The original documents are located in Box C10, folder "Presidential Handwriting, 1/14/1975 (1)" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

1-14-75

THE WHITE HOUSE

WASHINGTON

~~I, with great reluctance, go for the least expensive option including 235, which is at 5 3/4 %.~~

Option A

OMB

THE WHITE HOUSE

WASHINGTON

January 14, 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: ROY L. ASH - JAMES T. LYNN

SUBJECT: Housing Program Options

The attached paper describes, in more detail, three housing program options for your consideration.

There is agreement that:

1. None of the options will have a significant impact on the number of new housing starts,

2. At minimum, the conventional tandem plan should be extended ($3 billion of available authority would be used adding about $200 million to FY 76 outlays).

HUD believes, further, that the extended program should be "two-tier", that one-half of the additional $3 billion should be used for an even deeper subsidy for lower-priced homes -- say a 5.75% interest rate on housing priced at $26,000 (which is the 235 limit) and below.

Pros:

- May soften Congressional pressure to take the 235 deferral issue to court under the Impoundment Act, by providing an alternative.

- In the event the 235 issue goes to court, (which is likely even if the HUD proposal is adopted), strengthens our position in court since we will be able to show we are operating a program that reaches 60,000 median income families.

- Would have some positive impact on starts.

- Makes innovative use of law requested and enacted last October.

- Home builders who have suggested a similar program (5% under 235) would welcome the move.

Cons:

- Could be construed as contrary to your "no new spending program" rule.

- Would add around $225 million to the 1976 budget over and above the $200 million agreed to, by providing a $5475 per unit subsidy for the 60,000 units. (Assumes the mortgages can be resold.)

- Puts more Federal pressure on the credit markets through increased Federal borrowing in last half of calendar 1975 and early 1976.

- Inconsistent with the broad direction of the economic package which relies on fiscal stimulus to get the economy moving again instead of piecemeal, Federal program approach.

- In effect, concedes a substantial part of the 235 issue (deep subsidy, down to 5.75% but not to 1% as 235 allows) to the Congress without any assurance the court won't, on Congressional initiative, mandate 235 reopening anyway.

Recommendations:

HUD recommends the two-tier approach.

OMB recommends the agreed program only, coupled with a major effort to explain to the Congress and to the public what is wrong with the 235 approach.

January 13, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: James T. Lynn
Secretary of Housing and Urban Development

Roy L. Ash
Director, Office of Management and Budget

SUBJECT: Housing Program Options

I. Background

A. Industry Conditions

The following table indicates recent deterioration in the residential building industry:

	Aug.	Sept.	Oct.	Nov.
Annual Starts rate	1, 134	1, 150	1, 106	990
single family	812	844	779	784
multifamily (thousands)	322	306	327	206
Annual building permits rate (thousands)	900	823	782	720
Construction industry unemployment rate	11.1	12.4	12.2	13.9

The following table indicates that money is starting to come back into the thrift institutions and interest rates are falling on conventional mortgage loans:

	Aug.	Sept.	Oct.	Nov.	Dec.
Savings inflows to S&Ls (billions)	-1.2	-1.1	0.3	1.1	n.a.
FNMA conventional mortgage auction rate (last auction in month)	10.42	10.66	10.27	9.92	9.59

The current outlook for calendar 1975 is for steady but not marked improvement in the housing industry at least in the second half. Notwithstanding that mortgage interest rates are coming down and mortgage money is becoming more plentiful, there is serious concern that a currently lowered ''confidence factor'' may be adversely affecting buyer decisions to make commitments over extended periods of time to purchase homes. HUD implementation of the new Lower-Income Housing Assistance Program for which 400,000 units of multifamily rental housing are authorized will provide a psychological boost in 1975 but, because of processing times, few actual starts are expected this year.

The economic problem has hit the multifamily end of the housing industry much harder than the single family end:

-- New multifamily starts are off 80% from the 1972 level (1,047,500 versus an annual rate of 206,000 in November); single family starts are down only 40% from 1972 (1,309,200 versus an annual rate of 784,000 in November).

-- While single family starts appear to have bottomed out (no significant change in November), multifamily starts dropped another 37% in November.

B. The Current Program

On October 18, you signed the Emergency Home Purchase Assistance Act of 1974 which HUD implemented October 22, 1974. You authorized an initial commitment ceiling of $3 billion. The following table illustrates the interest rates, as prescribed by the Proxmire Amendment, and usage of the program:

	October-November	December	January
Face interest rate	8.50	8.25	8.00
Effective interest rate including points, fees and charges paid by mortgagor	9.152	8.895	8.638
Commitments purchased			
FNMA (millions)	$438.4	$594.3	$418.1
FHLMC	230.8	882.3	386.9

As the above table indicates, the $3 billion ceiling has now been reached. Assuming that the mortgages could be sold at an effective rate of 9%, the outlay effect in fiscal year 1975 would be $30 million and $90 million in fiscal year 1976.

