MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill S. 3066 - Housing and Community Development Act of 1974

Sponsor - Sen. Sparkman (D) Alabama

August 30, 1974 - Friday

Purpose

To initiate a new program of community development block grants, to amend public housing laws and initiate a new leased housing program; to revise mortgage credit programs for moderate and middle income families; and to extend and amend other laws relating to housing and community development.

The enrolled bill would provide new funding authorizations of over $11.9 billion for the three fiscal years 1975, 1976, and 1977--more than $3.7 billion over current budget planning ceilings.

Agency Recommendations

Office of Management and Budget
Department of Defense
Department of Housing and Urban Development
Department of the Interior
Council on Environmental Quality
Federal Home Loan Bank Board
Veterans Administration
Department of Transportation
Federal National Mortgage Association
Department of Agriculture
Department of Commerce
Council of Economic Advisers
Advisory Commission on Intergovernmental Relations
Federal Deposit Insurance Corporation

Approval
Approval
Approval
Approval (Informally)
Approval
Approval
Approval
Approval
Approval
Approval (Informally)
No objection
No objection
No objection (Informally)
S. 3066 constitutes the major congressional response to the previous Administration's proposals to consolidate community development programs under the "Better Communities Act," and to amend housing programs for low- and middle-income people under the "Housing Act of 1973." The principal features of these legislative proposals have been included in some form in S. 3066. The bill also contains numerous authorities which were not sought by the Executive branch.

A specific title-by-title analysis of the bill has been prepared by the Department of Housing and Urban Development and is attached. The highlights of the bill are as follows:

**Community development (Title I)**

This title would accomplish a long sought goal of the previous Administration—the consolidation of several community development categorical programs into a single program of block grants under which local governments have major programmatic responsibility. The categorical programs which would be replaced by S. 3066 are: urban renewal, model cities, grants for water and sewer facilities, open space land programs, neighborhood facilities and public facility loans. The block grants would be distributed to large cities (over 50,000) and counties by an objective formula based on population, extent of poverty, and amount of overcrowded housing. These recipients would also be entitled to a level of funding for the first three years of the new program, equivalent to the averaged amount which they received under the categorical programs ("hold-harmless"). During the following three years, "hold-harmless" funding above formula entitlements would be phased out. Funds not specifically allocated by formula plus extra transition funds and a two percent secretarial discretionary fund, would be available to meet the special needs of formula grantees and for grants...
to smaller cities and counties. The latter would also receive "hold-harmless" funding in the early years of the program. Total authorizations for the block grant program are as follows:

- $2.55 billion in fiscal year 1975 (versus $2.5 billion proposed in the 1975 Budget)
- $3.0 billion in fiscal year 1976 (versus $2.175 billion implicit in the current planning level for the fiscal year 1976)
- $3.05 billion in fiscal year 1977

In order to receive formula grants, large cities and urban counties would have to submit an application with an annual program of specific activities and a three year summary plan. The application must identify community development needs and objectives and contain a program for the elimination or prevention of slums, and a housing assistance plan. In general, the block grants could be used to support the same activities that were eligible under the categorical programs.

Advantages:

- replacement of six inflexible categorical programs with a single, broad flexible program
- fairer allocation of funds based on objective criteria
- more initiative and responsibility placed with local governments
- assured annual funding levels for localities to plan against

Disadvantages:

- application and review procedures would still require substantial Federal involvement and could distort local priorities
- extension of Section 312 rehabilitation loan program which duplicates authority contained in the block grant program
Federal guarantees of local obligations used to acquire or assemble land for community development purposes would impose a substantial administrative burden on HUD.

**Assisted housing (Title II)**

Title II would revise the low-rent public housing program to incorporate a number of features supported by the previous Administration. Among these is the authority to initiate a new lower income housing assistance program which closely conforms to the proposed revision of the Section 23 leased housing program. This title also extends the authorizations for the homeownership assistance (section 235), rental housing assistance (section 236), and elderly housing programs, each of which has been suspended for 19 months or more.

**Advantages:**

- establishes a minimum rent requirement so all public housing tenants pay some rent
- improves definitions of income and family to eliminate inequities
- places a ceiling on operating subsidies to local housing authorities, thus limiting the open-endedness of these subsidies
- spins off responsibilities for management and maintenance of leased housing to owners
- establishes allocation mechanism for subsidized housing assistance based on need factors

**Disadvantages:**

- makes the continuation of the conventional public housing program mandatory despite evidence that the program is defective
- earmarks funds for Indian housing, thereby overlapping housing programs for Indians administered by the Bureau of Indian Affairs
- reactivates the elderly housing program outside the budget with an $800 million authorization
extends Sections 235 and 236 interest subsidy programs which HUD's housing study found to be defective

authorizes operating subsidies and additional authorization ($75 million) for the Section 236 program, further exposing the Federal budget to uncontrollable costs in the future

Mortgage credit (Title III)

This title would make a variety of changes in existing FHA mortgage insurance authorities including:

- extension of regular FHA programs and the flexible interest rate authority through June 30, 1977
- an increase in the size of loans and mortgages eligible for insurance by about one-third
- a one-third decrease in downpayment requirements
- authorization for co-insurance with lenders sharing in the risks of default
- compensation for serious structural defects in houses purchased with FHA mortgage insurance and located in declining urban areas
- special mortgage insurance for military base personnel and for refinancing of multifamily mortgages

Advantages:

- expanding the types of mortgages eligible for FHA insurance would give more families access to mortgage credit and thus help the slumping housing industry
- co-insurance could reduce the loss rate on insured mortgages and allow HUD to delegate more responsibility to lenders

Disadvantages:

- Federal exposure for risky insurance would be increased
defect compensation could provide windfalls to homebuyers since most defects are reflected in the price paid by the buyer.

Comprehensive planning grants (Title IV)

Title IV revises the comprehensive planning assistance program (section 701) and authorizes appropriations of $130 million for fiscal year 1975 (versus $110 million in the 1975 Budget) and $150 million for fiscal year 1976 (versus a planning estimate of zero).

The title would also revise and reactivate the community development training and urban fellowship programs which were terminated in fiscal year 1974. It would expand them to students who are generalists in urban affairs and authorize HUD to contract directly with universities to assist in creating or improving graduate and professional programs in regional planning and management, housing and urban affairs. The authorization limit would be increased by $3.5 million for each of the next two fiscal years.

Advantages:

- would expand the eligible activities under the "701" program to include improving the management capability and policy-planning-evaluation capacity of local governments
- would authorize State administration of planning assistance grants where State-local agreements exist, thus reducing the number of recipients with which HUD must deal directly

Disadvantages:

- would require recipients to undertake additional activities, limiting the flexibility and discretion of localities in planning
- would reactivate two previously terminated programs which duplicate authorities in other agencies

Rural housing (Title V)

This title would extend and revise a number of rural housing authorities which are scheduled to expire on October 1, 1974. It also authorizes a new rent supplement program and a new technical assistance program aimed at low-income families in rural areas.
Advantages:

- rural housing programs would continue beyond October 1, 1974
- would extend veterans preference for housing assistance to veterans of the Vietnam War

Disadvantages:

- similar rent supplement and technical assistance programs were found to be ineffective and were suspended 19 months ago

Mobile homes (Title VI)

This title would require the Secretary of HUD to appoint a 24-member National Mobile Home Advisory Council, and to issue construction and performance standards covering the quality, durability, and safety of mobile homes. It would also make mobile home manufacturers responsible for correcting defects, and authorize a new categorical grant program in support of State mobile home programs.

Advantages:

- mobile home purchasers would be alerted to defects which constitute safety hazards
- Federal, rather than State, regulation of mobile homes would standardize the requirements which manufacturers must meet
- Federal regulation of mobile home quality could benefit consumers by improving quality

Disadvantages:

- Federal construction and design standards could raise the cost of mobile homes substantially by requiring amenities which some purchasers do not need or want and by requiring excessive quality control processing—this could close off one of the prime avenues to homeownership for lower income families
- a sizeable Federal staff would be required to establish standards, review manufacturer plans and specifications, and enforce compliance
Consumer home mortgage assistance (Title VII)

This title would expand the lending and investment powers of national banks, savings and loan associations, and credit unions. It would also allow savings and loan associations to borrow funds from State mortgage finance agencies.

Advantages:

- Broader lending and investment powers could increase the supply of mortgage credit, thus helping the housing industry.
- Removal of restrictions on financial institutions would make the financial system operate more efficiently.

Disadvantages:

- Giving private savings and loan associations access to the tax-exempt market would (a) increase Federal revenue losses—perhaps significantly; (b) put added pressure on tax-exempt interest rates, making it more difficult for public bodies to finance public works; and (c) distort the operation of the capital market.

Miscellaneous (Title VIII)

This title contains various provisions revising existing programs, establishing new ones, and authorizing Federal support for new agencies. The most important provisions would:

- Increase the size of home mortgages eligible for purchase by HUD's Government National Mortgage Association under the "tandem plan".
- Prohibit sex discrimination in connection with the sale, rental, or financing of housing.
- Encourage the formation and operation of State housing and development agencies, using Federal guarantees and interest subsidy grants.
- Establish a non-profit, non-government National Institute of Building Science to develop and encourage the adoption of performance criteria for building components.
authorize an urban homesteading program, under which HUD-held property could be turned over to State and local agencies for resale at a token price to "home-steaders"

reactivate and expand a technical assistance program which has been suspended

authorize, and in some cases require, HUD to provide counseling to tenants and homeowners

The first two provisions would give additional families access to mortgage credit, and end the double-standard which some lenders still apply to male and female loan applicants.

The remaining provisions appear to be based more on faith than on demonstrated need, and analysis of their potential impact is inconclusive at this time.

Impact on the Budget

The bill as a whole would provide new funding authorizations of over $11.9 billion. Of this amount, $2.2 billion would be in the form of interest subsidy or debt service payments in each of the next 20 to 40 years.

The following table shows budget authority contained in S. 3066 for fiscal years 1975, 1976, and 1977. The comparable amounts contained in the 1975 Budget and implicit in the 1976 planning ceiling are also shown.

<table>
<thead>
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<th>S. 3066 Budget Planning Ceiling (in billions of dollars)</th>
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<tr>
<td>1975 Budget authority $5.4</td>
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<tr>
<td>1976 Budget authority 3.4</td>
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<td>1977 Budget authority 3.1</td>
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<td>Total authorization $11.9</td>
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Recommendation

With one exception, all agencies asked to comment on S. 3066 either favor or do not object to enactment. Treasury recommends that the bill be vetoed because of its financial provisions. HUD, the agency most affected by the bill, strongly urges that you sign the bill into law.
OMB's analysis of S. 3066 has turned up numerous undesirable provisions, many of which are likely to be very costly in the years ahead. The most objectionable provisions are those mandating Federal standards for mobile homes, increasing subsidies for existing subsidized housing projects, expanding the elderly housing program (and putting it outside the budget), giving savings and loan associations access to the tax-exempt capital market, and extending programs previously found to be defective.

On the other hand, the bill would bring about major improvements in the community development area which should weigh heavily in your decision regarding S. 3066.

We believe the community development block grant program, coupled with the fact that further actions by the Congress would be required to implement some (but not all) of the undesirable authorities and thus offer opportunities for remedial or corrective action, warrant your approval of this bill. At the same time, we believe it is essential that strong efforts be made to mitigate the problems noted above. We have furnished informally to members of your staff a draft signing statement and are working with them on it.

