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THE WHITE HOUSE
WASHINGTON

September 4, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

L. WILLIAM SEIDMAN

FROM:

JAMES E. CONNOR *JEB*

SUBJECT:

Secretary Hills' Appeal for Release
of \$2 Billion in Tandem Mortgage
Purchase Funds for Multifamily Housing

The President reviewed your memorandum of September 1 and approved the following option :

- Option 1 - Authorize Secretary Hills' request to release the \$2 billion remaining in tandem mortgage purchase funds for multi-family housing from the 1976 Appropriation Act.

Please follow-up with appropriate action.

cc: Dick Cheney

released 9/13/76

Waiting for Press Plan from Roger Porter -

9/8 - Received plan but
held x

THE WHITE HOUSE
WASHINGTON

DATE: September 4, 1976

TO: JIM CONNOR

FROM: JIM CAVANAUGH

SUBJ: Attached

FYI _____

ACTION _____

Please give me a call before
you pass this decision back
to Seidman et al. Thanks.

THE WHITE HOUSE

WASHINGTON

September 1, 1976

MEMORANDUM FOR THE PRESIDENT

FROM:

L. WILLIAM SEIDMAN

LWS

SUBJECT:

Secretary Hills' Appeal for Release of
\$2 Billion in Tandem Mortgage Purchase
Funds for Multifamily Housing

On August 25 a memorandum on Secretary Hills' request to re-lease \$2 billion in tandem mortgage purchase funds was sent to you for your decision. You approved authorizing the re-lease of additional tandem mortgage purchase funds for multi-family housing limited to projects for which FHA insurance had been applied for before June 30. OMB, which proposed this alternative, claimed that this would effectively limit new tandem commitments to the estimated \$1.1 billion projects in the FHA processing pipeline.

Secretary Hills, upon being informed of your decision, requested a reconsideration of your decision. A memorandum from her outlining the reasons for her request is attached at Tab A. A memorandum from Jim Lynn, commenting on Secretary Hills' appeal is attached at Tab B. A copy of the original August 25 memorandum is attached for your reference at Tab C.

Options

Option 1

WRS

Authorize Secretary Hills' request to release the \$2 billion remaining in tandem mortgage purchase funds for multi-family housing from the 1976 Appropriation Act.

Option 2

Authorize the release of additional tandem mortgage purchase funds for multi-family housing limited to projects for which FHA insurance had been applied for before June 30.



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

August 31, 1976

MEMORANDUM FOR: The President

FROM: Carla A. Hills

SUBJECT: Release of \$2 Billion in "Tandem"
Mortgage Purchase Funds for Multi-
family Housing

On August 24, I recommended that you release the remaining \$2 billion of tandem funds available under the Emergency Housing Act of 1975. I have just learned that you were subsequently advised by OMB to restrict the tandem funds to those projects which were eligible before the expiration of the prior \$3 billion tandem program on June 30. I believe that such a restrictive release of the tandem funds would generate considerable adverse criticism and strongly recommend that you release the full \$2 billion.

July multifamily starts were 36% below the June level and 6% below the already low rate one year ago. Unemployment in the construction trades is 17% and more than double that rate for blacks. There is a present, pressing need for the full \$2 billion of additional multifamily mortgage assistance, which will assist 80,000 units, a relatively small number in view of the need.

OMB's proposal would more than cut in half the actual use of the \$2 billion available. Although on June 30 there was approximately \$1.1 billion of eligible projects in the FHA pipeline which did not have tandem funds, because of time pressures caused by early expiration of the legislation, many of these projects were hastily developed and processed through only the first stage of FHA insurance processing using very preliminary information. A large number of these projects will prove infeasible or will not go forward for other reasons. Thus, a cut-off date retroactive to June 30 could result in less than \$700 million being actually used.