Because the interest rate declined each month, we assume that some commitments were simply "rolled over", substituting a lower interest rate for the earlier, higher interest rate. Under the authorizing legislation, an additional $4.75 billion could be available for an additional program.

Although the current program has been quite well received, two principal industry objections have been raised: first, that multifamily rental projects and condominiums are not included, and second, that the interest rate has been too high. Relief for the first objection would require legislation, which you are on record as supporting. The second objection has resulted in pressure to reduce points, fees and charges, which in large part has been done, and to reinstitute the Section 235 homeownership program.

C. The Section 235 Homeownership Program

Upon advice from the Attorney General, the Administration has taken the position that the reservation of some $260 million of Section 235 contract authority (having an estimated runout cost of $2 billion) is not covered by the Impoundment Control Act of 1974. In Commonwealth v. Lynn, an action commenced prior to enactment of the Impoundment Control Act of 1974, the Court of Appeals for the District of Columbia held unanimously that the HUD Secretary had the authority to terminate the program administratively and did not act unreasonably in doing so. Since the Impoundment Act provides that it does not affect the rights of any party to litigation commenced prior to the date of enactment, the Attorney General has advised that the Act does not apply to continued reservation of the Section 235 funds but that the Congress should be advised as to the Administration's intention to continue the reservation.

The Office of Management and Budget submitted notice of continued reservation of the Section 235 funds to the Congress. While the transmittal message made clear that you did not consider this action subject to the Impoundment Act, the continued reservation was designated a "deferral" of budget authority, utilizing the language of the Act. At the request of the House Appropriations Subcommittee, the Comptroller General advised that (i) the continued reservation of Section 235 funds is subject to the Act, and (ii) the President's notice should be considered a "recission", not a "deferral", since, in view of the expiration of the authority on August 22, 1975, only 52 days would remain after the end of this fiscal year -- the end of the deferral -- for implementation by HUD. The House took no action whatsoever with respect to Section 235 and thus left ambiguous whether the House wanted to overturn the President's decision or whether it believed nothing could be done about it.

On the Senate side, Chairman Sparkman ignored the Comptroller General's view and introduced a resolution to set aside the "deferral." A jurisdictional dispute ensued between the Appropriations Committee under Senator McClellan and the new Budget Committee under Senator Muskie. As a result, no floor action took place prior to adjournment of the session. Chairman Muskie has now taken the position that "deferral" action would fly in the face of the Comptroller General's decision that continued reservation of the funds was a "recission" and would complicate litigation he expected the Comptroller General to bring under the Impoundment Act against the Executive Branch to compel release of the funds.

In sum, if the Administration continues to reserve Section 235 funds, we can expect to be sued by the Comptroller General on the ground that the Impoundment Control Act of 1974 does apply to the reservation and the President's action either amounted to a "recission" which was not approved by the Congress or a "deferral" which was overturned by the Senate (assuming Chairman Muskie loses his point and the Senate moves forward on the deferral resolution).

II. Options

The following options, or some combination of them, deserve consideration:

-- Continue administration of the Emergency Home Purchase Assistance Act under an expanded ceiling of, say, an additional $3 billion.

-- Continue administration of the Emergency Home Purchase Assistance Act but modify the program with a special low interest feature for very low priced homes as in Section 235.

-- Reactivate the Section 235 program but instead of allowing the interest rate on mortgages to go to 1%, limit reductions to 5%.

These options are primarily keyed to the political and "235" problems (rather than the underlying economic problem). None of the options would address the "confidence factor," and HUD finds only a minimal favorable impact on starts to be gained from any of them.

A. Continue Administration of the Emergency Home Purchase Assistance Act Under an Expanded Ceiling of an Additional $3 Billion

On the basis of Treasury interest rate data from December 21, 1974, through January 6, 1975, (approximately one-half way through the base period for determination of the February rate) it is likely that the February program would have approximately a 7-3/4% face rate (8.382% effective rate taking into account points, fees and charges). Assuming the mortgages could be sold at an effective rate of 9%, the maximum cost of an additional $3 billion program in outlays would be $230 million. Actual outlays, however, are estimated at about $200 million in fiscal year 1976.

Pros

-- The residential building industry would welcome continuation of the program.

-- Would have some positive impact (but substantially less than the dollar commitments would indicate) on housing starts.

-- Effect would be immediate as there is no processing time delay.

-- Has lowest cost of the options.

Cons

-- Would do little to counter Congressional attempts to turn Section 235 back on.

-- Would be of little help in litigation over Section 235 in arguing that moderate income families are already being helped because, in fact, Section 235 would provide for lower house prices and lower income limits.

OMB makes the following assessment of this option:

-- Extending the conventional tandem plan has no programmatic merit (except as the lesser of evils), since mortgage market conditions are improving steadily and the primary obstacle to recovery is now consumer confidence, which this option does not address.