Director

Attachment
August 19, 1974

Mr. Wilfred H. Rommel
Assistant Director for Legislative Reference
Office of Management and Budget
Washington, D. C. 20503

Attention: Bill Hamm

Dear Mr. Rommel:

This is in response to your request for a report of the Board's views on enrolled bill S. 3066, the Housing and Community Development Act of 1974.

The Board's views were submitted to you on July 8, 1974 in the form of a proposed report to the Conference Committee on S. 3066 and more recently, by letter dated August 15, 1974 in response to your Legislative Referral Memorandum of August 13, 1974. In the Board's view, enactment of this legislation is very important and the Board strongly recommends that the President sign S. 3066.

Sincerely,

Charles E. Allen
General Counsel

By: Henry L. Jud
Deputy General Counsel
August 15, 1974

Mr. Wilfred H. Rommel
Assistant Director for
Legislative Reference
Office of Management
and Budget
Washington, D.C. 20503

Attention: Bill Hamm

Dear Mr. Rommel:

This is in response to your Legislative Referral Memorandum of August 13, 1974 requesting the views of the Board on the Conference version of S. 3066, the Housing and Community Development Act of 1974 which was printed at pages H8058 - H8105 of the Congressional Record of August 12, 1974.

The Board's views on this bill were submitted to you earlier in our proposed report on the bill (attached). The provisions of concern to the Board are sections 702 through 705 (based on sections 601 through 605 of the House version), section 706 (section 820 of the Senate version), and section 805 of the Conference version (which combines section 315 of the House version and section 812 of the Senate version). Although the Board continues to view section 805(a) of the conference version (section 315 (a) of the House version) as inadvisable it would not oppose enactment of the bill because it has been included. The Board supports enactment of the Conference version of S. 3066.

Sincerely,

Charles E. Allen
General Counsel

By: Henry L. Judy
Deputy General Counsel
July 22, 1974

Honorable John Sparkman  
Chairman  
Committee on Banking, Housing  
and Urban Affairs  
United States Senate  
Washington, D. C. 20510

Honorable Wright Patman  
Chairman  
Committee on Banking and Currency  
United States House of Representatives  
Washington, D. C. 20515

Dear Chairmen Sparkman and Patman:

This letter is addressed to you jointly in order to provide the Committee of Conference on S. 3066, the Housing and Urban Development Act of 1974, with a report of the views of the Federal Home Loan Bank Board on certain provisions of the differing versions of the bill. For clarity, this letter will refer to the House-passed version of the bill as H.R. 15361. Although we have commented on various provisions of the bills as they appeared in predecessor bills, the Board hopes that a general review of the two bills, as they would affect the Federal Home Loan Bank System, would be of some assistance to the conferees.

Housing legislation is essential in order to address the problems the Nation faces with respect to the construction and availability of housing and the availability of mortgage credit. H.R. 15361 contains important legislative revisions of the lending powers of Federal savings and loan associations to increase their ability to meet housing needs and S. 3066 contains important legislative revisions to the Emergency Home Finance Act of 1970.
Honorable John Sparkman and Wright Patman
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The Board's views are summarized in the following table:

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<th>H. R. 15361</th>
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<td>$ 601</td>
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<tr>
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<td>315(b)(1)(3) Favors</td>
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<td>705</td>
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<td>Defer to views of HUD</td>
<td>812(a)(3) Prefers 315(b)(3) and 602 of H. R. 15361</td>
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<td>Favors</td>
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<td>605</td>
<td>Opposes</td>
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I. COMPARISON OF § 315 of H. R. 15361 and § 812 of S. 3066 (FHLMC PROVISIONS)

The Federal Home Loan Mortgage Corporation (FHLMC) supports the provisions of section 812 of S. 3066 in every respect, specifically, the absence of the mortgage bankers servicing amendment (section 315(a) of H. R. 15361). The sections common to both bills are discussed first.

A. Loan-to-Value Ratio (§ 315(b)(1) and § 812(a)(1)).

Section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act now prohibits the Corporation, except under certain specified circumstances, from purchasing a conventional mortgage under that section, "if the outstanding principal balance of the mortgage at the time of purchase exceeds 75 percent of the value of the property securing the mortgage". The customary maximum limit on conventional home mortgages, under statutes and regulations quite generally in effect today, is 80% rather than 75%. Thus, the Board supports these provisions which would accordingly raise this loan-to-value ratio in the Federal Home Loan Mortgage Corporation Act to 80 percentum. The Board agrees...
that there is no justification for requiring homebuyers to pay for insurance coverage on top of a substantial down payment.

B. Maximum Mortgage Amount (§ 315(b)(3) and § 812(a)(3)).

Although the Board has no objection to the language of section 812(a)(3), it prefers section 315(b)(3) in combination with section 602 of H.R. 15361 as a means of allowing FHLMC to purchase mortgages with the same dollar limitations as imposed on Federal savings and loan associations including the provision for higher dollar limitations on properties in the high cost areas of Alaska, Hawaii and Guam. Both sections 315(b)(3) and 812(a)(3) would delete a reference in section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act to sections 203(b) or 207 of the National Housing Act as the limitation on the maximum mortgage amount on a mortgage to be purchased by FHLMC, and would substitute the limitations contained in the first proviso of the first sentence of section 5(c) of the Home Owners’ Loan Act. Section 812(a)(3) would make provision for higher limits on Alaska, Guam and Hawaii mortgages within section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act, whereas section 315(b)(3) would amend section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act to refer to the limitations of section 5(c) of the Home Owners’ Loan Act and section 602 would amend section 5(c) to allow for higher limit mortgages in Alaska, Guam or Hawaii. It is the Board’s opinion that the higher mortgage limitation for the areas of Alaska, Guam and Hawaii is necessary and should not be limited to the secondary market alone but should be available for the associations originating the mortgages as well.

The other limitations in section 5(c) to which section 305(a)(2) as amended would make reference are: a $45,000 limit on loans on the security of single-family dwellings, and the per room "limits allowable (at the time of the loan) in section 207(c)(3) of the National Housing Act." This language has been of no effect since the per room limits in section 207(c)(3) of the National Housing Act were deleted by section 107 of the Housing Act of 1964, Pub. L. No. 88-560, § 107, 78 Stat. 774. Section 207(c)(3) now contains limits based on the number of bedrooms in a dwelling unit. Both sections 812(a)(3) and 315(b)(3) would require FHLMC to establish limitations comparable to the dollar limit in section 5(c) of the Home Owners’ Loan Act of 1933, and to the principal amount limitations on the multi-family mortgage lending which are contained in the Board’s regulations for Federal savings and loan associations.

II. FEDERAL HOME LOAN MORTGAGE CORPORATION PROVISIONS ONLY IN H.R. 15361

A. Mortgage Bankers Amendment (§ 315(a)).

Section 315(a) of H.R. 15361 would allow FHA approved mortgagees, predominantly mortgage bankers, to service mortgage loans sold to the
Federal Home Loan Mortgage Corporation. The actual sale of the mortgages would still be through a Federally insured financial institution acting as a conduit in the transaction.

FHLMC opposes this proposed change. The effect of this amendment is to provide access to FHLMC by non-Federally insured and non-supervised lenders. Those lenders will use passive savings and loan associations and banks as conduits for a fee.

Further, the Board does not believe that this change would benefit the mortgage market. There are many fine mortgage banking firms and the Board supports and encourages business relationships involving savings and loan associations and mortgage bankers and a maximum of competition in the mortgage market. In this case, however, the Board believes that the relationship that would be established would be contrary to the public interest. A number of arguments have been advanced in favor of section 315. These arguments and our responses thereto are set forth below.

1) Mortgage bankers and other non-Federally insured lenders should obtain the benefits of FHLMC's 8.75%, $3 billion Forward Commitment Program, since the program was made available by the Treasury.

Response: The special $3 billion Program involves a possible borrowing by the Federal Home Loan Banks from the Treasury Department. The Banks in turn will pass the funds through to FHLMC for the purchase of mortgages pursuant to the Special Program. However, it should be stressed that the arrangement with the Treasury involves a loan. The loan must be repaid by the Federal Home Loan Banks as soon as possible. As a consequence, the real responsibility for financing the Special $3 billion Program rests ultimately with the 12 Federal Home Loan Banks and must be supported by Federal Home Loan Bank System capital. Additionally, losses experienced from the acquired mortgages will be absorbed by FHLMC, which is a wholly owned subsidiary of the Banks, and will not be passed on to the Treasury Department in any event, either during the term of the Treasury advance, or after it is repaid. We question the fairness and economic wisdom of requiring the Bank System to finance the activity of mortgage bankers and others who are not stockholders in the Federal Home Loan Banks.

2) FHLMC is owned and controlled by the Federal Government, and mortgage bankers have a right to participate in FHLMC programs.
Response: FHLMC is owned by the 12 Federal Home Loan Banks, whose capital is contributed solely by the member thrift institutions in their districts. There is no taxpayer money involved with the ownership of FHLMC.

FHLMC is controlled by the Federal Home Loan Bank Board which is an agency of the Federal Government. This results in a unique situation where the Federal Government has absolute operational control over an entity which has pumped in excess of $4 billion into middle and low price housing in the last 4 years without spending one tax dollar.

3) FHLMC is under utilized by Federally insured lenders and may better serve housing, if the mortgage bankers can become more directly involved in FHLMC's programs.

Response: Nearly 2,000 Federally insured institutions do business with FHLMC as buyers or sellers. This is nearly twice the number of institutions (primarily mortgage bankers) that do business with the Federal National Mortgage Association ("FNMA") which has been in operation 32 years longer than FHLMC. Since the mortgage bankers are the primary institutions doing business with FNMA, support should be given to encourage mortgage bankers to expand their business with FNMA rather than to take it away or dilute the business by becoming involved in FHLMC's programs.

This year alone FHLMC will commit to purchase approximately $4.5 billion in conventionally financed mortgages. FHLMC is not yet four years old and the $4.5 billion for 1974 exceeds FHLMC's total experience for the first three years of its operation. This dollar amount represents approximately 180,000 homes. It also represents 180,000 mortgages which must be carefully examined and checked by FHLMC's current staff of 217 employees. Stated another way, FHLMC will have to process about 8,300 mortgages per employee to handle this year's projected volume. Thus, it is clear that FHLMC is quite extensively used by Federally insured institutions.

4) Mortgage bankers can service loans more efficiently than savings and loan associations because servicing is a primary business of mortgage bankers. Also, savings and loan associations are often far removed geographically from the mortgaged properties they serve. By using mortgage bankers, that are located closer to the properties, better servicing will be realized.
Response: Before FHLMC actually began operation late in 1970, the Federal Home Loan Banks did allow mortgage bankers to service FHA/VA mortgages that were subsequently acquired by FHLMC. FHLMC's experience with this mortgage banker servicing currently covers about $150 million of mortgages which were acquired from a very broad range of mortgage banking firms. Even now after almost 4 years, when those mortgages should be considered seasoned, the delinquency rate for the FHA/VA mortgages serviced for FHLMC by mortgage bankers is 20% greater than those FHA/VA mortgages serviced by Federally insured institutions for FHLMC. Further, the percentage of FHA/VA mortgages in foreclosure that are serviced for FHLMC by mortgage bankers is 212% greater than the percentage of FHA/VA mortgages in foreclosure serviced by Federally insured institutions involved with the FHLMC programs.