Variations in FHA processing time from office to office make it highly inequitable to apply a retroactive deadline. Some HUD offices were unable to complete the necessary preliminary FHA processing for some applicants until after June 30 although the applicant in many cases may have filed before some which were successful. Developers' complaints have been muted by the prospect that additional tandem funds might be released for which they would be eligible. Referring back to the earlier deadline will give rise to legitimate feelings of inequity and create unhealthy pressures on local HUD offices to back date such letters. More importantly, the unprecedented nature of such a retroactive deadline will also engender feelings of inequity in the many builders who have more recently begun FHA processing. In many cases these projects may be better and in some cases result in starts sooner than those within the OMB cut-off.

Finally, I am concerned that there may be projects ready to start which will be excluded by the OMB cut-off,

reducing the immediate economic impact of the program, and even a few starts will translate into a weighty percentage impact on the monthly statistics. Thus, we can agree that it is likely that most projects which are ready to start today are included under the June 30 cut-off, but I must point out that some potential September starts may be lost.

B



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

MEMORANDUM FOR: THE PRESIDENT

FROM: JAMES T. LYNN
Director
Office of Management and Budget

SUBJECT: Secretary Hills' Appeal for Release of
\$2 Billion of Tandem Authority

In a memorandum to you dated August 31, Secretary Hills recommends that you release the full \$2 billion in mortgage purchase authority remaining from the 1976 appropriation, rather than only enough authority (\$1.1 billion) to take care of projects which were eligible on June 30--the cutoff date originally established for the program. The Secretary's appeal for release of the full \$2 billion is based on these considerations:

1. The multifamily sector of the housing industry is in bad shape, and the "need" for tandem assistance goes well beyond even the \$2 billion she is requesting.
2. Limiting eligibility to those projects in the tandem pipeline on June 30 would--
 - Cause some of the \$1.1 billion to go unused because a number of the pipeline projects were hastily developed and may prove to be infeasible.
 - Be unfair to those developers who did not become eligible until after June 30 (Secretary Hills claims this would be applying a "retro-active deadline," although the June 30 date was announced back in January).
 - Run the risk of losing some potential new starts in the month of September.

Our response to the Secretary's arguments is as follows:

- . Because of the substitution effect, the tandem plan has only a minor impact on total housing starts over time.
- . We should not be concerned over the fact that "hastily developed" projects will prove to be infeasible at some future time. By then, normal market forces will be generating production on their own.
- . Any limit on program activity--whether it is one keyed to June 30 or it is one like the Secretary's based on a dollar amount--results in some developers feeling that they lost out unfairly. The only way to avoid this feeling is to open the tandem plan to all comers.
- . We see no merit whatever in the argument that a more limited program will cost us some September starts. Where developers have gone forward with projects lacking a tandem commitment, it is hard to believe they would halt the projects merely because tandem assistance is available for others, unless the developers were speculating that HUD would release additional funds. We don't believe additional September starts will result.

In sum, we believe the more limited program OMB proposed is defensible from an equity standpoint and makes the action appear less politically motivated. Moreover, it limits the budget exposure by \$150 million. We think the case for a larger release is even weaker today than it was earlier, now that the Senate Budget Committee has approved a budget resolution cutting back the allowance for tandem plans by \$3 billion in the 1977 budget, to only \$2 billion.

THE WHITE HOUSE

WASHINGTON

August 25, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: Secretary Hills' Request to Release \$2 Billion
in Tandem Mortgage Purchase Funds

The Emergency Housing Act of 1975 authorized the purchase of \$10 billion of 7.5 percent mortgages on residential property subject to appropriations and release by the President. The 1976 HUD Appropriation Act approved the Administration's request for authority to purchase \$5 billion of mortgages. On January 6, you authorized Secretary Hills to release \$3 billion of that authority for the purchase of multi-family apartment projects. The \$3 billion was fully committed by the end of June.