-- OMB agrees that this option, standing alone, would not be acceptable to either the homebuilders or the Congressional friends of "235."

B. Continued Administration of the Emergency Home Purchase Assistance Act but Modify the Program With a Special Low Interest Feature for Low-Priced Homes as in Section 235

Under this option, the program described under Option A would be modified to provide for a clearly subsidized interest rate, say 5%, with respect to mortgages on houses costing less than the following amounts:

	Fewer than 4 bedrooms	4 or more bedrooms
Normal cost areas	$22, 300	$26, 000
High cost areas	$26, 000	$29, 750

Mortgages up to $42, 000 and related to house prices in excess of the above amounts would be purchased under the Option A program.

The house prices set forth in the above table were derived from the Section 235 program. Hence, we could argue that by adding a second, much more heavily subsidized lower tier to the current tandem program, the Administration has effectively addressed the claims most frequently made in favor of the Section 235 program, namely, that it encourages the construction of lower cost residences and serves moderate income families. While we would require certification that house prices are within the above limits, we would not set income limits since our data show that there is an extremely high correlation between the price families pay for homes and their incomes.

The following table indicates the gross income needed to support a $25,000 mortgage:

Subsidized Interest Rate	Monthly Payment to Principal & Interest	Gross Income
5.0%	$134.25	$12,300
5.5%	142.00	12,795
6.0%	150.00	13,301
6.5%	158.25	13,815
7.0%	165.50	14,336

Median income for a family of four in America is currently estimated at above $13,000.

Assuming that one-half of an additional $3 billion commitment ceiling was devoted to the special low interest rate program, and that the mortgages were sold at 9%, the following table shows the outlays that would result for the 60,000 units:

Subsidized Rate	Cost of lower rate Tandem Portion	Cost of higher rate Tandem Portion
5.0%	$400.5 million*	$100.0 million
5.5%	352.5 million	100.0 million
6.0%	304.5 million	100,0 million
6.5%	255.0 million	100.0 million
7.0%	205.5 million	100.0 million

*Assuming all mortgages are resold by June 30, 1976. Figure would be $1.5 billion if only the higher rate mortgages are resold and lower rate mortgages are not "parked" at the Federal Financing Bank.

Alternatively, the mortgages could be held by GNMA with financing provided by borrowing from the Treasury. The following table provides the present value of the future subsidy cost of such a direct lending program, assuming a discount rate of 8% and no adjustment for any indirect cost of the program on other Treasury borrowings:

Subsidized Rate	Present Value of Future Costs	
5.0%	$200.9 million	(plus cost of
5.5%	165.5 million	higher rate
6.0%	131.1 million	tandem portion)
6.5%	96.1 million	
7.0%	61.1 million	

Pros

-- The low interest rate, low house price feature would offer some hope in opposing on the Hill reinstatement of the Section 235 program and at worst would justify the President's vigorously fighting such reinstatement in litigation.

-- Would be a lower cost program than having the Section 235 program reinstated, not as described in Option C, but as originally contemplated, i.e. 1% loans.

-- Would have some positive impact on starts.

-- Residential building industry has suggested a program quite similar and would welcome the modification.

Cons

-- Could still end up with reinstitution of the 235 program with much "front end" damage already done under this option.

-- Moves GNMA substantially further into "social" programs.

-- Would entice some, but perhaps not many (because of low house prices), prospective purchases to opt for the low ticket program when they could have afforded higher interest mortgages.

-- Could only be administered by FNMA, not FHLMC (the S&L's friend), thus perhaps exacerbating S&L disenchantment with continued nationalization of the home finance business.

-- Could engender shoddy construction to come under low house prices especially in absence of FHA supervision that is required under Section 235.

OMB makes the following assessment of this option:

-- Impact on Housing Starts. Assuming a substantial number of commitments are made for low-cost units, the program would have some positive (but unknown) impact on starts. The impact would be less than the number of units committed, however, because of low-cost units already in the pipeline (11,000 at the end of the third quarter) and changes in the cost composition of starts induced by the program.

-- Pressure to Raise the Cost Limits. OMB believes announcement of such a program would be quickly followed by intense pressure to raise the cost limits, especially from builders in the Northeast where starts have dropped more than in any other region (the South has suffered the second biggest drop). This would bring more units into the program, but would reduce the net impact on new starts since more units in the pipeline would qualify for 5% mortgages. (HUD recognizes this danger but believes that Congress would not act quickly on the changes -- probably not before program was ended. It should be recognized that Congress just increased the limits last August for the first time in five years.)

-- Equity

  - Geographical Equity. Families in some parts of the Nation would not benefit from the subsidy because of high building or land costs.

  - Vertical Equity. Within the group being subsidized, wealthier families would receive larger subsidies than poorer families because they could afford higher priced houses.

