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THE WHITE HOUSE  
WASHINGTON

May 6, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JIM CANNON  
FROM: JERRY H. JONES   
SUBJECT: Emergency Housing Legislation

Your memorandum to the President of May 5 on the above subject has been reviewed and the following was noted:

1. Authorize HUD and OMB to indicate that they would recommend that the President veto this legislation. Approve.
2. Authorize a hard Presidential veto signal on programmatic and budgetary grounds. Disapprove.
3. Authorize a hard Presidential veto signal on programmatic and budgetary grounds and indicate a willingness to work with the Congress to bring forth acceptable legislation including a foreclosure provision, an expanded tandem plan, and an extension of the flood insurance sanctions. Disapprove.
4. Authorize HUD and OMB to indicate that they would recommend that the President veto this legislation and at this time authorize Secretary Hills to indicate that the flood extension and tandem amendments would probably be acceptable to the Administration; explore ways of improving the foreclosure provision, without making any commitment as to acceptability. The following notation was made:

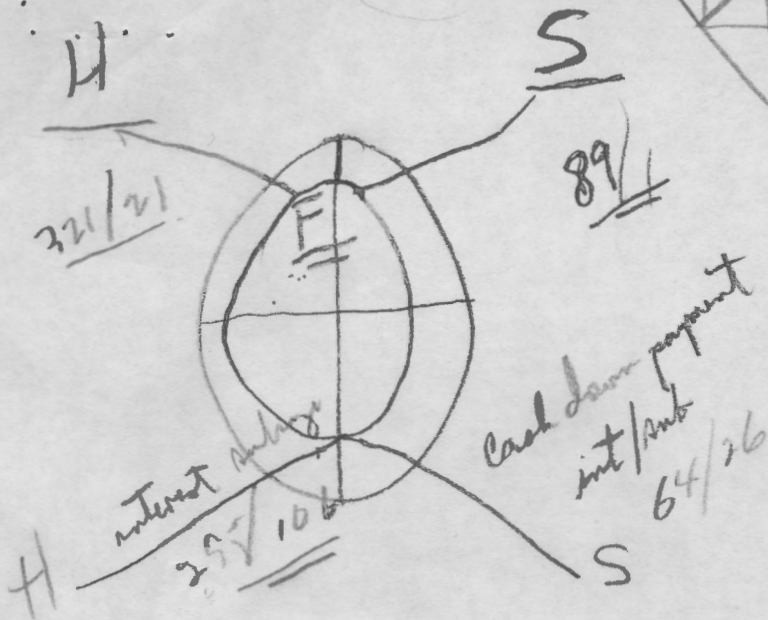
-- Possibility.

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld

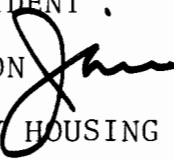
THE WHITE HOUSE



THE WHITE HOUSE

WASHINGTON

May 5, 1975

MEMORANDUM FOR THE PRESIDENT .  
FROM JIM CANNON   
SUBJECT EMERGENCY HOUSING LEGISLATION

PURPOSE

The purpose of this memorandum is for you to determine the Administration position on the emergency housing legislation which will go to conference on Wednesday, May 7.

BACKGROUND

The most objectionable provisions of the emergency housing legislation which are considered likely to emerge from conference are:

	<u>Estimated outlays for FY '76 (millions)</u>
-- a foreclosure relief program	\$ 350-400
-- a mortgage interest subsidy program	300
-- a \$1000 home purchase incentive payment	400
-- an extension of the Section 312 Rehabilitation loan program	100

Even though these programs are subject to appropriations, HUD feels that all or most of the authorization would be appropriated by the Congress and the Budget Control Act of 1974 would mandate the expenditure of these funds.

The substance of these provisions is outlined at Tab A.

The foreclosure aspect of the legislation appears overwhelmingly popular as evidenced by votes of 321-21 in the House and 89-1 in the Senate. HUD and OMB are working to produce a mortgage foreclosure provision that would be acceptable to the Administration.

The mortgage interest subsidy provision appears to be less popular, having passed the House by 259-106.

The Senate bill included other objectionable features including:

- A one-year extension of the Section 235 subsidized housing authority;
- An expanded and mandated "Tandem Plan" authority (Cost: \$50 million in outlays for FY '76);
- A six-month delay in the implementation of flood insurance sanctions.

It is not certain, however, that the House will accept these provisions.