Secretary Hills' Proposal

On August 24, Secretary Hills requested the Economic Policy Board Executive Committee to consider her proposal that you authorize the release of the \$2 billion remaining in tandem mortgage purchase funds for multi-family housing from the 1976 Appropriation Act in the next few days. A memorandum from Secretary Hills outlining her proposal is attached at Tab A.

The EPB Executive Committee reviewed this issue on August 25 and requested OMB to provide their views and analysis of the budgetary impact of the proposal. A memorandum from Jim Lynn is attached at Tab B.

This memorandum reviews the economic and budgetary impact of Secretary Hills' proposal and seeks your decision on the issue of releasing additional tandem funds.

Economic and Budgetary Considerations

There is general agreement that during the past year the situation in single family housing starts has improved steadily while the situation in multi-family housing (5 units or more) remains depressed. Multifamily starts in FY 1975 and FY 1976 were the lowest in the 18 years for which we have data.

There is less agreement on the economic impact of releasing additional tandem financing. HUD projects that the funds would assist approximately 80,000 units and provide 160,000 jobs. OMB argues that tandem assistance subsidizes many units that

would have been built anyway without tandem financing and thus the net additional units and jobs are much less. Moreover, on the important issue of timing, OMB questions whether the release of these additional funds would significantly affect the housing start data in the near term.

HUD estimates that the net budget outlay, or discount on resale of the mortgages, would range from \$93 million to \$323 million depending on market yields at the time of resale. OMB feels that the net outlay is likely to be at the upper end of the range estimated by HUD. The bulk of the outlays would occur in FY 1979 and FY 1980 with outlays of less than \$10 million in FY 1978 under all assumptions.

The National Association of Home Builders, the National Corporation for Housing Partnerships, and many members of Congress have urged the release of the additional \$2 billion of remaining tandem authority. OMB is concerned that release of the funds at this time would appear blatantly political and might appear inconsistent with your stance on balancing the budget.

Alternative Proposal

While OMB opposes the additional release of tandem authority, if it is decided that a release would be advantageous, OMB recommends limiting new tandem commitments to projects for which FHA insurance had been applied for before June 30. This would effectively limit new tandem commitments to the estimated \$1.1 billion projects in the FHA processing pipeline. OMB argues that this alternative would:

- o Reduce the budgetary outlays almost in half.
- o Focus assistance on those mortgages that are closer to construction.
- o Limit assistance to mortgages that began FHA processing when tandem financing was available, thereby maximizing the possibility of subsidizing projects that would not otherwise be built.

Options and Recommendations

Option 1 _____ Authorize the release of the \$2 billion remaining in tandem mortgage purchase funds for multi-family housing from the 1976 Appropriation Act.

Supported by: HUD, Labor, Domestic Council,
Commerce, Friedersdorf

Option 2 _____ Do not authorize the release of additional tandem mortgage purchase funds at this time.

Supported by: OMB, Treasury, CEA

Option 3 _____ Authorize the release of additional tandem mortgage purchase funds for multi-family housing limited to projects for which FHA insurance had been applied for before June 30.

This would effectively limit new tandem commitments to the estimated \$1.1 billion projects in the FHA processing pipeline.

Supported by: OMB supports this option if it is decided that a release of some additional authority would be advantageous.



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

August 24, 1976

MEMORANDUM FOR: The President

FROM: Carla A. Hills

SUBJECT: Release of \$2 Billion in "Tandem"
Mortgage Purchase Funds for Multi-
family Housing

Background

The Emergency Housing Act of 1975 authorized the purchase, subject to appropriations and release by the President, of \$10 billion of 7.5 percent mortgages on residential property. The 1976 HUD-Independent Agencies Appropriation Act approved the Administration's request for authority to purchase \$5 billion of mortgages. On January 6, you authorized me to release \$3 billion of that authority for the purchase of mortgages on multifamily apartment projects, and that \$3 billion was committed by the end of June.