FHLMC normally requires that all mortgaged properties serviced for it be located within the seller institution's normal lending area, usually the State in which the institution resides. FHLMC will only purchase mortgages on properties located outside the institution's normal lending area if the institution has a servicing facility staffed by its employees located within 100 miles of the mortgaged properties and has had experience servicing mortgages in that area.

FHLMC's programs are primarily geared to the conventional (non-FHA or VA) mortgage market. Since conventional mortgages are not insured or guaranteed by the government, losses resulting from these mortgages are absorbed by the investor, in this case FHLMC. To help insure that the mortgages are of satisfactory quality, FHLMC relies to a major extent on warranties and representations made by the Federally insured and supervised institutions. FHLMC feels justified in relying on these warranties because the institutions are already subject to thorough examination and supervision by Federal regulatory agencies. It is difficult to imagine that FHLMC could place the same reliance on representations made by non-insured and non-supervised lenders. Added surveillance would be required and this additional surveillance would be expensive. Such expense would be charged to the FHLMC users. However, in the final analysis this additional expense would be passed through in the form of higher financing costs to the homebuyer.

5) Institutions who currently deal with FHLMC are primarily concerned with upper income homebuyers. The mortgage bankers would help spread the benefits of FHLMC's programs to middle and lower income Americans.
Response: FHLMC has purchased over $4 billion in mortgages to date and the average loan amount is about $26,000. The current maximum loan amount purchased by FHLMC, set in accordance with the Emergency Home Finance Act, is $35,000. In light of the fact the average American home today costs in excess of $35,000, it is clear that FHLMC's programs are restricted to the lower portion of all mortgage loans currently being made. While the maximum loan limit permitted by Congress should be increased to recognize rapidly rising home costs, FHLMC would continue to conduct its programs on a basis that is meaningful for middle and lower income buyers.

8) Small to medium size savings and loan associations are not able to take advantage of FHLMC's programs. These institutions would be better able to do so by working with mortgage bankers.

Response: Nearly 61% of the savings and loan associations involved with FHLMC's programs are no larger than $50 million in asset size. Savings and loan associations with no more than $50 million in assets are relatively small institutions. This is solid evidence that small to medium sized institutions do take advantage of FHLMC's programs. Further, $1.9 billion of the $3 billion Special Commitment has already been committed and the distribution throughout the country is excellent. Commitments have been made in 43 States plus the District of Columbia and Puerto Rico. Again this indicates a broad scale of acceptance by financial institutions of FHLMC's programs.

It is projected that 92% of FHLMC's mortgage commitment activity in 1974 will be of conventionally financed mortgages. The primary business of all savings and loan associations is the making of conventional mortgages. It is hard to imagine that mortgage bankers, who accounted for less than 10% of the total conventional single-family loan originations in 1973, can do this job better than savings and loan associations.

Finally, the FNMA, which has served an important role in housing, primarily does business with mortgage bankers. With assets in excess of $25 billion, FNMA already provides an enormous outlet for mortgage bankers, one which currently dwarfs the financial capacity of FHLMC. However, fewer than 5% of all savings and loan associations currently do business
The Honorable John Sparkman and Wright Patman
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with FNMA, and the only practical outlet for these institutions is FHLMC. It would seem appropriate to continue to have the mortgage bankers deal with FNMA and let FHLMC work with Federally insured lenders as was originally intended by Congress.

On the basis of all the foregoing information, the Board believes it would not be prudent to enact section 315(a) without thorough hearings and a careful consideration of the true equities of the situation and to insure that a benefit to homebuyers will result from the action.

B. Private Insurance (§ 315(b)(2)).

Subparagraph (2) of subsection 315(b) would delete the word "private" from the provision in the Federal Home Loan Mortgage Corporation Act which allows FHLMC to purchase a conventional mortgage only if "that portion of the unpaid principal balance of the mortgage which is in excess of such 75 percentum is guaranteed or insured by a qualified private insurer as determined by the Corporation." (Emphasis is supplied).

The Board has no objection to this section since FHLMC would retain the ability to deal only with qualified insurers.

III. FEDERAL HOME LOAN MORTGAGE CORPORATION PROVISIONS ONLY IN S. 3958

A. Percentage Limitation on 1 Year Mortgages (§ 812(a)(2)).

Section 812(a)(2) would amend section 305(a)(2) of the FHLMC Act. The third sentence of section 305(a)(2) provides:

"The Corporation may purchase a conventional mortgage which was originated more than one year prior to the purchase date only if the seller is currently engaged in mortgage lending or investing activities and if, as a result thereof, the cumulative aggregate of the principal balances of all conventional mortgages purchased by the Corporation which were originated more than one year prior to the date of purchase does not exceed 10 percentum of the cumulative aggregate of the principal balances of all conventional mortgages purchased by the Corporation."

Section 812 would remove the 10 percent limitation and substitute the requirement that the seller reinvest an amount equal to what he sold the Corporation in residential mortgage loans within one year. The Board favors this provision, because it should stimulate continued commitments to the residential mortgage market and because the amendment would increase the flexibility of the Corporation's secondary market operations in conventional mortgages, and thus aid the mortgage market.
B. National and State Bank Investment (§ 812(b)).
Section 812(b) would amend the National Bank Act to allow national and State banks which are members of the Federal Reserve System to underwrite or invest in mortgages or securities sold by FHLMC.

C. Investment of Federal Home Loan Bank Surplus (§ 812(c)).
Section 812(c) would allow Federal Home Loan Banks to invest surplus funds in mortgages or securities sold by the Federal Home Loan Mortgage Corporation. Under present law, surplus funds may be invested in obligations of the United States, and instruments sold or issued by Fannie Mae and Ginnie Mae.

D. Investment of Federal Home Loan Bank Reserves (§ 812(d)).
Section 812(d) would allow Federal Home Loan Banks to invest reserves in mortgages or securities sold by the Corporation. Under present law, Federal Home Loan Banks may invest their reserves in obligations of the United States and instruments sold or issued by Fannie Mae or Ginnie Mae.

E. Investment of Federal Savings and Loan Associations (§ 812(e)).
Section 812(e) would permit Federal savings and loan associations to invest in mortgages or securities sold by FHLMC.

F. Investment by Federal Credit Unions (§ 812(f)).
Section 812(f) would allow Federal Credit Unions to invest in mortgages or securities sold by FHLMC.

The Board favors the above described amendments which would be made by subsections (b) through (f) of section 812 because they would operate to increase the depth and liquidity of, and the level of investment in, mortgages and securities sold by FHLMC.

IV. PROVISIONS SOLELY IN H.R. 15381 CONCERNING AUTHORITY OF FINANCIAL INSTITUTIONS
A. Construction loans (§ 601).
Section 601 would provide additional authorization for Federal savings and loan associations to make construction loans. Under existing law, Federal associations may lend their funds only on the security of their savings accounts or on the security of first liens on real property, with minor exceptions as for education loans and unsecured home improvement loans. Often, commercial banks are able to treat interim construction financing as an unsecured transaction, if the credit involved warrants such treatment.
Section 601 would allow Federal savings and loan associations to lend up to 5% of their assets, or the sum of their surplus, undivided profits and reserves, whichever is greater, for such interim construction financing, without a security interest in the property with respect to which the loan was made. These loans would be limited to an area within 100 miles of the association's home office or within the State in which the home office is located.

The Board supports this provision as an additional needed source of financing for home builders, and an added competitive tool for Federal savings and loan associations.

B. Single-Family Dwelling Limitation (§ 602).

Section 602 would improve the availability of mortgage funds by increasing the present $45,000 limitation on the amount of the loan which a Federal institution may make on a single-family residence to $55,000. In the Board's view, this is necessary, if home lending is to take account of present day inflation.

Real estate values have traditionally been on the ascent. Recent studies show that the cost of both existing and new housing has risen substantially over the last ten years. Section 602 would conform the lending capacity of Federal associations to the present housing market.

In addition, section 602 would amend section 5(c) of the Home Owners' Loan Act to require an association to allocate only the excess over the $55,000 limit to the twenty percentum of assets exception. Under present law, the whole amount of a nonconforming loan on a single-family dwelling, including the amount under the $45,000 limit, must be counted in the 20% of asset category. It should be emphasized that this portion of section 602 would not change the requirement that a loan made outside one hundred miles of a Federal association's home office or outside the State where the home office is located in excess of the dollar limitation, be allocated to the 20% of asset category in the full amount of the loan.

The relief granted by this provision is necessary because of the restrictive nature of section 5(c) which limits the type of residential loan which may be made by a Federal savings and loan association.

Some have wondered, and properly so, if this is likely to reduce the availability of credit on lower priced properties. The Board does not believe that there is a significant chance of that happening. Moreover, we must be concerned about the ability of the savings and loan associations to earn enough to pay competitive rates for funds so as to remain viable housing lenders. This liberalization would result in more investment
flexibility and thus greater potential earnings. In our judgment, these earnings are necessary and any tradeoffs that may be involved are reasonable.

The Board supports both the increase to $55,000 on single-family dwellings and the provision regarding allocation of amounts in excess of $55,000 to the twenty per centum of assets category.

C. Additional Residential Loans (§ 603).

Section 603 would add a paragraph to section 5(c) of the Home Owners' Loan Act of 1933 to authorize Federal associations to make loans respecting real property, or interests therein, used primarily for residential purposes and not otherwise authorized by subsection 5(c).

The loans which could be made under this paragraph would be limited to a maximum amount equal to 10 percentum of the association's assets.

The Board supports the amendment that would be made by this section. This section, like the other liberalizing amendments, can improve the earnings and competitive capacity of savings and loan associations.

D. Property Improvement Loans (§ 604).

Section 604 would raise to $10,000 the $5,000 limitation on the maximum dollar amount of property improvement loans contained in the fourth and sixth sentences of section 5(c) of the Home Owners' Loan Act. This dollar limitation has been successively raised over the years; in 1954 from $1,500 to $2,500; in 1956 from $2,500 to $3,500; and in 1964 from $3,500 to $5,000. Changed economic circumstances have made the 1964 figure increasingly unrealistic.

In order to avoid wasteful and time-consuming piecemeal legislation, and in view of the natural limits placed on such loans by reasonable lenders and homeowners, a good case could be made for eliminating the dollar limitation entirely. It is the Board's belief, however, that a fixed $10,000 dollar figure should serve to check occasional excess and should render further amendatory legislation unnecessary for the indefinite future. The Board therefore supports this section.

E. Amendment to the Twenty Year Federal Insurance Reserve Build-up (§ 605).

Section 605 would increase the number of years in which an insured institution must build up its Federal insurance reserve (FIR) from 20 to 30 years. The stated justification for this amendment is that younger savings and loan associations faced with unprecedented inflows of savings cannot meet their FIR requirements. The Board is aware of one case in which an institution's savings inflows have been so large that
the institution may have difficulty meeting its FIR requirement. Existing statutory language provides for the Board, in its capacity as head of the FSLIC, to extend the FIR time period from 20 years to up to 30 years if it determines that such action is needed to meet mortgage needs. The Board’s implementing regulations now provide for a 25 year time period and would permit further extension either generally or in a particular case to up to 30 years. Consequently, a particular association may now petition the Board for an extension beyond the present 25 year time period on a case-by-case basis when special circumstances exist.

