly being pushed by Mrs. Toote, Assistant Secretary for Civil Rights. She did the same last year and was informed of the policy. Additionally, Bill Greener only a couple of weeks ago reaffirmed that policy when asked about how to move a similiar proclamation to the President this year. It is my understanding that Carla Hills would not be disappointed if such a proclamation is not issued.

RECOMMENDATION

That Tod Hullin communicate with the Secretary or the Under Secretarythat the proclamation will not be issued due to the President's policy.

OPTIONS

_____ Tod Hullin calls.

_____ Jim Cannon calls.

_____ See me.

THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C.. 20410

March 28, 1975

MEMORANDUM FOR: James M. Cannon
Executive Director and Assistant to the President for Domestic Affairs
The White House

Subject: Presidential Message on Fair Housing Month

The Federal Fair Housing Law, Title VIII of the Civil Rights Act of 1968, marks its seventh anniversary on April 11, 1975.

Since enactment, HUD each April has had a program for observance of the anniversary to increase awareness and promote support for the objectives of the Fair Housing Law.

A Presidential message would provide national focus for the Fair Housing observance and highlight the importance of public support and cooperation in achieving equal housing opportunity for all Americans.

Attached is a draft statement. If issued, this would be the "first" Executive recognition of this anniversary month observance.

Carla A. Hills

Carla A. Hills

Attachment

Draft
Statement by
PRESIDENT FORD
in Designation of
Fair Housing Month

Our great Nation was conceived in the defiant refusal of our ancestors to tolerate oppression. It was born of their sacrifice and dedicated by them to the inalienable rights of free Americans for all time.

Today, on the eve of our bicentennial, we must acknowledge the supreme irony that minority Americans are still fighting to win the equality that majority Americans take as their birthright.

Minorities have scored significant gains during the past decade in such areas as education, voting and employment. They now recognize housing as the greatest remaining subject of inequity.

So must we all. This seventh anniversary of the Fair Housing Law finds us with too little progress in fair housing practices and offers too little evidence of what I know to be the basic decency of our people, in whom the primary responsibility for fair play must always rest.

In designating April 1975 as National Fair Housing Month, I call upon all Americans to open their hearts and their neighborhoods to all other Americans, so that we may truly observe the spirit and finally deliver the promise that sprang from the Founding Fathers.