Current Status of the Multifamily Housing Industry

While single-family housing starts have been improving steadily over the past year, the recovery in the multifamily sector has been extremely disappointing.

- o Multifamily starts (5 units or more) in FY 1976 totaled 240,000, only 13 percent above the 212,000 recorded in FY 1975, and far below the 500,000 desired for an adequate continuing supply of apartments. Starts in these two years were the lowest in the 18 years for which we have data.
- o July multifamily starts dropped to an annual rate of 194,000 units, 36 percent below the June level and 6 percent below the discouraging rate of one year ago.
- o Because starts have been low for so long, the number of completed apartments becoming available for rent has been dropping steadily. In FY 1975, some 534,000 apartments were completed; in FY 1976, completions dropped to 289,000 units. The completion rate is expected to decline still further in FY 1977.
- o Vacancy rates have dropped from the 6 to 6.5 percent range of 1975 to a 5.5 to 5.8 percent range in 1976. At the same time, the rate at which new apartments are rented increased sharply, and has been at historic highs for the first six months of 1976.
- o Unemployment in the construction trades is at 17.7 percent.

Recommendation

I strongly recommend that you authorize the release of the \$2 billion remaining from the 1976 Appropriation Act in the next few days.

There is a substantial demand for the tandem money in the multifamily sector. We estimate that when the \$3 billion of tandem money for multifamily projects was exhausted in June there was an additional \$1.1 billion of eligible projects for which funds were not available. Since then the number of eligible projects has increased significantly. This pent-up demand has caused the National Association of Home Builders, the National Corporation for Housing Partnerships, and many members of Congress to urge that the additional \$2 billion of tandem authority be released. Release of the funds would clearly establish the Administration's continued commitment to recovery in the multifamily sector.

We believe we can make a substantial contribution in assisting the nation's short-term as well as a longer term multifamily recovery with tandem assistance. Approximately 9,200 multifamily units have reached the last stages of FHA processing without tandem financing, and it is our judgment that a large proportion of these units will not proceed to start of construction without tandem financing.

If released, the funds would assist approximately 80,000 units. Based on the rule of thumb that each multifamily start generates 2 construction jobs, the assisted units would provide 160,000 jobs and thereby alleviate unemployment in the building trades and demonstrate to the building trades our concern over their plight.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MEMORANDUM FOR L. WILLIAM SEIDMAN *fws*

FROM: JAMES H. LYNN *J. H. Lynn*

SUBJECT: Secretary Hills' Request to Release
Tandem Funds

Secretary Hills has requested Presidential authorization to release \$2 billion in tandem funds for purchase of multifamily apartment mortgages. Such a release would exhaust the available, appropriated mortgage purchase authority. In her letter, Secretary Hills takes a strong stand that additional tandem assistance is necessary to assist the multifamily housing sector, which has not recovered as quickly as we have desired or predicted, and to publicly demonstrate the Administration's support for this sector.

OMB feels the additional funds are unnecessary and may be unwise politically. Further, if it is felt some support is necessary, we have an alternative proposal. The following sections set out OMB's reaction to and differences with the position in Secretary Hills' letter.

Programmatic

. OMB continues to contend that tandem assistance subsidizes many units that would have been built anyway in the process of encouraging new units. Clearly, many of the estimated 80,000 units to be aided would be built without tandem financing.

. Although not at a pace we would like, the multifamily sector continues to recover. In her letter, Secretary Hills acknowledges the sharp increases in and record pace at which apartments are being rented, indicating that demand for apartments is beginning to respond to economic recovery. By releasing new tandem authority now, we run the risk of overbuilding by subsidizing apartment construction just when demand is naturally inducing construction.

. The HUD letter severely overestimates the employment impact. To provide 160,000 new jobs requires one to assume that all 80,000 units are new units. To the extent the tandem-supported units would have been built anyway, the construction jobs on that project are not "new" jobs. In addition, HUD outlay estimates imply that some construction will not start until 1978 or even 1979, when construction unemployment is unknown.

