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ALLEGED FHA-HUD FRAUD

- Q. The Chicago Tribune recently published a series of articles alleging massive fraud and mismanagement in the HUD-FHA single family mortgage programs in Chicago. Is there any truth to these allegations and what are you and Secretary Hills doing to investigate these allegations and correct any abuses?
- A. Mrs. Hills sent a personal representative to Chicago to review the situation and I understand she received a complete report on the allegations from the HUD Acting Regional Administrator in Chicago on July 9. Thursday she announced she would name a five-member task force to recommend reforms, with an interim report due in two weeks. And I am hopeful that we can quickly correct these problems and institute reforms nationwide so that they do not happen elsewhere.

JBS/7/11/75

June 12, 1975

SUBJECT:

MORTGAGE INTEREST SUBSIDY BILL
PASSED AND SENT TO WHITE HOUSE

The Senate yesterday passed and sent to the White House a \$1.35 billion bill which would offer mortgage interest subsidies to middle income home buyers and loans of \$250 a month for two years for jobless homeowners who face foreclosure. Proxmire says the bill would generate 800,000 jobs, \$12 billion in business activity and more tax revenues than it costs the government. The bill would offer a \$1,000 cash grant to buyers of homes on which construction started after March 26, 1975. In the tax rebate bill already enacted earlier this year, buyers of homes started before March 26, are offered a \$2,000 tax credit. Instead of taking the \$1,000 grant, middle income home buyers would have a choice of two types of interest subsidies. One offers a 6% mortgage interest, phasing back to the going market rate after six years. The other would offer 7% interest for the life of the mortgage. These subsidies apply to houses costing up to \$38,000, except in high cost areas, where the ceiling would be \$42,000.

Will the President veto this bill once it arrives at the White House?

GUIDANCE: It is my understanding that both the Secretary of HUD and the Director of OMB have said that they will recommend the President veto this bill. I have not heard of any final decision by the President.

Since the housing market affects so many persons, it could provide a great number of new jobs, and in addition, will help the unemployed meet their mortgage payments, wouldn't it be in the interest of economic recovery to sign this bill?

GUIDANCE: While the bill is well-intentioned, we feel this is the kind of economic medicine that will only make our problems worse.

For example, Title I of this bill authorizes Federal assistance for middle income families. In other words, most of the subsidies will go to families who could have--and would have--purchased homes without Federal assistance. Families with incomes 20% above the median will be eligible for these subsidies. In some areas, families making over \$23,000 will be eligible under the bill.

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MORTGAGE INTEREST SUBSIDY BILL
PASSED AND SENT TO WHITE HOUSE

As a result, families with incomes under the median will be forced to subsidize their wealthier neighbors. This bill will have the nation's 45 million homeowners, many carrying mortgages with interest rates above 7%, subsidizing 400,000 fortunate families so they can enjoy the benefits of a 6% or 7% mortgage.

In addition, most of any stimulus brought about by this bill will not occur in the near future when it would accelerate recovery. Rather, it would occur many months from now when it may not be needed.

But we must have compassion for those people who are unemployed and may lose their homes because of their failure to meet their mortgage payments. What's your response to this problem?

GUIDANCE: Title II deals with this problem and authorizes Federal assistance for homeowners in danger of being foreclosed. I should point out that the likelihood of widespread foreclosures is very low and we feel does not warrant a costly new program which would create a host of administrative problems for the Federal government on one hand and on the other hand, undermine existing incentives for lenders to forebear. The most recent public statistics show that the annual foreclosure rate to be only one-half of one percent. This is less than the foreclosure rate prevailing during the 1960's. Experience shows that lenders are generally inclined to carry the homebuyer until he gets back on his feet. Consequently, there is very good reason to believe foreclosures will not rise significantly.

If foreclosure should rise, the Federal government already has at its disposal, a number of ways for heading off a major increase in foreclosures:

- Financial regulatory institutions can take, and in some cases have already taken, steps to reenforce the natural tendency on the part of owners to forebear.
- Should the volume of delinquents create cash problems for individual financial institutions, the regulatory agencies have the authority to tied them over with cash advances.
- HUD has already announced a program to take assignment of Federally insured mortgages in order to prevent defaults.

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What is the Administration doing now to assist the depressed housing industry?

GUIDANCE: Counting all forms of assistance--credit aids, subsidy payments, tax expenditures, and the like--Federal or federally sponsored agencies will assist over \$60 billion in housing activity during 1975 and 1976 combined.