- Horizontal Equity. Sixty-thousand households out of the 35 million households with incomes below the median would receive the benefit of a subsidy worth $6,675; the rest would receive no benefit (and in fact would shoulder part of the tax and inflation burden of paying for the subsidy).

-- Impact on the Budget. Even if all mortgages are resold in the private market, discounted to yield secondary market rates, the outlay consequences of this option would be significant: $500 million in 1976.

-- Precedent. A subsidy of this magnitude would make it more difficult for the Administration to defend the level of interest rates set by market forces, now and hereafter. Since many in Congress believe mortgage interest rates should never exceed 5 or 6%, implementing this option would be interpreted as an endorsement of 5% as the socially desirable maximum.

-- Political Impact. With all the pressure on Congress to do something for housing, should the Administration announce this program, it might just up the ante on the Hill.

-- Impact on the "235" Problem. Implementation of this option might forestall Sparkman's impoundment resolution overturning the deferral of authority for 275,000 units under Section 235, but Senator Muskie would push for a Comptroller General suit, based on the latter's claim that he "reclassified" the deferral as a recission. OMB legal counsel does not believe the proposed program would have any impact on the outcome of such a suit. (HUD disagrees. The U.S. Court of Appeals has already found that the Section 235 program did not serve the purposes for which it was enacted. HUD believes its position is materially strengthened if it has developed another program which will serve, more reasonably, many of the intended beneficiaries of the Section 235 program rather than being forced to argue that no program should be implemented for such beneficiaries.)

C. Reactivate the Section 235 Program but Instead of Allowing the Interest Rate on Mortgages to go to 1%, Limit Reductions to 5%

The Section 235 program would provide families at 80% of median income or less with an opportunity to purchase homes with 20% of their adjusted gross income, automatically reducing the interest rate on such mortgages down to 1% with the Federal Government paying the difference between the market rate and the ''affordable'' rate. In addition to the income limits, mortgage amounts cannot exceed such ceilings which when combined with a 3% downpayment yield the house prices set forth in the table under Option B. As family incomes increase to the point where no further subsidy is needed, the subsidy terminates.

Under this option, the Administration would reinstate the Section 235 program but provide that the interest rate could not be reduced below 5%. For purposes of comparison to Option B, the maximum present value cost of the program for 60,000 units could be $442 million and the estimated cost is $173 million. In addition, continuation at some level of the tandem program under Option A would probably be necessary.

Pros

-- Would respond almost 100% to homebuilding industry demands.

-- Would respond partially at least to those desiring a piece of the action for moderate income families.

-- By taking the initiative at the 5% level, would provide the opportunity to oppose reinstitution of the program at levels down to 1%.

-- Cost per unit would be roughly 2/3 of the cost per unit under the 1% 235 program.

Cons

-- Would require additional staff in the range of 200-400 slots.

-- Would not have any immediate impact because of processing time involved.

-- Might whet the appetite of 235 advocates to get Congress or the courts to push all the way to a 1% program.

-- Would lock into the Budget future outlays to remedy a short run, cyclical problem.

-- Limiting units to any number short of the more than 400,000 available under existing contract authority would be very difficult.

-- Congressional extension of the program beyond August 22, 1975, would become likely and perpetuate a program which has been found severely wanting.

OMB makes the following assessment of this option:

-- OMB agrees with HUD that the "235" program has little programmatic merit.

-- Implementing this option would be tantamount to reinstating "235" as a permanent part of the Nation's housing policy. (Unlike the Tandem Plan, which the President can turn on and off under current law, "235" could not be suspended again once the housing industry returns to normal.)

-- This option would indeed solve the political and "235" problems, by giving in to the pressures.

III. Analysis and Recommendations

Secretary Lynn's Recommendations

My best judgment is that the reinstitution of Section 235 cannot be stopped by Option A. The question, therefore, is how little of something like Section 235 we can propose and still avoid a 1% Section 235 program.

(OMB correctly points out the thrift institutions are also part of the political equation, and neither the extension of the conventional Tandem Plan nor the reinstatement of the 235 program is as important to them as a tax credit on interest from time deposits.)

Even with Option B, it is doubtful that we could successfully oppose the initiation of litigation by the Comptroller General against the Executive Branch but Option B would place us in a materially stronger position in that litigation to avoid a preliminary court order reinstituting the Section 235 program and in ultimately prevailing in the lawsuit.

In sum, Option A makes the most programmatic sense and the least political sense. Option C makes the least programmatic sense and the most political sense -- at least for the short term. In picking the best from a bad lot, I recommend Option B.

The consequence of OMB's recommendation, politically, will be to receive some credit for continuing what we have been doing. The chances of repealing the Proxmire Amendment are nil. It is also highly likely that the Section 235 program in its most extreme -- 1% -- form will be mandated by the Congress through overturning the Administration's deferral notice. We then face court action in which the President is postured as fighting reinstatement of a popular, subsidized housing program. In other words, the failure to address the 235 problem, as OMB suggests, at best throws us into a defensive stance in litigation and at worst requires turning on a deep subsidy, inherently unsound program, although we would have some discretion to correct abuses.