Thus, this amendment is unnecessary to provide for this particular case and would affect the industry as a whole in order to address a single case.

F. Real Estate Lending By National Banks (§ 611).

Section 611 of H.R. 15361 would amend section 24 of the Federal Reserve Act (12 U.S.C. 371), by substituting a completely rewritten section, setting out in some detail the scope of real estate-related loans which a national bank may make. The powers of such associations would not be greatly altered, but the range of permissible activities in this area would be made clearer and more concise. The accomplishment of these objectives appears desirable, and the Board would, therefore, not object to the enactment of section 611.

To the extent that additional lending activity is, or may be, stimulated by the revision of section 24, it will be a healthy competitive force in mortgage lending as well as beneficial to the housing sector of the economy. However, savings and loan institutions have traditionally been, and remain today, specialists in home mortgage and real estate-related lending, and they make the great majority of all housing-related loans. In the Board’s opinion, it is highly anomalous for the breadth of authority for such institutions to make such loans to be different from, and in particular, narrower than, that of national banks which are primarily specialists in industrial and commercial lending. To correct this anomaly, the Board recommends that a new section be added to the bill which would amend subsection 5(c) of the Home Owners’ Loan Act to authorize Federal savings and loan associations, subject to Board regulation, to make the same real property loans as may be made by national banks. Language to accomplish that amendment was attached to the Board’s testimony on H.R. 12421, a predecessor bill to H.R. 15361.

Loans From a State Mortgage Finance Agency (§ 820 of S. 3066)

Section 820 of S. 3066 would permit the Board to authorize a Federal savings and loan association to borrow funds from a State mortgage finance agency in a State in which the head office of such association...
is situated. Such borrowings by Federals would only be authorized to the same extent as State law permits State chartered savings and loan associations to borrow from the State mortgage finance agency. The borrowed funds would be reloaned for mortgage purposes at a rate of interest which could not exceed by 1 3/4 percent per annum the rate paid by the State mortgage finance agency on the obligations issued to obtain the funds so borrowed.

As a technical matter, the Board suggests the substitution of the term "home" office for "head" office in the new paragraph which will be added by section 820 to section 5(c) of the Home Owners' Loan Act. Home office is the term used throughout the Home Owners' Loan Act and the Board's regulations. Otherwise, the Board has no objection to Section 820.

Discrimination in Home Lending

A further comment the Board would like to make on H.R. 15361 and S. 3066 concerns the prohibition against discrimination on the basis of sex in the extension of mortgage assistance as found in section 316 of H.R. 15361 and section 610 of S. 3066. The Board supports a prohibition against such discrimination and can understand why, in the housing bill, the prohibition is limited to real estate lending, although we would support legislation that would apply to all types of credit transactions. We believe however that the amendment in section 810 (which would be to title VIII of the 1968 Civil Rights Act) is preferable to the amendment in section 316 (which would be to the National Housing Act) since the former amendment appears to apply to a broader range of activities concerned with the sale, purchase, financing or rental of housing. In the Board's view, marital status could be added to these provisions. The Board also supports the provision in section 316 which would require every person making a Federally related mortgage loan to consider, without prejudice, the combined incomes of both husband and wife.

A final comment the Board would like to make concerns sections 501-523 of H.R. 15361 and section 601 of S. 3066, the Guarantee of State Housing Obligations. With respect to these sections, the Board would defer to the views of the Department of Housing and Urban Development.
The Board appreciates this opportunity to present its views to you and we will be glad to provide any additional information you may require. We are providing a copy of this letter to all of the conferees on these bills.

The Office of Management and Budget advises that there is no objection to this report from the standpoint of the Administration's program.

Sincerely,

Thomas R. Bomar

cc: All Conferees
Ms. Naomi R. Sweeney  
Executive Office of the President  
Office of Management and Budget  
Washington, D.C. 20503  

Dear Ms. Sweeney:

This is in response to your request for the views of the Advisory Commission on Intergovernmental Relations on the Conference Report on S. 3066, the Housing and Community Development Act of 1974.

The ACIR has not examined the wide-range of housing and community development programs and activities covered in S. 3066 from the standpoint of intergovernmental relations, nor has the Commission taken a formal position on the bill. At the same time, certain provisions do fall within the scope of recommendations adopted in the course of our recently completed study of Substate Regionalism and the Federal System.

In the Commission's judgment, many of the problems stemming from jurisdictional fragmentation in both urban and rural areas can be dealt with successfully by revamping regional councils (including councils of governments and regional planning commissions) and by modernizing units of general local government. Turning to the first area, we support the strengthening of regional councils in several ways -- by designating these agencies under State law as the preferred areawide instrumentality for Federal categorical and block grants with regional planning, grant review, or districting components; by mandating local government participation; by authorizing these bodies to perform operational responsibilities and exercise control over special districts; and by taking other steps geared to the establishment of an authoritative regional decision-making process. While the Conference version of S. 3066 does recognize the importance of the areawide review process established under OMB Circular A-95, unfortunately some significant provisions of the Senate bill were not included, such as: earmarking a percentage of the annual appropriation for comprehensive planning assistance for areawide organizations; requiring Federal agencies administering programs
covered by A-95 to report to Congress on the administration of this procedure; prohibiting grants to applicants which have not made a good faith effort to implement their plans; and clarifying the composition of an areawide A-95 agency.

With respect to local governmental reorganization, for several years the Commission has argued that Federal and State aid programs should not prop up "nonviable" local units -- those, for example, that are very small, are uneconomic, and have a limited range of functional responsibilities and capabilities. We were pleased to note that the definitions section of S. 3066 reflects this concern by making only certain urban counties, townships, and towns which meet prescribed standards eligible for financial assistance. Hopefully, this will have the effect of targeting the largest proportion of aid on the jurisdictions having the greatest housing and community development needs.

In summary, we find little objectionable in S. 3066, apart from a need for further clarification of certain provisions concerning planning agencies, plan implementation, and the A-95 review process. We appreciate having the opportunity to review and comment on this bill.

Sincerely,

Wayne F. Anderson
Executive Director
August 16, 1974

Mr. Wilfred Rommel
Assistant Director for Legislative Reference
New Executive Office Building
Room 7201
17th and Pennsylvania Avenue, N.W.
Washington, D.C. 20503

Dear Mr. Rommel:

This is in reply to the request of August 13 from the Office of Management and Budget for our views on the Conference version of S. 3066, the "Housing and Community Development Act of 1974".

There are several sections in this bill which are of direct interest to our company and which we strongly support. Sec. 806 entitled "Federal National Mortgage Association Amendments" contains provisions that we have been seeking for several years and which when enacted will enable us to serve more effectively the secondary residential mortgage market.

There are other sections in the bill which are also important to us and which we also strongly support. Sections 302 and 303 will increase the maximum mortgage amounts on the FHA single- and multi-family programs respectively. Sec. 703 will increase the dollar limit on single-family dwelling loans for saving and loan conventional lending. These several sections we feel are most important because they bring the various statutory limits last modified in 1969 and 1970 more into line with today's housing prices. These present statutory limits, particularly the FHA mortgage limits, are simply unrealistic in light of today's prices and have made mortgage financing, already difficult because of high interest rates, even more difficult.

With reference to other sections of the bill we defer to the views of the various Departments and Agencies of the Federal Government, but FNMA feels that in the overall this bill is a
Mr. Wilfred Rommel

good one and we most strongly urge that it be signed into law at the earliest possible moment.

We appreciate the opportunity to provide you with our comments on this most important bill.

Sincerely,

Lester P. Condon
Executive Vice President

for

Oakley Hunter
Chairman of the Board and President
MEMORANDUM FOR WILFRED H. ROMMEL
Assistant Director for Legislative Reference
Office of Management and Budget

Attention: Mrs. Garziglia

Subject: S. 3066--Housing and Community (Urban) Development Act of 1974

The Council has no objection to this bill and strongly recommends that the President sign it into law.

CEQ is already working with HUD in the preparation of the environment regulations specified in this measure.

Gary J. Widman
General Counsel
Dear Mr. Ash:

This is in reply to the request of the Assistant Director for Legislative Reference for comments on the enrolled enactment of S. 3066, 93d Congress.

This bill, designated as the "Housing and Community Development Act of 1974," revises major provisions of housing assistance statutes administered by the Department of Housing and Urban Development. The Act also contains amendments to various laws regulating lending procedures of national banks, Federal savings and loan associations and Federal credit unions.

Only one section of the bill directly relates to the Veterans Administration Loan Guaranty program. Section 808 provides for amending both the National Housing Act and the 1968 civil rights law to prohibit discrimination based upon sex in the sale, rental or financing of housing. These amendments were discussed in my letter to you of July 9, 1974, in which I observed that inclusion of these provisions in a comprehensive housing bill would be appropriate.

Title VI of the bill provides for the establishment of mobile home construction and safety standards by the Secretary of HUD. While this provision does not directly affect VA operations, it will, as noted in my July 9 letter,
make it easier to assure veterans, who wish to take advantage of VA's Mobile Home Loan Guaranty program, of the availability of safe mobile homes. While we are disappointed that the Congress eliminated the warranty provisions, we still believe Title VI is beneficial to the interest of veterans.

We note favorably that section 507 of the bill provides for extending veterans preference for certain programs administered by the Farmers Home Administration to post-Korean veterans.

We have no objection to approval of this measure by the President. But, since the bill is primarily of interest to the Department of Housing and Urban Development, we defer to the views of the Secretary.

Sincerely,

DONALD E. JOHNSON
Administrator

Encl.
The Honorable
Roy L. Ash
Director, Office of
Management and Budget
Washington, D.C. 20503

Dear Mr. Ash:

This is in reply to the request of the Assistant Director for Legislative Reference, dated July 2, 1974, for the views of the Veterans Administration on the Senate- and House-passed versions of S. 3066, the Housing and Community (Urban) Development Act of 1974.

Both S. 3066 and H.R. 13361 seek to revise major provisions of housing assistance statutes administered by the Department of Housing and Urban Development, and by the Farmers Home Administration. The Senate bill would replace the current National Housing Act. Except as noted below, these bills would appear to have no effect upon the VA Loan Guaranty Program. Accordingly, we are restricting our comments to those several provisions which would directly affect this agency's activities.

Section 1804 of title 38, United States Code, inter alia, permits the Administrator to suspend a party from participation in the Loan Guaranty Program if said party has been suspended by HUD under section 512 of the National Housing Act. Unfortunately, HUD currently has a number of different authorities upon which they can base a suspension. On a number of occasions VA has been placed in the embarrassing position of having to continue to deal with a party after HUD has imposed a sanction against it simply because the HUD...
action was based upon a statute other than section 512.
Section 108 (page 16) of the "Revised National Housing Act" (section 101 of S. 3066) appears to consolidate HUD's authority to suspend parties. Section 104 (page 120) of S. 3066 provides that any reference to a specific section of the National Housing Act in other Federal statutes shall be continued to refer to the comparable section of the Revised National Housing Act. This new provision may eliminate the above problem and permit VA to suspend any party disciplined under the new section 103. To eliminate any question about this, however, we recommend the following new subsection be added to section 108 of the revised act:

"(a) Subsections (b) and (d) of section 1804 of title 38, United States Code, are hereby amended by deleting all that follows after the language 'benefits of participation under' in the last sentence of each such subsection, and inserting in lieu thereof 'any law administered by the Secretary of Housing and Urban Development, pursuant to a determination by said Secretary.'"