Looking just at short-term aids, the Administration has authorized almost \$23 billion for mortgage support. These short-term credit measures were authorized to assist mortgages covering over 700,000 housing units during the period of residential credit stringency.

- The FHLBB has advanced \$4 billion to savings and loan associations at subsidized interest rates to support mortgages covering 133,000 units.
- The FHLMC has made commitments to purchase \$3 billion in mortgages to finance around 100,000 homes at below-market interest rates.
- HUD's GNMA is authorized to purchase nearly \$16 billion of mortgages carrying below-market interest rates under the various tandem plans.
- 333,000 units with FHA or VA guaranteed mortgages are authorized for tandem support.
- 167,000 units will have conventional mortgages.
- FHA mortgage insurance will aid the financing and refinancing of existing apartment buildings.
- Construction loans will be made to nonprofit sponsors of the Lower-Income Housing Assistance Program.

MAY 13, 1975

SUBJECT: CONFEREES APPROVE MORTGAGE
INTEREST SUBSIDY BILL

The House-Senate Conferees yesterday approved giving middle income home buyers a mortgage interest subsidy whereby home buyers would pay 6% interest instead of the current market rate of about 8-1/2% and HUD would make up the difference. In addition, the Conferees agreed to a flat \$1,000 grant from the government to induce home purchases. Also, there is a provision whereby the government would pay mortgage lenders up to \$250 a month for 24 months to assist unemployed homeowners.

Will the President veto the bill passed yesterday by the Conferees designed to curb mortgage foreclosures and provide interest subsidies to help families buy homes?

GUIDANCE: I should first point out that the Conferees just yesterday agreed to a final bill, so we have not yet had a chance to review the Conference report in any detail. Until that review is completed, it would be difficult for me to give you any prediction what the President will do on the bill.

However, I think you know from previous comments that the Administration has objected to this legislation for a variety of reasons. While we share the concerns of Congress for a speedy economic recovery that produced this legislation, we believe that this measure would be highly counter-productive and produce an estimated \$2 billion in additional federal deficits. This means additional money would have to be borrowed on the nation's credit markets, producing even higher interest rates than those that now prevail. As a consequence, potential homebuyers would find it even more difficult to enter the markets without a continuing and increasing federal aid in this area.

While the bill is well intentioned, this is the kind of economic medicine that will only make our problems worse.

Don't you have some compassion for those people who are unemployed and unable to meet their mortgage payments?

GUIDANCE: At the present time, the foreclosure rate is very low. If economic conditions should bring about an increase in mortgage delinquencies, this is not expected to cause a major increase in foreclosures because lenders tend to forebear. However, if an increase in foreclosures does present a problem in the future, we believe the federal government can cope with it under existing law. In fact, the federal government has already taken specific steps in this regard.

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Wouldn't it be a good idea to make mortgage credit available by an interest subsidy in order to stimulate housing starts?

GUIDANCE: This bill would authorize paying subsidies to thousands of middle income families who would be in the home market even without this subsidy. The expense of the subsidy would be borne by other families, including renters who are unable to afford a home and others who will continue to pay market interest rates above 6% on their home mortgages. Builders would capture some of these subsidies through higher prices which represent an undesirable inflationary aspect of this legislation.

In addition, the programs in this bill would take at least several months to implement which means that they will not be effective during the currently anticipated upturn in the housing industry.

What is the Administration doing now to assist the depressed housing industry?

GUIDANCE: Counting all forms of assistance--credit aids, subsidy payments, tax expenditures, and the like--Federal or federally sponsored agencies will assist over \$60 billion in housing activity during 1975 and 1976 combined.

Looking just at short-term aids, the Administration has authorized almost \$23 billion for mortgage support. These short-term credit measures were authorized to assist mortgages covering over 700,000 housing units during the period of residential credit stringency.

- . The FHLBB has advanced \$4 billion to savings and loan associations at subsidized interest rates to support mortgages covering 133,000 units.
- . The FHLMC has made commitments to purchase \$3 billion in mortgages to finance around 100,000 homes at below-market interest rates.
- . HUD's GNMA is authorized to purchase nearly \$16 billion of mortgages carrying below-market interest rates under the various tandem plans.
- . 333,000 Units with FHA or VA guaranteed mortgages are authorized for tandem support.
- . 167,000 Units will have conventional mortgages.
- . FHA mortgage insurance will aid the financing and refinancing of existing apartment buildings.
- . Construction loans will be made to nonprofit sponsors of the Lower-Income Housing Assistance Program.