The action forcing event will be the annual meeting of the National Association of Homebuilders in Dallas, commencing January 18 which will follow a two week period during which our current program will have been inoperative because the first commitment of $3 billion has run out.

Roy Ash's Recommendations

OMB recommends against all three options on programmatic grounds. Recognizing the pressure to keep up support for the housing sector, OMB believes Option A (extension of the conventional tandem plan) would be acceptable, although we would recommend that an attempt be made to tie extension to repeal of the Proxmire Amendment setting maximum interest rates. (The current program is, of course, only one aspect of Federal Government involvement in housing finance. Tab A assesses the Federal Government's extensive long term subsidy commitments; Tab B describes the share of all housing finance provided under Federal auspices.)

In any case, OMB recommends against Options B and C, on the grounds that the drawbacks of these options (most of which HUD acknowledges) approach those of the action -- reactivation of the "235" program -- which they are designed to prevent. And, in any case, these options are likely to up the base on to which Congress will add additional aids to housing.

OMB recommends (1) holding to the position that the Impoundment Control Act cannot be used to mandate reactivation of the 235 program -- in court, if necessary, and (2) using the time between now and when the 235 program might have to be reopened to revise administrative regulations so as to remove or minimize program defects.

The consequences of HUD's recommendation would be a costly and inequitable new program that would be difficult to turn-off, plus the continued threat (perhaps diminished somewhat) that the Congress will mandate the resumption of the ''235'' in order to demonstrate its (as distinct from the Administration's) concern for the homebuilders.

Lifetime Costs Under the Subsidized Housing Programs: Units Approved Through FY 1974

	Section 235	Section 236	Rent Supplements	Public Housing 1/	All Programs
Units approved through 6/30/74	478,292	535,736	202,000	1,293,598	2,413,743
Lifetime Program Cost:			(in millions of dollars)		
Direct payments:					
Maximum	12,026	20,745	9,942	39,412	82,125
Estimated	3,222	9,586	8,958	39,412	61,178
Indirect Costs:					
Administrative	395	187	38	N/A	620
Foregone taxes	438	775	145	N/A	1,358
Tandem plan	172	174	27	--	373
Default losses	N/A	543	301	--	844
Subtotal, indirect costs	1,005	1,679	511	N/A	3,195
Lifetime costs:					
Maximum	13,031	22,424	10,453	39,412	85,320
Estimated	4,227	11,265	9,469	39,412	64,373
Cost per unit:			(in dollars)		
Direct payments:					
Maximum	25,100	38,700	49,200	30,500	
Estimated	6,700	17,900	44,300	30,500	
Indirect costs:					
Administrative	825	349	349	N/A	
Foregone taxes	915	1,446	1,344	N/A	
Tandem plan	360	325	253	--	
Default losses	N/A	1,015	2,800	--	
Subtotal, indirect costs	2,100	3,135	4,746	N/A	
Lifetime cost per unit:					
Maximum	27,200	41,900	51,700	30,500	
Estimated	8,800	21,000	46,900	30,500	

1/ Does not include public housing operating subsidies. For public housing units placed under contract in FY 1974, HUD estimated that lifetime operating subsidies could total $54,800 per unit.

Lifetime Costs Under the Subsidized Housing Programs:
United Expected to be Approved in
FY 1975 and FY 1976

Program	Number of Units	Lifetime Costs 3/ Maximum	Estimated	Lifetime Cost Per Unit Maximum	Estimated
Section 235	---	108	28	---	---
Section 236 1/	45,000	6,593	2,848	65,579	35,000
Rent Supplements	2,000	249	249	124,700	124,700
Public Housing:					
Old Program 2/	44,000	7,986	7,986	152,900	152,900
Section 8	500,000	38,128	38,128	76,300	76,300
	591,000	53,064	49,239		

1/ Includes Section 236 units receiving rent supplements.

2/ Includes operating subsidies.

3/ Includes authority for cost overruns on previously-approved units.

THE WHITE HOUSE

WASHINGTON

BACKGROUND INFORMATION

January 10, 1975.

MEMORANDUM FOR: THE PRESIDENT

FROM: ROY L. ASH

SUBJECT: Role of the U.S. Government in Housing Finance

	FY '72	'73	'74
Credit advanced for housing under Federal auspicies net of repayments. (Direct, guaranteed, and by Federally sponsored agencies)	\$13.7 B	13.8 B	13.1 B
Percent of U.S. total home mortgage credit provided under Federal auspicies.	35%	32%	35%
Percent of Federal loans of all kinds that were made to finance housing. (not net of repayments)	31%	28%	30%
Percent of Federal off budget financing of all kinds used to finance housing. (by all Federally sponsored off budget agencies)	63%	69%	72%

The Main conclusions:

1. The Federal Government is a very significant factor in housing financing - over one-third of the total.
2. Housing is a very significant factor in Government lending - nearly one-third of the total.
3. Housing financing is the major element of off budget financing - over two-thirds of the total.