Both bills contain provisions which would prohibit discrimination in housing based upon sex. S. 3066, section 810, would amend the act of April 11, 1968 (42 U.S.C. 3604, et seq) by adding the word "sex" to the list of those characteristics upon which it is unlawful to discriminate in the sale, rental, or financing of housing. H. R. 15361, section 316, would add a new section to the National Housing Act prohibiting the denial of a federally related mortgage loan to any person on account of sex, and would further require all persons making such loans to consider, without prejudice, the combined incomes of both a husband and wife in determining whether the couple, or either member thereof, qualifies for federal mortgage assistance. "Federally related mortgage loan" is defined by the bill as a loan secured by one to four family residential real property which is either:
(i) Made, insured, guaranteed, etc., by a federal agency; or

(ii) Made by a lender which is regulated by a federal agency, or whose deposits are insured by a federal agency; or

(iii) Eligible for purchase by FHA, GNMA or Fannie; or

(iv) Made by any creditor which makes or invests in residential real estate loans aggregating more than one million dollars per year.

There currently is no Federal law requiring equal treatment of men and women in federal housing programs. VA policy, however, requires that benefits be available to all eligible veterans without regard to sex. We have also issued administrative directives that VA will consider the income of both spouses in reviewing the credit worthiness of applicants for guaranteed loans. Although these two sections would unquestionably apply to the VA Loan Guaranty Program, in light of our current policies they would have no direct additional impact upon the administration of this program.

We consider the inclusion of these provisions in a comprehensive housing bill appropriate. Other forms of discrimination (such as race, religion and national origin) are currently specifically outlawed by statute. Failure to add "sex" to this list could raise the question of whether this omission was intentional. Should VA at some future time wish to take administrative action against a program participant based upon sexual discrimination as "unfair or unduly prejudicial to veteran purchasers" or "engaged in practices otherwise prejudicial to the interest of veterans" our position would be strengthened if these prohibitions were enacted.
Chapter VI of S. 3066 provides for the establishment of mobile home construction and safety standards by the Secretary of HUD. All mobile homes manufactured after any such standards become effective must conform to said standards if any use is made of transportation or communication affecting interstate or foreign commerce in the manufacturing, offering for sale, lease, etc., delivering or importing of said mobile home. Section 617 of this chapter also requires manufacturers, dealers, and parties setting up such homes to give purchasers a one-year warranty that all work conforms to applicable Federal standards.

VA Regulation 4207(D) currently requires that all mobile homes securing loans guaranteed under section 1819 of title 38, United States Code, conform to Standard Number A 119.1 as approved by the American National Standards Institute. Compliance with these standards by manufacturers is voluntary, unless required by state law. Not all states have mobile home codes, and existing codes are not uniform. The establishment of a uniform national set of standards for mobile homes would make it easier to assure veterans of the availability of suitable units, conforming to VA requirements. The warranties required would further protect veterans. Although VA currently requires a warranty from a manufacturer, this bill extends this protection by requiring such warranties from the dealer and the party setting up the unit.

We urge that the definition of "Mobile Home" (section 603(6)) be changed by deleting "eight body feet or more in width and is thirty-two body feet or more in length" and inserting in its place, "in excess of eight body feet in width and is a minimum of 400 square feet in area." This would eliminate travel trailers, but would apply to double-wide units which may be less than 32 feet long.

Section 623, which provides penalties for failure to report violation of standards, is, in our opinion, too
broad. This section does not state who has a duty to report such violations, under what circumstances reports are to be made, or to whom reports are to be made. These requirements should be clearly stated in the statute. As currently worded, this section could apply to the purchaser of a unit. We note Chapter VI includes another penalty provision (section 611), and we suggest any violation not covered there, but intended to be covered by section 623, be added to section 611.

We recommend that a new section be added to Chapter VI providing that the Secretary shall provide a uniform invoicing procedures for manufacturers to show:

(i) Base price including furnishings (from manufacturer's published price list) furnished to the Secretary.

(ii) Freight to dealer's lot.

(iii) Price of all additions and deletions including decorator kits (from manufacturer's published price lists).

(iv) Any rebates (other than volume incentive rebates - as furnished the Secretary by the manufacturer).

This invoice should also show exactly what items are included in the decorator kit. The addition of this requirement would standardize billing and eliminate the padding of freight by dealers and would positively show all lenders that the consumer is receiving what he is paying for. False or inflated discounts to the dealer for single unit purchases would be discontinued. This invoice could be combined with a certification that the unit was manufactured in compliance with the law.
We note that section 605 provides for the establishment of a 24-member mobile home advisory council appointed by the Secretary of HUD. Eight of these members are to be selected from government agencies. Also, section 614(c)(4) provides for the detailing of employees from other Federal agencies to HUD to help that agency carry out Chapter VI. Since VA has a mobile home program, we consider it possible that demands will be made upon the time of certain VA officials or employees under these two sections. However, we believe the interests of veterans would be served by VA assisting in the formulation of these uniform mobile home standards and policies. And, we have no objection to these two provisions.

Finally, we note favorably that both bills (section 404 of H. R. 15361 and section 503 of S. 3066) provide for extending veterans preference for certain programs administered by the Farmers Home Administration to post-Korean veterans.

Since all other sections of these bills would appear to have no direct impact on the Veterans Administration Loan Guaranty Program, we defer to the views and recommendations of the agencies whose programs may be affected by those other sections.

Sincerely,

DONALD E. JOHNSON
Administrator
Dear Mr. Ash:

This responds to your request for our views on the enrolled bill S. 3066, cited as the "Housing and Community Development Act of 1974."

We recommend that the bill be approved by the President.

We have the following comments and observations on specific provisions of S. 3066 which are of particular interest to this Department:

Title I - Community Development

This Title provides for a new Community Development Program effective January 1, 1975 under which the Department of Housing and Urban Development will make 100% grants to States and "units of general local government" (including Indian tribes) for a number of purposes similar to purposes previously covered by a number of separate HUD programs (some of which tribes have participated in) which are terminating. Eligible activities (specified in section 105) for which grants may be made include (among others) -

"(1) the acquisition of real property (including air rights, water rights, and other interests therein) which is (A) blighted, deteriorated, deteriorating, underdeveloped, or inappropriately developed from the standpoint of sound community development and growth; (B) appropriate for rehabilitation or conservation activities; appropriate for the preservation or restoration of historic sites, * * * conservation of open spaces, natural resources, and scenic areas, the provision of recreational opportunities, * * *; or (E) to be used for other public purposes;

"(2) the acquisition, construction, reconstruction or installation of public works, facilities * * * including neighborhood facilities, senior centers, historic properties, utilities, streets, street lights, water and sewer facilities, * * * parks, playgrounds, and recreation facilities, flood and drainage facilities
parking facilities, solid waste disposal facilities, and fire-protection services and facilities;

"(8) provision of public services not otherwise available;

"(9) payment of the non-Federal share required in connection with a Federal grant-in-aid program undertaken as part of the Community Development Program;

(12) activities necessary (A) to develop a comprehensive community development plan, and (B) to develop a policy-planning-management capacity.

The funds appropriated for grants are allocated geographically by a set of formulas (involving Population, Poverty, and Housing conditions) which make it impossible for us to predict how much benefit may flow to Indian governments. Although it is clear that the authorized purposes include several for which Indian governments could benefit by receipt of adequate grants, it probably would have been preferable to exclude tribes from the formula and authorize them to participate from a discretionary fund such as that authorized in section 107.

Title II - Assisted Housing

Section 201(a) includes a complete rewrite and reenactment of the United States Housing Act of 1937 which has been the most significant source of financing for the development of housing for Indian people.

Among the changes which will be of benefit in Indian areas is the elimination of the requirement (and therefore the related red tape) that there be a gap of at least 20 percent between family income levels admitted into a project assisted under the Act and the income level required to obtain private housing. In addition, there is eliminated the requirement of an income limit for continued occupancy.

Changes are made in the definition of "income", including the exclusion foster child care payments which should aid in placing Indian foster children in Indian homes.
Regarding rent setting requirements, the bill (1) establishes a minimum rent for public housing occupants of the higher of 5 percent of gross income or that portion of a welfare payment specified to meet housing costs; and (2) provides that the aggregate of the rents charged by a local housing authority receiving operating subsidies under the Act must equal at least 20 percent of the aggregate income of tenants. Although this provision can be expected to require some increases in rents charged by Indian housing authorities, section 202 of S. 3066 provides for a delay in increases and limits them to not more than $5 per month at six month intervals. Moreover, many Indian projects may be exempted under section 203 of S. 3066 which authorizes the use of special schedules of required payments approved by HUD for participants in mutual help housing projects who contribute labor, land, or materials to the development of such projects.

Probably the most important provision of S. 3066 is in section 5(c) of the revised U.S. Housing Act of 1937 which includes HUD's contracting authorizations for public housing. Included in the subsection is a requirement that HUD "enter into contracts for annual contributions on or after July 1, 1974, aggregating at least $15,000,000 per annum, which amount shall be increased by not less than $15,000,000 per annum on July 1, 1975, to assist in financing the development or acquisition cost of low-income housing for Indians". This requirement is the first statutory set aside of HUD housing assistance. Section 5(c) also precludes any of the $30 million in Indian contract authority being utilized for leasing projects which many Indian leaders feared HUD might try to force Indian tribes to undertake by stopping the ongoing public housing programs under which Indian housing authorities have been financing and developing housing. This leasing program is untried in Indian areas and has a number of apparent serious drawbacks which could prevent or at least inhibit and delay the provision of housing under it in Indian areas.

Section 5(c) also provides that annual contributions from the $30 million authorization shall be for the full operating deficit of an Indian housing authority thereby assuring the solvency of their new projects. Annual contributions under section 5 for non-Indian projects are limited to debt service.

A new section 5(h) would allow the sale of a public housing project to its occupants on such terms and conditions as the local housing authority may determine without altering HUD's obligation to continue making annual contribution payments to aid in meeting the project's debt service requirements. This could aid Indian families to obtain full homeownership on terms they can afford.
The revised U.S. Housing Act gives HUD the option of having the local housing authorities borrow funds on the basis of the interest being either taxable or tax exempt. In the past, such borrowings have been tax exempt. Should HUD elect to require Indian housing authorities to borrow on the basis of the interest being taxable, the interest rates will be higher and the $30 million contracting authorization will produce significantly fewer than the 15,000 housing units intended.

Title III - Mortgage Credit Assistance
This title provides increases in various HUD cost or mortgage limits consistent with current higher housing costs.

Title IV - Comprehensive Planning
This title revises HUD's "Section 701" Comprehensive Planning Program which has been utilized by a number of Indian tribes and the revision makes tribes eligible for the annual grants for two thirds of the costs involved. Eligible activities include those necessary to "develop and carry out a comprehensive plan as part of an ongoing planning process", develop management capability to implement such plan or parts thereof and develop a "policy-planning-evaluation capacity ***." The Comprehensive Plan is to include as a minimum a housing element and a land use element.