. HUD indicates that 9,200 units are so advanced in the FHA approval cycle that they are ready to start construction, and that these starts would directly and significantly affect the housing start data were they to get tandem financing. If that were true, the \$460 million of commitments approved in a comparable stage of processing in June should have shown up in July starts, but they did not.

Political

. OMB is concerned that any release would appear blatantly political at this time. If the release appears to be only politically motivated, it might be more embarrassing than helpful.

. Further, a release might appear inconsistent with the Administration's stance on balancing the budget and eliminating unnecessary spending.

Budgetary

. In a follow-up memorandum (copy attached), HUD estimates that the net outlay, or discount upon resale of the mortgages, will range from \$93 to \$323 million depending upon market yields at the time of resale. The vast majority of the outlay impact would occur in fiscal years 1979 and 1980, with outlays of less than \$10 million in 1978 under all assumptions.

. OMB feels that the net outlay is more likely to be at the upper end of the range estimated by HUD. Assuming that multifamily mortgage rates will fall to the 8.5 percent range is very optimistic. Further, if HUD is successful in accelerating construction action, their projected outlays

in FY 1980 and FY 1981 are likely to be moved back to FY 1979. This makes the President's intention to balance the 1979 budget more difficult.

Recommendation

OMB feels the requested release of tandem authority is unnecessary and politically risky. If it is concluded that a release would be advantageous, however, OMB has an alternative to propose. We would limit commitments to projects for which FHA insurance had been applied for before June 30. This would effectively limit new tandem commitments to the projects in the FHA processing pipeline, an estimated \$1.1 billion worth. We feel this alternative would have four very important advantages:

1. The net outlay would be limited to an estimated \$180 million, using the upper limit to HUD's estimates.
2. The tandem assistance would be limited to a universe of mortgages that are closer to construction, thereby minimizing the impact of unnecessary tandem subsidies when the expected natural increase in demand occurs.
3. The tandem assistance would also be limited to mortgages that began FHA processing when tandem financing was available, thereby maximizing the possibility of subsidizing projects that would not otherwise have been built.
4. By tying any new funds to earlier funding, the political connection to the Presidential campaign could be muted.

Attachment



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

August 25, 1976

PRESIDENT OF
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

IN REPLY REFER TO

MEMORANDUM FOR: James T. Lynn
Director
Office of Management and Budget

Subject: Outlay projections for additional \$2
billion in "tandem" purchases

After your meeting this morning, the Secretary asked me to quickly provide you with our net outlay projections in the event an additional \$2 billion of authority is released for purchase of multifamily mortgages under the Emergency Housing Act of 1975.

As you know, the net outlay is dependent upon the price received when the mortgages are sold by GNMA. Historically, GNMA has sold such mortgages to private investors who have purchased at prices reflecting prevailing market rates. We have made projections by assuming a range of market rates from 8-1/2 percent to 10 percent. If the mortgages were subsequently sold on a basis other than market, for example to the Federal Financing Bank, projected outlays might be reduced. Sales to the Federal Financing Bank would raise other issues, particularly the increased volume and cost of Treasury borrowing required to carry such mortgages.

The projections attached are made on the conservative assumption that all commitments made will result in the delivery of mortgages and are based on our experience with regard to delivery times.

David M. deWilde

Att.

\$2 Billion Multi-family Mortgage Purchase Program

<u>Market Interest Rate at Sale</u>	Net Outlays				
	<u>Total</u>	<u>FY '78</u>	<u>FY '79</u>	<u>FY '80</u>	<u>FY '81</u>
8 1/2%	\$ 93.1	\$2.3	\$ 40.2	\$ 41.3	\$ 9.3
9	175.2	4.4	75.6	77.7	17.5
9 1/2	251.9	6.3	108.7	111.7	25.2
10	323.2	8.1	139.5	143.3	32.3