THE WHITE HOUSE

WASHINGTON

January 14, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: ROY L. ASH
JAMES T. LYNN

FROM: JERRY H. JONES

SUBJECT: Housing Program Options

Your memorandum to the President of January 14 on the above subject has been reviewed and Option A -- extension of the conventional tandem plan -- was approved.

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld

THE PRESIDENT HAS SEEN...

THE WHITE HOUSE

WASHINGTON

INFORMATION

JAN 9 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: ~~ROY L. ASH~~

SUBJECT: SUBSIDIZED HOUSING PROGRAM LEVEL

Per your instructions, we have consulted with Secretary Lynn on the option of proceeding with an authorized level of 300,000 units of subsidized housing in 1976. The Secretary argues very strongly, as he did earlier, that the authorized level of over 400,000 units for 1975 was in large part responsible for the passage of the 1974 Housing and Community Development Act. In his judgment, any reduction from an authorized level of 400,000 units in 1976 would be construed as bad faith in the Congress. In addition, he does not believe that a reduced level would be a sound move in view of the depressed state of the housing industry.

Based on the above, the 1976 Budget will reflect an authorized 400,000-unit program level in both 1975 and 1976, although only about 200,000 units are actually estimated to be approved in 1975. This will require a request for new contract authority for 200,000 units in 1976, amounting to $737 million (which converts to about $29.5 billion in budget authority). Although the near-term outlay impact of this number of units will be small, the lifetime cost of the 600,000 units anticipated to be approved by the end of 1976 will be $48 billion ($8 billion per 100,000 units).

THE WHITE HOUSE

WASHINGTON

December 20, 1974

MR. PRESIDENT:

The attached memorandum has been staffed and generated the following comments:

Buchen -- no comment

Cole -- HUD recommendation

Timmons -- HUD recommendation

Seidman -- I vote w/Lynn due to economic needs.

Don

I argued for the HUD proposal but would go for 300,000 if that makes sense as a compromise.

GRF

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

December 16, 1974 ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: ROY L. ASH

SUBJECT: SUBSIDIZED HOUSING PROGRAM LEVEL

The Department of Housing and Urban Development is recommending that the 1976 Budget include 406,000 units of subsidized housing. The 1975 Budget authorized 400,000 units in FY 1975; however, HUD currently estimates that no more than 200,000 units will be approved.

The attached memorandum and supporting table have been jointly prepared by OMB and HUD staff setting forth the major considerations which affect the issue.

In summary, Secretary Lynn believes authorization for 406,000 units is necessary in the interest of "continuing an acceptable climate on the Hill" so that the Administration can continue to achieve progress on other desired programs, and to avoid the risks of having Congress mandate higher expenditures under the Section 8 program or use of the old subsidy programs. I recommend that the number of units approved should be as low as politically feasible, and in no case greater than 200,000 units. My recommendation is based on the belief that any level of activity will be criticized as inadequate in some quarters, but that political support for the program cannot be linked to any particular commitment level. I believe that the estimated direct Federal costs of the Section 8 program (annual --$1,093 for existing housing and $2,044 for new construction; lifetime--$8 billion per 100,000 units) are excessive and would seriously limit your ability to phase in welfare reform, such as HEW's proposed Income Supplementation plan. These costs coupled with other program defects outweigh any political advantages of a high level of activity. Your decision on this issue should be made within the broader context of where does the Administration go with respect to Income Assistance across the board.

Attachment

December 16, 1974

MEMORANDUM FOR: THE PRESIDENT

FROM: James T. Lynn
Secretary of Housing and Urban Development

Roy L. Ash
Director, Office of Management and Budget

SUBJECT: Subsidized Housing Program Level

Statement of Issue

How many units of subsidized housing should HUD be authorized to approve under the Section 8 (Lower Income Assistance) program in fiscal years 1975 and 1976?

Background

The 1975 Budget proposed the approval of subsidies for 300,000 units under the revised leasing program, recently superseded by the Section 8 Lower-Income Housing Assistance Program. The Budget, as printed, provided only "for an additional 200,000 units" for FY 1975. Between the time the Budget was printed and the figures were announced, President Nixon decided to provide for an additional 100,000 units for FY 1975. This decision was based, in large part, upon the necessity of providing assistance for lower income families at a level, as informally communicated by key Majority Members, acceptable to the Congress. Indeed, there was a tacit understanding that if the Administration showed its good faith at the 300,000-unit level, key Majority Members would do all in their power to see that the housing program design and community development block grant program followed the general lines of the Administration proposal. Those Members fulfilled their promise.