Title V - Rural Housing
An amendment in section 503 of S. 3066 to section 501(b)(2) of the Housing Act of 1949 will remove a legal obstacle which prevented some of the Farmers Home Administration (FMHA) housing programs from operating on Indian trust lands. We have long sought this amendment which would make all FMHA's housing programs legally available where leaseholds are involved.

Section 515 would authorize a new FMHA program to provide financial assistance "to pay part or all of the cost of developing, conducting, administering or coordinating effective and comprehensive programs of technical and supervisory assistance which will aid needy low-income individuals and families in benefiting from Federal, State, and local housing programs in rural areas". Such a program could be of assistance in producing housing in Indian Areas.

Also, we note with approval the amendment to section 501(a)(1) of the Housing Act of 1949 to include the "territories and possessions of the United States and the Trust Territory of the Pacific Islands".
In view of our four year old request for an Assistant Secretary for Indian Affairs, we note with interest the section 818 provision increasing the number of level IV Assistant Secretaries in HUD from six to eight.

Sincerely yours,

Honorable Roy L. Ash
Director
Office of Management and Budget
Washington, D. C.

Assistant Secretary of the Interior
Honorable Roy L. Ash  
Director  
Office of Management and Budget  
Washington, D.C. 20503

Dear Mr. Ash:

This is in response to your request for the Department of Transportation's views on S. 3066, an enrolled bill

"To consolidate, simplify, and improve laws relative to housing and housing assistance, to provide Federal assistance in support of community development activities, and for other purposes."

Section 822 of this measure is the only section that relates to the activities of the Department. Section 822 would amend Section 3 of the Urban Mass Transportation Act of 1964, 49 U.S.C. §1602, and Section 164(a) of the Federal-Aid Highway Act of 1973, 87 Stat. 250, to provide protections for private enterprise in the charter bus industry while allowing grantees of Federal mass transportation funds for the purchase of buses to continue to provide charter service to the public.

Under the terms of Section 822, a State or local public body, or any operator having the use of project equipment, must agree not to operate charter bus service, with project equipment or any other equipment, outside of the urban area within which it provides regularly scheduled mass transportation service except in accord with the terms of an agreement between the grantee and the Secretary. The agreement shall incorporate fair and equitable arrangements appropriate in the judgment of the Secretary to ensure that the Federal financial
assistance will not enable the publicly-subsidized grantees and operators to foreclose private operators from the intercity charter bus industry where the private operators are willing and able to provide service. In addition to all other remedies, the Secretary shall have the authority to bar a grantee or operator from the receipt of further Federal assistance for mass transportation facilities and equipment where he finds that there has been a continuing pattern of violations of the agreement. The Secretary would be required to investigate any complaints of alleged violations and take remedial action under the agreement where he finds that a violation has occurred. He would be directed to revise any agreements made under Section 164(a) of the Federal-Aid Highway Act of 1973 to conform to the new requirements of this section.

The Department strongly supports enactment of Section 822. It was worked out in careful and close coordination between public and private operators and the Department.

Section 164(a) of the Federal-Aid Highway Act of 1973 presently forbids the Secretary to extend Federal financial assistance for the purchase of buses under either the Urban Mass Transportation Act of 1964 or the Federal-Aid Highway Act of 1973 unless the applicant agrees not to engage in charter bus operations in competition with private charter bus operators outside of the area within which the applicant provides regularly scheduled mass transportation service. The penalty for even a single violation of the agreement is debarment from the receipt of future Federal financial assistance under either statute. Section 164(a) has impeded grants of Federal funds for bus purchases under the UMTA program and has greatly hindered the consideration of Federal-aid highway funds by State and local officials as a funding source for bus transit needs. Thus, Section 164(a) severely undercuts the work of the Department and the Congress to provide public transit authorities with substantial UMTA program funds and undermines one of the central achievements of the 1973 Federal-Aid Highway Act, which was providing the flexibility to use highway funds for transit.

The Department understands the concern of private charter bus operators that they not be driven from the field by mass transit operators whose capital costs may be heavily
subsidized through Federal assistance. The central difficulty with Section 164(a) is that it overshoots this objective, and denies to the public charter service that publicly-subsidized operators ought legitimately be able to provide. Section 822, however, would enable the Secretary to provide protections to private charter bus operators through the terms and conditions of agreements with grantees and other operators benefiting from Federal financial assistance for the purchase of buses.

Late last year the Congress enacted another similar proposal designed to modify the harsh effect of Section 164(a). Unfortunately the proposal limited its application to bus purchases under the Urban Mass Transportation Act, leaving the harsh effects of Section 164(a) intact with regard to bus purchases under the Federal-Aid Highway Act of 1973. The proposal therefore created a serious disparity which was unacceptable to the Administration. The President pocket vetoed this proposal. Section 822 of S. 3066, by contrast, establishes parity between bus purchases under both the Urban Mass Transportation Act of 1964 and the Federal-Aid Highway Act of 1973.

We note that Section 105(a)(6) of the enrolled bill would authorize payments to housing owners for losses of rental income incurred in holding housing units vacant for eventual occupancy by persons to be displaced by community development programs. Since this provision would be applicable only to certain HUD programs, it would depart somewhat from the intent of the Uniform Relocation Act to establish a single uniform system of providing relocation assistance on all Federal or federally assisted projects.

The Department recommends that the President sign this measure.

Sincerely,

Rodney E. Lyster
General Counsel
Reference is made to your request for the views of the Department of Defense with respect to the enrolled enactment of S. 3066, 93d Congress, the "Housing and Community Development Act of 1974."

This Act covers a wide variety of matters relative to housing and Federal participation in support of community development activities. Virtually none of the provisions of this Act have any direct impact on the programs of the Department of Defense. Accordingly, this Department defers to the views of the Department of Housing and Urban Development and other interested Federal Agencies as to the merits of all provisions of the Act except Section 318.

Section 318 adds a new subsection (c) to Section 238 of the National Housing Act permitting the Secretary of Housing and Urban Development to use the Special Risk Insurance Fund to insure certain mortgages in federally-impacted areas.

The principal objective of the Department of Defense Family Housing Program is to assure that married members of the Armed Forces of the United States have suitable housing in which to shelter their families; military families number above 1,100,000. In efforts to achieve this objective DoD policy is to rely on the local housing market in communities near military installations as the primary source of family housing for military personnel. Only where the local housing market is limited or non-existent or where housing is available but the location, quality or cost creates an undue hazard or hardship for military families is it necessary to seek Congressional authorization and funding to construct family housing on the military installation. In order to contribute to the orderly development of federally-impacted communities, the DoD endeavors to maintain a balance between on-base and off-base housing resources; overall, some 31.8 percent of military families are adequately housed on base.
However, this balance is difficult to maintain at military installations in non-metropolitan areas where HUD has determined the area to be an uninsurable risk. In such cases, DoD is faced with upsetting the balance by heavily constructing on base or, alternatively, relaxing the objective by continuing to permit military families to remain in unsuitable community housing or to remain separated. Efforts to attain an all volunteer force increase the need to assure adequate housing for military families which currently leaves no alternative but sizable housing construction programs on base. To maintain a proper balance between on-base and off-base housing in such areas, and at the same time move closer to the program objective, the community should be able to provide a major portion of the housing required. Unfortunately, the community is too often precluded from meeting this housing need due to reluctance of HUD to insure in these areas. The availability of Section 318's authority could greatly increase the supply of housing for DoD military and civilian personnel at installations in non-metropolitan areas, and help to further assist in the orderly development of federally-impacted communities.

The DoD expects to limit the instances whereby the Secretary would be asked to utilize this authority. Additionally, the DoD would be willing to certify, that for those installations for which the authority is invoked, there is no intention insofar as can reasonably be foreseen to curtail substantially the personnel assigned or to be assigned.

For the reasons stated above, the Department of Defense recommends that the President approve S. 3066.

Sincerely,

Martin R. Hoffmann
August 19, 1974

Dear Mr. Rommel:

This is in response to your request for the views of the Council of Economic Advisers on S. 3066, the Housing and Community Development Act of 1974 as recently reported out of Conference.

Because the present bill provides for substantially lower contract authority than the original Senate version and because it provides for the termination of contract authority under the Section 235 homeownership program within a year, we have decided to swallow our objections to some other provisions of the bill.

Sincerely,

Herbert Stein

Mr. Wilfred H. Rommel
Assistant Director for Legislative Reference
Office of Management and Budget
Washington, D. C.  20503
Honorable Roy L. Ash  
Director, Office of Management and Budget  
Washington, D. C. 20503  

Attention: Assistant Director for Legislative Reference  

Dear Mr. Ash:  

This is in reply to your request for the views of this Department concerning S. 3066, an enrolled enactment, to be cited as the "Housing and Community Development Act of 1974."

S. 3066 is an omnibus proposal covering a broad range of Federal housing and community development programs. This Department would have no objection to approval by the President of S. 3066.

We do have the following suggestions concerning implementation of certain provisions of S. 3066.

Section 605 of Title VI would establish a National Mobile Home Advisory Council of which eight members would be selected from government agencies. This Department's National Bureau of Standards' Institute for Applied Technology/Center for Building Technology, has an active role in mobile home research and in establishing mobile home standards through organizations such as the National Conference of States on Building Codes and Standards (NCSBCS). Accordingly, it is strongly recommended that the Department of Commerce be given an active role in the National Mobile Home Advisory Council through representation on this Council. In addition, we have previously recommended that an interagency group be established to study and coordinate Federal efforts in this area. Such a group should still be established to effectively implement this section.

Section 809 of Title VIII establishes a National Institute of Building Sciences (NIBS). We also recommend that the Department of Commerce be represented on the NIBS Board of Directors. The
Department now serves on the Board of Directors and technical committees of such building standard organizations as the National Fire Protection Association, the American Society for Testing and Materials, the American National Standards Institute, and others. The Department also presently acts as the Secretariat of the National Conference of States on Building Codes and Standards which is representative of the Governors of all States and territories. Representation of the Department of Commerce on the NBS Board of Directors will ensure adequate coordination between State building codes and NBS-developed performance criteria for such agencies as the Department of Housing and Urban Development, the Occupational Safety and Health Administration, the Consumer Product Safety Commission, the Law Enforcement Assistance Administration, and other agencies. Such representation will also assist in meeting recommendations made by many study commissions which have called for the simplification and reduction of the multiplicity of regulations, codes, and standards affecting any single building project.

We are unable at this time to advise as to what effect, if any, enactment of S. 3066 will have on the budgetary requirement of this Department. We would expect, however, that costs incurred for activities performed at the request of other agencies would be on a reimbursable basis.

Sincerely,

Henry B. Turner
Assistant Secretary for Administration
Honorable Roy L. Ash
Director,
Office of Management and Budget
Washington, D. C. 20503

Dear Mr. Ash:

In compliance with your request, I have examined a facsimile of the enrolled bill S.3066, "to consolidate, simplify, and improve laws relative to housing and housing assistance, to provide federal assistance in support of community development activities, and for other purposes."

Previously, by our memorandum to you of July 10, 1974, we provided you the Department's comments and suggestions concerning various aspects of the Senate version of S.3066. As indicated there, most of the provisions of the bill are primarily of the concern of other Departments and agencies of the Federal Government, and we defer to them as to the merits of those provisions. The following comments are provided from the point of view of the bill's collateral effect upon activities of the Department of Justice.