October 11, 1974

SUBJECT:

MORTGAGE LOAN BILL
APPROVED BY SENATE

The Senate passed and sent to the House an Emergency Home Mortgage Bill that would provide up to 7.75 billion a year in government mortgage money for middle and upper income housing. The bill originally provided for an interest rate of 9 1/2% which would have paid for the program with no government expenditure. A last minute amendment would lower the interest rate to ~~8 1/2%~~ ^{7/8}

In view of the tight housing situation, will the President sign such legislation?

GUIDANCE: By lowering the interest ceiling to ~~8 1/2%~~ ^{7/8}, thus requiring a government subsidy, this could be highly inflationary and may force the President to veto it.

April 25, 1975

SUBJECT:

MORTGAGE AID BILL PASSED BY SENATE

The Senate voted yesterday to provide government loans of up to \$300 per month for three years to assist unemployed homeowners, and to provide mortgage subsidies to help thousands of families buy homes.

Does the Administration support the Senate-passed bill to curb mortgage foreclosures and provide interest subsidies to help families buy homes?

GUIDANCE: Although we didn't think it was possible at the time the House passed the Home Assistance Act of April 14, the Senate has managed to produce an even worse bill. The House bill would cost around one half billion dollars while the Senate bill would cost over two billion dollars.

While we share the concerns of Congress for a speedy economic recovery that produced this legislation, we believe that this measure would be highly counter-productive and produce an estimated two billion dollars in additional Federal deficits. This means additional money would have to be borrowed on the nation's credit markets, producing even higher interest rates than those that now prevail. As a consequence, potential homebuyers would find it even more difficult to enter the markets without a continuing and increasing federal aid in this area.

While the bill is well-intentioned, this is the kind of economic medicine that will only make our problems worse.

Can't you have some compassion for those people who are unemployed and unable to meet their mortgage payments?

GUIDANCE: At the present time, the foreclosure rate is very low. If economic conditions should bring about an increase in mortgage delinquencies, this is not expected to cause a major increase in foreclosures because lenders tend to forebear. However, if an increase in foreclosures does present a problem in the future, we believe the Federal government can cope with it under existing law. In fact, the Federal government has already taken specific steps in this regard.

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In addition, the programs in this bill would take at least several months to implement which means that they will not be effective during the currently anticipated upturn in the housing industry.

What is the Administration doing now to assist the depressed housing industry?

GUIDANCE: Counting all forms of assistance--credit aids, subsidy payments, tax expenditures, and the like--Federal or federally sponsored agencies will assist over \$60 billion in housing activity during 1975 and 1976 combined.

Looking just at short-term aids, the Administration has authorized almost \$23 billion for mortgage support. These short-term credit measures were authorized to assist mortgages covering over 700,000 housing units during the period of residential credit stringency.

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- . 333,000 Units with FHA or VA guaranteed mortgages are authorized for tandem support.
- . 167,000 Units will have conventional mortgages.
- . FHA mortgage insurance will aid the financing and refinancing of existing apartment buildings.
- . Construction loans will be made to nonprofit sponsors of the Lower-Income Housing Assistance Program.

April 15, 1975

SUBJECT:

HOUSE VOTES GOVERNMENT LOANS
TO CURB MORTGAGE FORECLOSURE

The House yesterday passed a bill providing for government loans up to \$250 a month for as long as two years to assist unemployed homeowners to pay their mortgages and prevent loss of their homes.

Does the Administration support the House-passed bill to curb mortgage foreclosures?

GUIDANCE: The Administration opposes this legislation since it would be counterproductive, would raise a host of administrative problems, and would add about one-half billion dollars to the Federal deficit.

At the present time, the foreclosure rate is very low. If economic conditions should bring about an increase in mortgage delinquencies, this is not expected to cause a major increase in foreclosures because lenders tend to forebear. However, if an increase in foreclosures does present a problem in the future, we believe the Federal government can cope with it under existing law. In fact, the Federal government has already taken specific steps in this regard:

1. The Federal Home Loan Bank Board has already taken steps to encourage forbearance by lenders.
2. HUD has already announced a program to take assignments of federally-insured mortgages in order to prevent default.
3. Should the volume of delinquent loans create problems for individual S & L's, the bank system can help tied them over with advances.

We also believe this legislation could be counterproductive because if there are government programs to pay off mortgages, many lenders will then foreclose, when in fact they originally would have held off.

As we mentioned, serious administrative problems for HUD would be created by requiring HUD to operate a small loan program for hundreds of thousands of families

Of course, the President's major concern is that adding another half billion to the Federal deficit will just jeopardize the economic recovery and will increase inflationary pressures.

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