In addition to the 300,000 units for FY 1975, 116,000 units under the revised leasing program originally budgeted for FY 1974, but not approved, were carried over into FY 1975, for a total FY 1975 authorization of 416,000 units. The contract authority needed for the 416,000-unit production level was provided by the Congress pursuant to an Administration request in the Housing and Community Development Act of 1974. Finally, 108,000 units representing the balance of units for bona fide commitments under the suspended housing programs were carried into FY 1975.

Units actually approved under HUD subsidized housing programs in recent years follow:

1970	1971	1972	1973	1974
393,900	400,900	426,900	105,500	30,100

The lower levels of commitment in fiscal years 1973 and 1974 have resulted in runout cost reductions in the range of about $18.5 billion.

Alternatives

1. Continue the 400,000 authorized unit level under the Section 8 program in FY 1976, requiring an additional 200,000 units of authorization in view of an estimated 200,000-unit carryover from FY 1975, and provide an additional 6,000 units for Indian housing under the Conventional Public Housing Program (HUD recommendation).

2. Reduce the authorized unit level in 1975 to the lowest level politically feasible, but in no case more than 200,000 units (excluding bona fide commitments) for all programs and maintain it at that level in 1976 (OMB recommendation).

The budget impact of each alternative is shown in Attachment A.

Program Analysis

Alternative levels of subsidized housing approvals can be analyzed from four different standpoints: (1) the housing needs of low-income families, (2) supply and demand conditions in the homebuilding industry, (3) costs of Section 8 units, and (4) political realities.

(1) Consumer Needs

Estimates of "housing needs" of lower income families range from 4 million units (the number of occupied units lacking complete plumbing) to over 11 million units. Clearly, a gap in units required cannot be met in the near future at either of the alternative production levels.

HUD and OMB agree that inadequate housing is basically an income problem, rather than a supply problem. However, the Department believes that housing subsidies are warranted, pending a policy decision on a better solution.

HUD argues that--as a bridge, both theoretically and politically, to direct cash assistance--the new Section 8 program is an improvement over the suspended subsidy programs (albeit certainly no panacea):

- The role of private owners is expanded to include management and maintenance of units.

- Tenants are able to select the unit in which they choose to live.

- The term of the subsidy payment is limited to 20 years for private owners.

- The program permits more emphasis on use of existing housing stock rather than on new construction, substantially decreasing costs and eliminating tax preferences associated with new construction.

- The program can encourage economic integration.

- Benefits are more directly related to need.

- State and local government participation is increased.

- The program permits more flexible financing since housing may be financed conventionally, by public bodies or under FHA mortgage insurance programs.

- The program encourages direct competition between private developers and local housing authorities so that better site selection and lower development costs will result.

- Subsidy requirements are limited to fair market rent in any area, rather than being open ended as they were in the suspended programs.

OMB believes in-kind subsidies are an inefficient means for addressing the problems of low-income families, since they limit choices between housing and other goods. Moreover, a HUD-commissioned opinion survey found that even though poor housing conditions were found to be "serious" by 35% of low-income families and 51% of minorities, such conditions ranked lower on the low-income population's list of serious neighborhood problems, than such problems as drug addiction, transportation, and crime. In addition, OMB believes the Section 8 program represents only a small improvement over the previous subsidy programs that have been suspended since January, 1973, and will have these defects:

- Benefits would be distributed inequitably in that only a small fraction of eligible families (at 400,000 units, only 1.5% of the approximately 28 million families with qualifying incomes) will receive benefits.

- The costs of the program will be substantial relative to the benefits perceived by the assisted family. In fact, under the rent supplement program, to which the new construction feature of Section 8 bears a strong resemblance, HUD found that only 48% of Federal expenditures were perceived as a direct benefit by the low-income recipient.

- To the extent new construction is emphasized, low-income families will not have freedom to choose their own unit.

(2) Stimulation of the Housing Market

The production of new subsidized housing units can be rationalized in terms of the need to offset depressed housing market conditions.

HUD and OMB agree that some portion of federally subsidized housing units come at the expense of unsubsidized units, so that the net addition to total starts is less than the number of units subsidized. (The Federal Home Loan Bank Board staff estimated that, during a period when mortgage money was reasonably available, only 14 out of every 100 subsidized starts represent a net addition to total starts.)

To the extent that Section 8 does stimulate additional activity in the housing sector, actual construction will not begin for some time. For instance, construction on units approved during FY 1975 will begin, at the earliest, in the Spring, 1976. Similarly, actual construction on units approved in FY 1976 will begin later in FY 1976, at the earliest. However, most industry members have taken the position publicly that the decrease in total starts is attributable in large part to the decrease in units approved in Federal subsidized programs.

Although the housing market is currently depressed, the Troika forecasts a natural upturn in housing starts to a level of 2 million units by mid-1976. A high level of approvals during FY 1975 and 1976 could possibly contribute to overstimulation of the market by the time of actual construction, as it did in CY 1972.