Speaking for the Administration, HUD Under Secretary Mitchell has testified against all of these provisions on the grounds that they are expensive and unnecessary. OMB recommends that this legislation be vetoed on programmatic and budgetary grounds. But the outlook at this point is that a veto based strictly on programmatic and budgetary grounds, without any willingness to compromise, would be overridden. Regardless of veto threats by the Administration, HUD feels that it is certain that a "bad bill" will emerge from conference and that the question is how best to marshal our forces to sustain the President's veto.

#### OPTIONS

1. Authorize HUD and OMB to indicate that they would recommend that the President veto this legislation.

This option recommended by Jim Cannon, Max Friedersdorf, Jack Marsh, Bill Seidman.

Approve NR7 Disapprove \_\_\_\_\_

2. Authorize a hard Presidential veto signal on programmatic and budgetary grounds.

This option recommended by no one

Approve \_\_\_\_\_ Disapprove NR7

3. Authorize a hard Presidential veto signal on programmatic and budgetary grounds and indicate a willingness to work with the Congress to bring forth acceptable legislation including a foreclosure provision, an expanded tandem plan, and an extension of the flood insurance sanctions.

This option recommended by no one

Approve \_\_\_\_\_ Disapprove NR3

4. Authorize HUD and OMB to indicate that they would recommend that the President veto this legislation and at this time authorize Secretary Hills to

-- indicate that the flood extension and tandem amendments would probably be acceptable to the Administration;

-- explore ways of improving the foreclosure provision, without making any commitment as to acceptability.

This option recommended by Secretary Hills and Director Lynn.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

*Passability*



A foreclosure relief program. The House bill authorizes the HUD Secretary to make repayable mortgage relief payments of up to \$250 per month on behalf of homebuyers whose income has been substantially reduced. Homebuyers could qualify for loans with a maximum 8% rate until July 1, 1976, and the loans could continue through June 30, 1978. The bill carries an authorization for \$500 million.

The Senate-passed provision accepted most of the House bill and increased the payments up to \$300 per month for up to 36 months and increased the authorization to \$750 million.

The Administration has opposed mortgage relief as being unnecessary because:

- The current foreclosure rate is very low (less than half the foreclosure rate prevailing 10 years ago);
- Increased mortgage delinquencies are not expected to cause a major increase in foreclosures as lenders tend to forebear; and moreover, the delinquency rate has stabilized from February to March;
- The Federal government can cope with an increase in foreclosures under existing law (Federally insured or guaranteed mortgages only);
- Foreclosure legislation is counterproductive because it offsets the normal tendencies of lenders to forebear;
- Serious administrative problems would be created for HUD by requiring the Department to operate a direct loan program for hundreds of thousands of families.

A mortgage interest subsidy program. This program authorizes a direct mortgage interest subsidy that would reduce the mortgage interest rate for middle-income families to 6% for the first three years of the mortgage with declining subsidies ending in the seventh year.

The Administration has opposed this initiative as unnecessary because:

- The first-year cost of the program would be \$300 million, and the total cost between \$1.1 and \$1.65 billion;
- Costs of this magnitude will require increased Federal borrowing which could result in upward pressure on interest rates for all other home purchasers;



- This proposal would also require the creation of a complex administrative mechanism at HUD, resulting in a delay in implementation;
- The phase-out of the 6% interest subsidy in both bills may be a trap for unwary housing buyers, possibly leading to foreclosures and inventory management problems in future years;
- It mandates expenditure of funds when certain conditions are met;
- Authority to subsidize mortgage interest rates is already available under the "Emergency Home Purchase Assistance Act".

The Home Purchase Incentive Program. This program provides for a \$1000 home purchase incentive payment to be paid to the purchaser of a single family dwelling. As proposed, the \$1000 payment would be in lieu of the mortgage interest subsidy.

The incentive program has been opposed because:

- The first-year cost of the program would be \$300 million;
- Costs of this magnitude will require increased Federal borrowing which could result in upward pressure on interest rates for all other home purchasers;
- This proposal would also require the creation of a complex administrative mechanism at HUD, resulting in a delay in implementation;
- Much of the subsidy would amount to a windfall for buyers who would have purchased a home anyway, or would be captured by the builder.

Section 312 Rehabilitation Loans. The legislation would extend the 312 Rehabilitation Loan program until September 30, 1978, beyond the current authorization date of August 22, 1975. A \$150 million program level would be authorized.

The extension has been opposed for the following reasons:

- It would perpetuate a categorical grant program alongside a block grant program, the Community Development Grant program, intended to replace it.

- A partial review of applications reveals that recipients of community development block grants have already decided to use \$87 million of the fiscal year 1975 funds for housing rehabilitation;
- Study of the current program has indicated that the high administrative costs make it an inefficient support for rehabilitation;
- Extension of the program would set precedent for reactivating other categorical programs replaced by the block grant program.