In considering the provisions concerning grants to states and localities to help finance community development programs, we note that Section 105(c) provides that the Secretary of the Department of Housing and Urban Development "shall approve an application" unless (1) the Secretary determines that the applicant's descriptions of its needs and objectives is "plainly inconsistent" with the "significant facts and data pertaining to such needs and objectives" that are "generally available"; or (2) the Secretary determines that the activities suggested in the application are "plainly inappropriate" to meeting the needs and objectives, apparently to be determined solely "on the basis of the application"; or (3) the Secretary determines that the application "does not comply" with the titles requirements or "other applicable law",
or "ineligible" activities are proposed. Furthermore, the same Section goes on to provide in Subsection (f) that it "shall be deemed approved within 75 days after receipt unless the Secretary informs the applicant of specific reasons for disapproval."

The above quoted provisions would seem on their face to give a grant applicant a positive right to receive grant funds unless the Secretary can within 75 days present "specific" reasons sufficient to meet the standards of disapproval set forth in Subsection (c). The standards described above are of such a favorable nature to the applicant that defending the Secretary against suits brought by disapproved applicants would be made difficult. Not only is the burden of proof, which normally would be on the applicant, shifted to the Government in cases arising under Subsections (c)(1) and (2), but also the Secretary's reasons for disapproval must be "plainly" demonstrated. Because of the short time period it is hard to believe that the Secretary would have time to investigate independently the facts and circumstances of a community's needs and objectives and therefore would have to accept at face value the representations in the application. In the case of a lawsuit, development of rebutting facts after denial would be circumscribed since Section (f) requires the reasons for disapproval to be spelled out within the 75 day time period. Further, it seems open to question whether the Government could defend a lawsuit brought by a rejected applicant on grounds other than those spelled out in the letter of rejection. Accordingly, we see the Government's burden in defending such lawsuits as being heavy in many cases.

Section 111 of the enrolled bill provides for judicial review in the Court of Appeals in cases involving non-compliance of a recipient of assistance. Clearly, this provision would not be applicable to a lawsuit involving a rejected applicant. It is assumed, therefore, that the provisions of the Administrative Procedure Act would govern any such challenge. It seems to us that the bill's failure to consider problems of judicial proceedings involving rejected applications is a defect; however, it seems doubtful that this defect and the litigative problems that will be presented to the Department in litigation over this aspect are of sufficient magnitude to warrant a recommendation for veto.
Section 111 of the Act alluded to above clearly affects the Department in that it authorizes the Secretary to refer cases of non-compliance by recipients to the Department for prosecution. Subsection (a) provides that the Secretary can terminate or reduce payments to a recipient not substantially complying with provisions of the Act, if the recipient is given reasonable notice and opportunity for hearing. Subsection (b) authorizes the Secretary to refer violations to the Attorney General for prosecution. Although Subsection (b) provides that referral to the Department can be "in lieu of" action under Subsection (a) it seems open to question whether termination could be sought in a lawsuit without the pretermination notice and hearing before the Secretary.

Subsection (c) of Section 111 gives a recipient receiving notice of termination the right to sue in a U.S. Appeals Court within 60 days after receipt of such notice. Whether even this appeal right is exclusive, precluding the recipient from pressing a mandamus action pursuant to 28 U.S.C. 1361 for instance, is not made express. Subsection (c)(4) lends support to the argument that the Court of Appeals review is not exclusive since it provides that the jurisdiction of the Court of Appeals shall be exclusive "upon the filing of the record with the Court." This provision seems to imply that other courts might have jurisdiction until the record is filed.

In assessing generally this provision, once again we must conclude that the language seems to offer the possibility of litigation problems for the Department of Justice in its handling of these kinds of cases.

Title VI of the bill provides for mobile home construction and safety standards. Pursuant to this title the Secretary is given authority to issue orders establishing mobile home construction and safety standards. Section 606 gives any person who "may be" adversely affected by an order the right to petition a U.S. Court of Appeals for judicial review "in case of actual controversy as to the validity of any order." Such a review must be taken within the 60th day after the issuance of an order. The unusual description of person entitled to
judicial review is such that it may run afoul of the constitutional requirement of Article III of the Constitution requiring an actual case or controversy. Subsection (6) provides that the remedies provided in this Subsection are additional to and not a substitution for other remedies provided in law. In general, the scope of judicial review afforded seems unusually broad.

Subsection 610 of the Act makes unlawful various actions, including the sale, lease and importation of mobile homes, that are in violation of the construction and safety standards. Section 612 confers jurisdiction upon the District Court to entertain petitions by the Department of Justice seeking to restrain violations of the Act's requirements relating to the mobile home safety standards. A notable feature is found in subparagraph (d) of Section 612 wherein it is provided that the District Court's subpoena power "may run into any other district." Section 614 provides yet another responsibility for the Department of Justice in subparagraph (d). There the Department may be called upon to seek judicial enforcement of administrative subpoenas issued pursuant to the investigative powers conferred upon the Secretary by Section 614.

In conclusion, although we have reservations about some parts of the Act as they affect the Department, they are not correctable at this point, and the Department does not recommend that executive approval be withheld. As to the remainder of the Act, the Department of Justice, of course, defers to the Department of Housing and Urban Development and the Department of Transportation.

Sincerely,

W. Vincent Rakestraw
Assistant Attorney General
Honorable Roy L. Ash  
Director, Office of Management and Budget  
Washington, D.C. 20503

Dear Mr. Ash:

This is in response to Mr. Rommel's request of August 15, 1974, for a report on S. 3066, an enrolled bill "To establish a program of community development block grants, to amend and extend laws relating to housing and urban development, and for other purposes."

The enrolled bill affects the programs of this Department only indirectly. For example, section 209 of the bill requires the Secretary of Housing and Urban Development to consult with the Secretary of Health, Education, and Welfare to insure that special projects for the elderly or the handicapped authorized under the United States Housing Act of 1937 shall meet acceptable standards of design and shall provide quality services and management consistent with the needs of the occupants. Sections 209 and 210 also require that certain Federally assisted housing and related facilities for elderly or handicapped persons will be in support of, and supported by, applicable State and local plans, including plans approved by the Secretary of Health, Education, and Welfare pursuant to section 134 of the Mental Retardation and Community Mental Health Center Construction Act of 1963 or title III of the Older American Act of 1965.

Another provision of the bill which relates to activities of this Department is section 312 which amends the National Housing Act to authorize mortgage insurance for medical practice facilities and to extend the program of mortgage insurance for group practice facilities to cover the construction of facilities for the practice of osteopathy.
Honorable Roy L. Ash

With respect to the above described provisions of the bill affecting this Department, we have no objection. We defer to the Department of Housing and Urban Development as to the advisability of the enactment of the enrolled bill.

Sincerely,

[Signature]

Acting Secretary
Honorable Roy L. Ash  
Director, Office of Management and Budget  
Washington, D. C.

Dear Mr. Ash:

This will reply to your request for the Department's comments on enrolled bill S. 3066, "Housing and Community Development Act of 1974." The purpose of the Act is to consolidate, simplify, and improve laws relative to housing and housing assistance, to provide Federal assistance in support of community development activities, and for other purposes.

We are enclosing a section-by-section summary of Title V of the bill which is the portion relating to the rural housing program of this Department.

Considering only Title V of the bill, although it contains some provisions which we do not favor, on the whole it makes some needed changes and therefore we recommend that the President approve the bill, as far as Title V is concerned. However, we are concerned that increased outlays and personnel will be required to carry out the new provisions, such as those relating to the change in the definition of rural areas, rental assistance, and mobile homes. These concerns are further elaborated in the enclosed summary.

Sincerely,

[Signature]

Phil Campbell  
Under Secretary

Enclosure
Section 501: This section expands the authorized areas to be served to "the territories and possessions of the United States, and the Trust Territory of the Pacific Islands." Housing assistance is presently authorized, other than in the 50 states, only in Puerto Rico and the Virgin Islands.

We do not favor extending Title V housing assistance to Guam and all other territories and possessions. HUD extends its services to Guam and has an office there. The Department would experience a serious administrative problem in providing services in all these locations.

Section 502: This section liberalizes the authority to use loan funds to refinance debts that are at least 5 years old rather than only debts incurred prior to November 3, 1966. We do not recommend expanding the authority to use rural housing funds to refinance debts. We believe this could lead to abuse by lenders as a "bail out" and think that rural housing funds can be used more effectively to increase the quantity and quality of housing rather than to replace other creditors.

Section 503: We have no objection to extending loans to leasehold owners under all housing programs; however, administratively we require that rural rental housing and labor housing projects be located in or as part of established rural communities where service facilities are readily available. The amendment would, therefore, have limited application.

Section 504: This section increases the maximum assistance authorized under section 504 from $3,500 to $5,000 and specifies that loans of less than $2,500 need be evidenced only by a Promissory Note. It also establishes a maximum of 20 years as the repayment period for section 504 loans.

We have no objection to this amendment.

Section 505: We have no objection to this amendment which provides authority to establish escrow accounts for payments of taxes, insurance, and other expenses; requires that a borrower be notified in writing when his loan payments are delinquent; and makes various technical amendments.

Section 506: We object to this amendment because it imposes a new restriction on funding rural housing research outside USDA and the Land Grant College system. Such research could not be contracted to other
institutions unless the Secretary determined that it could not "feasibly" be conducted by USDA or Land Grant Colleges. This restriction would unnecessarily reduce flexibility in research programming. Also, we believe the sentence referring to "Section 506(e)" should refer to all of "Section 506" since there is no Section 506(e).

Section 507: We have no objections to this section which expands the periods for which veterans preference may be granted.

Section 508: We have no objections to this section which affects the use of the county committee; however, we believe the amendment is unnecessary since the Department already has the legal authority to delete the requirement for county committee certification in the housing program.

Section 509: We have no objections to the parts of this section which outline the limits of assistance authorization and expiration for Sections 504, 506, 515(b) and 517(a) research and study programs. We do not, however, recommend extending the Section 516 authority.

Section 510: We have no objection to the provisions of this section which remove the maximum loan limitation and make a needed editorial change, but are opposed to the provision to include up to 2 percent initial operating capital in the loan. Experience indicates that a profit corporation or an individual eligible for a Section 515 rural rental housing loan should have sufficient financial resources to provide the initial operating capital of 2 percent. We have had a few protests from individuals and profit corporations but most of the criticism has been from nonprofit corporations who feel that the 2 percent operating capital requirement imposes a financial burden. These nonprofit corporations have been able to raise the required 2 percent operating capital through member subscriptions or assessments in practically all instances. Requiring all applicants to provide the initial 2 percent operating capital is an added incentive for their continued support of the project.

Section 511: Loans are presently authorized in rural areas, which include the open country and places with populations of up to 10,000 which are not part of or closely associated with an urban area if they are rural in character. This section would authorize the Farmers Home Administration to provide services in places with populations of up to 20,000 which are not within a standard metropolitan statistical area provided the Secretary of Agriculture and the Secretary of Housing and Urban Development determine that a serious lack of mortgage credit exists. Services to these areas can be provided by both HUD and the Veterans Administration. With additional staff, we could operate in places of up to 20,000
population without conflict between HUD and the Farmers Home Administration. We believe that additional personnel would be needed to adequately serve the approximately 500 places with populations of between 10,000 and 20,000 outside of standard metropolitan statistical areas. The Act would seem to imply that the agency should provide service in all eligible areas. Assuming there is no change in program funding levels, the personnel needs would increase due to receiving additional applications requiring staff time. This personnel increase would be particularly significant with implementation of a rent supplement program. Such an increase in additional programs alone would likely result in a need for at least an additional supervisor and clerical assistant in each of these 500 communities, with further revision being required under full implementation of a rent supplement program.

