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Office of the White House Press Secretary

THE WHITE HOUSE

THE EMERGENCY HOUSING ACT OF 1975 (H.R. 4485)

FACT SHEET

President Ford today vetoed the Emergency Housing Act of 1975. Simultaneously, the President directed the Secretary of the Department of Housing and Urban Development to release the remaining $2.0 billion in mortgage purchase authority available to the Government National Mortgate Association (Ginnie Mae or GNMA).

The President adivsed Congress that he would support alternative housing legislation to extend and expand the Emergency Home Purchase Assistance Act, enacted at his request in October 1974.

BACKGROUND - HOUSING INDUSTRY NOW IMPROVING

During 1974 housing starts declined markedly. To help stem this decline, GNMA has committed to purchase federally-insured mortgages at below market interest rates down to 7-3/4%. In October a bipartisan majority of Congress enacted the Emergency Home Purchase Assistance Act which extended the GNMA mortgage purchase authority to include home loans which are not federally insured -- so-called "conventional" mortgages. In all, GNMA has committed $13.5 billion to purchase mortgages with below market interest rates. To date, $3 billion of these mortgages have actually been purchased; $1 billion in commitments have been cancelled by the recipients; and the other $10 billion in commitments remain in the hands of mortgage lenders and is available to support the sale of new homes.

The unprecedented level of mortgage purchase support activity -- $13.5 billion over the past year, $9.0 billion since October -- is contributing to the housing recovery which is now clearly under way.

In addition, the President's 1976 Budget proposes Federal support for 400,000 units of housing under the new Lower Income Housing Assistance Program.

Also, Congress recently enacted a tax credit for buyers of unsold housing, at a cost of $750 million.

Signs of the housing recovery include:

-- as the rate of inflation has declined markedly, savings deposits in the nation's thrift institutions have soared to record levels during 1975 -- up $19.7 billion in the first five months, nearly four times the increase during the comparable 1974 period and a third higher than in the previous record year (1972)

-- new home sales increased 25% in April -- the largest increase in 12 years

-- home building permits jumped 24% in April and an additional 9% in May

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- -- housing construction starts gained 14% in May
- -- mortgage interest rates have dropped significantly from record highs of last summer.

Nonetheless, further improvement will be necessary to return housing to a strong, healthy state. The President's release of the additional $2.0 billion in GNMA funds will supplement the forces of recovery.

OBJECTIONABLE FEATURES OF THE HOUSING ACT OF 1975

The President advised the Congress that H.R. 4485 would increase the Federal deficit by over $1.0 billion in Fiscal Year 1976 and increase Federal expenditures by more than $2.0 billion over the life of the program. In addition to the budget impact, the President cited other specific defects:

Housing Construction Subsidy

The bill contains three new housing subsidies: (1) $1,000 homeownership grants, (2) subsidy payments, to be phased out over six years, which could reduce mortgage interest rates to 6%, (3) a mortgage purchase assistance program with interest rates set at 7%. Depending upon the choice a buyer made, subsidies would be worth up to $3,000, or in some situations as high as $6,500.

This approach is unsound and misguided because

- -- the legislation could not be immediately implemented due to time needed for appropriations, regulations, and training -- many families would postpone purchases waiting for new subsidies;
- -- even when finally implemented, the bill would not have the impact predicted, since most of those assisted would have purchased without assistance -- additional starts would number 50,000-80,000, not 400,000 as claimed by proponents;
- -- the legislation would prescribe interest rates well below the level needed for a sound and healthy housing industry; mortgage interest rates have not been as low as 6% in 10 years -- in 1973, starts exceeded 2 million when interest rates were in excess of 7-1/2%;
- -- the 6% subsidy would be difficult to terminate; despite the phase out provisions in the bill, intense pressures would develop for extending the subsidy once purchasers were faced with higher mortgage payments;
- -- the bill would create enormous inequity among citizens of different regions of the country -- benefitting persons with incomes in excess of $25,000 in some areas while precluding persons with incomes as low as $6,000 in other areas.

Other Objectionable Provisions

Other provisions of the bill would reverse decisions made last year in the Housing and Community Development Act of 1974 after the most comprehensive review of Federal housing policy ever conducted. These provisions would

- -- extend the deep homeowner interest subsidies (Section 235) which Congress last year decided to phase out;

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- extend and expand the rehabilitation loan program which was consolidated last year into the community development block grant program;
- divert rental assistance funds from the newly-authorized program of lower income rental housing (Section 8).

Also, the President indicated that the bill's mortgage foreclosure relief provision relied unnecessarily upon government funding and administration.

ALTERNATIVE HOUSING APPROACH

Instead of the scattergun approach embodied in H.R. 4485, the President recommended other approaches to stimulate housing recovery and to deal with mortgage foreclosures.

EXTENSION OF THE GNMA MORTGAGE PURCHASE PROGRAM

The release of the $2 billion in mortgage purchase assistance funds exhausts the statutory amount authorized in the Emergency Home Purchase Assistance Act of 1974. The President supports legislation which would

- extend the mortgage purchase act, scheduled to expire on October 18, 1975,
- increase the GNMA mortgage purchase authority by $7.75 billion,
- extend coverage to include multi-family apartment and condominium mortgages, the area of the housing industry that is most depressed;
- modify the statutory language which mandates a fluctuating mortgage interest rate that has caused confusion and uncertainty in the housing industry.

MORTGAGE RELIEF LEGISLATION

During the recent period of economic recession, mortgage delinquencies -- i.e., late submission of monthly payments -- have risen. However, mortgage foreclosures and defaults have remained level confirming survey reports that private lenders are cooperating with homeowners during this temporary economic situation, indicating no present need for mortgage foreclosure relief assistance.

- while delinquencies have increased during the past year at the nation's thrift institutions, the level is still significantly below that which prevailed during the early 60's;
- foreclosure rates have held steady at about one-half of one percent -- less than the rates prevailing during the mid-1960's.

The President would support appropriate standby legislation of a temporary nature that could be quickly implemented should foreclosure rates rise significantly. Such legislation would co-insure lenders who forebear against losses they might sustain because of eventual non-payment. Legislation which includes authority for a co-insurance program has already been introduced in the Congress.

BUDGETARY IMPACT

Full implementation of the bill would result in the following outlays:

	FY 1976	FY Transition Quarter	FY 1977	Total Thru FY 1977
	(millions of dollars)			
Title I Home Purchase Assistance 1/	714	180	534	1,428
Title II Foreclosure Relief	250	125	125	500
Title III Rehabilitation Loans	60	5	60	125
Total	1,024	310	719	2,053

1/ Assumes recipients select the home purchase assistance option carrying the largest subsidy

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