Section 512: We are in favor of the authority to advance funds to organizations receiving technical assistance grants to enable them to establish contingency land revolving accounts. Section 512(b) would extend the expiration date of the authority to July 1, 1977, and also raise the appropriation authority. We believe Section 512(a) is not necessary since Government regulations already protect the grantees' rights in the event of termination of the grant.

Section 513: We are in favor of this section because it would permit more flexibility in the sale of lots developed with a Section 524 site development loan.

Section 514: This section would authorize assistance payments to owners of rental and farm labor housing projects if rents, based on 25 percent of occupants' adjusted incomes, are insufficient to cover project costs. We are in favor of this section because it would permit more low-income families to be adequately housed at costs within their ability to pay.

Section 515: We do not favor this new section of loans and grants for programs of technical and supervisory assistance for low-income individuals and families. This authority would greatly expand our authorizations and is very similar to Section 106 of the Housing and Urban Development Act of 1968 which grants similar authority to HUD. We further recommend that any loans made pursuant to such authority should be at the interest rate charged low- and moderate-income families under our 502 program.

Section 516: We have no objection to the authority to make insured loans for condominiums.

Section 517: We have no objection to this section which transfers the notes and obligations evidencing loans made or insured under Section 514 or 515(b) of the Housing Act of 1949 from the Agriculture Credit Insurance Fund to the Rural Housing Insurance Fund.
Section 518: We do not favor this new section which would authorize loans under Title V of the Housing Act of 1949 to finance mobile homes and mobile home sites. The Secretary of Agriculture would prescribe minimum property standards and require assurance that the mobile home would be placed on a site that complies with acceptable standards.

Loans under Title V for the purchase of mobile homes and sites would be made on the same terms and conditions as are applicable under Section 2 of the National Housing Act to obligations financing the purchase of mobile homes and lots on which to place such homes.

Because the insurance authorities of HUD and the Veterans Administration are in operation and are helping to augment the flow of credit to the purchasers of mobile homes, our recommendation is that Title V funds be used to make long-term housing loans for permanent dwellings to families who do not have other sources of financing available to them.

Section 519: We are in favor of this section which will permit, but not require, construction inspections on a home to be made by fee inspectors, and authorizes costs for fee inspections "and other services customary in the industry, construction inspections, commercial appraisals, servicing of loans, and related program services and expenses," to be paid from the Rural Housing Insurance Fund. Because of a rapid increase in the rural housing program volume without a corresponding increase in staff, this discretionary authority is needed to provide prompt services to applicants, borrowers and builders.

Section 520: This section appears to change the eligibility requirement for all housing programs to public bodies. We do not fully understand the implications of this section.
Attached is the Treasury views letter on S. 3066, the Housing and Community Development Act of 1974. Please have it included in the enrolled bill file. Thanks.
Reference is made to your request for the views of this Department on the enrolled enactment of S. 3066, the "Housing and Community Development Act of 1974."

Sections 201 and 817 of the enrolled enactment would effectively require Federal guarantees of tax-exempt obligations, and these provisions were opposed in letters from Secretary Simon to Chairmen Patman and Sparkman on June 19 and July 8, respectively.

Section 802 would authorize the Secretary of Housing and Urban Development to guarantee taxable bonds issued by State housing finance agencies and State development agencies and to pay a subsidy of up to 33-1/3 percent of the interest thereon. This proposal is substantially more liberal than the proposal contained in the Administration's 1973 tax reform package for a 30 percent subsidy on unguaranteed taxable bonds. Also, industrial development projects for which tax-exempt financing is not available under existing law would be eligible for subsidized taxable financing under the proposal.

The proposed rewritten United States Housing Act of 1937 would authorize the Secretary of HUD to guarantee taxable public housing obligations, but would also permit guarantees of tax-exempt obligations. Section 108 of the enrolled enactment would authorize the Secretary of HUD to guarantee obligations issued by local public bodies in connection with the program of Federal grants for community development proposed in title I. At the option of the local public body, the interest on these Federally guaranteed obligations could be exempt from Federal taxation. Since the Federal Government now pays all of the interest on public housing obligations and would bear up to 100 percent of net project costs under the community development proposal, guarantees of tax-exempts would be of no benefit to the local public agencies under these programs and would be needlessly expensive to the Federal Government.
Section 706 of the enrolled enactment would authorize Federal savings and loan associations to borrow from State mortgage finance agencies and to relend such funds at interest rates 1-3/4 percent higher than the rates on such borrowings. This proposal in effect authorizes Federal savings and loan associations to borrow tax-exempt and to retain an arbitrage spread which is greater than the spread which Treasury allows to State agencies. The likely result will be to shift a substantial proportion of the private mortgage market into the tax-exempt securities market.

Thus, from the standpoint of the financing provisions, the Department believes a veto of the enrolled enactment would be warranted. If, however, the enrolled enactment is approved by the President, we believe it essential that the Administration take prompt action to assure that the programs authorized therein are financed in the most efficient manner.

Considerable savings in financing costs to the Federal Government, State and local governments, and the housing sector could be realized, e.g., by action at this stage to provide for financing the guaranteed State and local obligations through the Federal Financing Bank and by submitting legislation to the Congress which would generally prohibit guarantees of tax-exempt bonds in the market, as was contemplated in the revised OMB Circular A-70.

In view of the current pressures on financial markets, particularly on the municipal bond market, we suggest an early meeting with representatives of HUD and your office on the methods of financing these programs and on the need for further legislation to bring these programs into conformity with this Administration's credit program policies.

Sincerely yours,

[Signature]
General Counsel
To: Bob Linder
From: Wilf Rommel

Attached is the FDIC views letter on S. 3066, the Housing bill. Please have incorporated in the enrolled bill file. Thanks.
August 22, 1974

Honorable Roy L. Ash
Director
Office of Management and Budget
Executive Office of the President
Washington, D.C. 20503

Dear Mr. Ash:

This responds to your August 15, 1974 request for the Corporation's views and recommendations on enrolled bill S. 3066, 93d Congress, to be cited as the "Housing and Community Development Act of 1974." We assume our views are being requested primarily with respect to § 711 of the bill which would liberalize the real estate lending restrictions applicable to national banks under section 24 of the Federal Reserve Act, as amended (12 U.S.C. 371), as follows:

1. Whereas national bank real estate loans must presently be secured by first liens on improved property, § 711 would permit loans on unimproved real estate (including forest tracts) up to 66 2/3 percent of appraised value and would remove the first lien requirement so long as total loans outstanding against the property did not exceed the applicable loan-to-value ratio. A bank's aggregate real estate loans secured by other than first liens could not exceed 20 percent of its capital and surplus.

2. Amortization would be required only if the loan exceeds 75 percent of appraised value or if the property is improved by a one to four family dwelling; in either event payments would have to be sufficient to amortize the entire principal in not more than 30 years, although the loan could be for a shorter period of time with a final "balloon" payment.

3. Section 711 would establish an intermediate loan-to-value ratio of 75 percent for property improved by off-site improvements such as streets, water, sewers or other utilities. The 90 percent loan-to-value ratio would continue to apply to real estate improved by buildings.
(4) Industrial or commercial construction loans of up to 60 months are presently classified as commercial rather than real estate loans where the lending bank has a binding takeout agreement from a permanent lender. Such takeout agreements are not required for construction lending on residential or farm buildings. Section 711 would permit construction loans on industrial or commercial property up to 75 percent of appraised value without such takeout agreements.

(5) Certain FHA-insured and VA-guaranteed loans are presently exempt from the individual and aggregate limitations and restrictions applicable generally to real estate loans. Section 711 would extend this exemption to cover all loans insured under the National Housing Act or guaranteed by the Secretary of Housing and Urban Development, when backed by the full faith and credit of the United States, as well as loans fully guaranteed by a State agency or instrumentality to which the full faith and credit of the State is pledged.

(6) When a loan is secured by real estate and non-real estate collateral, the Comptroller of the Currency has ruled that the lending national bank may treat as a non-real estate loan that portion of the loan equal to the value of the non-real estate collateral. Section 711 would incorporate the substance of this ruling into section 24.

(7) Section 711 provides that any loan secured by real estate with respect to which there is a binding takeout agreement from a financially responsible person may be regarded as a commercial rather than a real estate loan for purposes of the restrictions in section 24.

(8) Section 711 provides that 10 percent of a bank's aggregate real estate loans could be made without regard to the restrictions otherwise applicable to such loans under section 24.

(9) Section 711 contains certain other amendments to section 24 generally of a technical and liberalizing nature.
Restrictions on national bank real estate loans in section 24 were initially enacted in 1913 as part of the original Federal Reserve Act. Initially quite restrictive, this section has been amended numerous times over the years to permit national banks to participate more effectively in financing the national housing program. Since 1913 most banks have developed considerable expertise in the real estate lending area. As a result of this accumulated expertise, we believe national banks are presently able to assess the risks entailed in making real estate loans equally as well as they are able to judge the credit risks involved in making commercial loans.

We support the various liberalizing amendments to section 24 which would be effected by § 711 of enrolled bill S. 3066 and recommend their approval by the President. As to the other provisions of S. 3066, we defer to the expertise of the Department of Housing and Urban Development and other agencies in the Executive branch charged with administering those provisions.

Sincerely,

Frank Wille
Chairman
Enclosed are the views letters of NCPC and Interior on SJRes 66; Labor on S. 3066; and State on S. 3190. Please have included in the enrolled bill files. Thanks.
Honorable Roy L. Ash  
Director, Office of  
Management and Budget  
Washington, D.C. 20503  

Dear Mr. Ash:

This is in response to your request for the Department of Labor's views on S. 3066, The Housing and Community Development Act of 1974, an enrolled bill "to consolidate, simplify, and improve laws relative to housing and housing assistance, to provide Federal assistance in support of community development activities, and for other purposes."

We note with approval that the bill provides labor standards protection for workers on construction assisted under the Act.

In the explanatory statement of the Conference Committee, the conference urges that the Secretary of Labor, in administering the Davis-Bacon Act, recognize the substantial differences in wage rates between built up metropolitan areas and rural areas, and that the area considered in making a wage determination should be large enough to yield an adequate factual basis but small enough to reflect only wages in the surrounding area. While this language may in certain circumstances present some difficulties, we do not anticipate any serious problems in our considering it in administering the Davis-Bacon Act under this Housing and Community Development Act.

We would note that Section 814 and 815 of Title VIII of the enrolled bill authorize the Secretary to set aside any development, construction, design and occupancy requirement for the purposes of certain housing demonstration projects. We assume that these provisions are not
intended to authorize the abrogation of legitimate collective bargaining agreements or the work practices established pursuant to such agreements. Also we would assume that the safety and health provisions of the Occupational Safety and Health Act could not be waived by any provisions in this bill.

With respect to Presidential approval of this enrolled bill we defer to agencies more directly concerned.

Sincerely,

[Signature]

Secretary of Labor