(3) Costs of Section 8 Units

Costs under the Section 8 program can be looked at from three standpoints:

a. On a per unit basis

The existing component of the Section 8 program is a less costly alternative than the new construction component, and comes closer to the goal of minimizing the role of the Federal Government in the operation of local programs. On the other hand, the more expensive new construction component continues HUD's involvement in review and approval of plans, as under the suspended housing programs. A comparison of per unit cost for both existing and new Section 8 units, as well as HUD's experimental housing allowance program and an earlier program, are shown below:

Comparison of Annual Per Unit Housing Assistance Costs

	Total Annual Rent Payment	Local Agency Administrative Costs	Tenant Contrib. (family(4); $5,000 annual income	Shopping Incentive Savings	Direct Cost to Govt.
Direct Cash Assistance	$2,067	$203	$1,250	$106	$ 914
Sec. 8 -					
Existing	$2,067	$223	$1,100	$ 97	$1,093
New	$3,144	Fee may be allowed, but not yet determined	$1,100	n/a	$2,044
Sec. 236 with Rent Supplement	$3,144	n/a	$1,038	n/a	$2,106

b. Short-term budget impact

Attachment A illustrates the budget impact of alternative levels of subsidized housing approvals.

Existing units approved for subsidy result in outlays more quickly than newly constructed units, despite the lower average annual subsidy per existing unit.

The attachment also shows the cost per 100,000 units, using different mixes of new and existing units.

c. Lifetime costs

Each 100,000 units approved under the Section 8 program are estimated to cost approximately $8 billion over the life of the contracts (assuming approvals are split 75% new/25% existing, and that the average contract runs 26.25 years). In addition, Section 8 units can be insured under certain FHA and other Federal mortgage insurance programs, thus increasing the contingent Federal liability.

d. Political Realities

HUD believes that, Administration promises having been made to key Members of the Congress, they ought to be kept--certainly for FY 1975 and, because the new Section 8 program will not get rolling until FY 1976, through that year as well. Failure to keep our word, combined with the present low level of housing starts will, in HUD's view, result in a mandating of the Section 8 program, or the old suspended programs, or both. During the current year, serious attempts were made to mandate these programs in the Housing and Community Development Act of 1974, HUD's basic appropriation and the supplemental appropriation needed to fund the Community Development Block Grant Program. In each instance, the ability of the Administration to have the mandating provision deleted was based upon its "good faith" to move ahead on the Section 8 program at the budget levels it had promised.

OMB acknowledges that the subsidized housing programs enjoy substantial political support, but believes that this support cannot be linked to any particular commitment level. Any level will be criticized as inadequate in some quarters. An individual builder, on the other hand, is only interested in how many units he gets approved, not the national total. While his chances are greater at a higher level of commitments than a lower level, this is equally true at 100,000, 200,000, or 400,000 units.

Secretary Lynn's Recommendation: Alternative #1. The Secretary's request is based largely on "continuing an acceptable climate on the Hill" so that continued progress can be made toward programs, such as direct income assistance, desired by the Administration and so that the risks of mandated higher expenditures and mandated use of the old subsidy programs or Section 8 can be avoided. Given the depressed state of the housing industry and the drastically reduced subsidized housing commitment level in FY 1975 and most of FY 1974, he believes such mandating is not just possible but very probable. Further, Secretary Lynn believes that our programmed level of over 400,000 units for FY 1975 was in substantial part responsible for the passage of the 1974 Housing and Community Development Act in acceptable form and that, particularly since we will not commit anywhere near that figure in 1975, a reduction from 400,000 as the authorized level for FY 1976 would be construed as bad faith in the Congress. He proposes to move to what he calls an "inventory" concept in budgeting for the Section 8 program for FY 1976. Under this concept, the request for new budget authority would be for only 200,000 additional units but the text of the Budget would make it clear that this is to permit an approval level of approximately 400,000 units inasmuch as it is estimated that about 200,000 units of the FY 1975 authorization will carry over. In his judgment, the passage of additional time from the date of suspension of the old programs and enactment of the new Act, decisions on direct cash assistance and, most importantly, assuming, as expected, that housing starts are recovering reasonably well in calendar 1975--particularly in the last half, a much better climate for logical decision-making on the FY 1977 budget will prevail.

Director Ash's Recommendation: OMB believes that the number of units approved should be as low as politically feasible, and in no case should exceed 200,000 units. Given the anticipated 200,000 carryover from FY 1975 this would mean no request for new authority for FY 1976. The program defects identified above, coupled with the high cost, argue for a low level of activity under this program. A low level of authorized units would also promote quality processing, assuming personnel levels were not reduced proportionately, and preserve the Administration's flexibility to set future year unit approval levels, based on existing conditions in a given year. In the short term, Secretary Lynn's inventory concept is not necessarily unreasonable, since HUD lacks the capacity to meet the 400,000 unit goal during 1975, and perhaps in 1976 as well. However, effectively by FY 1977, a real base of 400,000 units will be established. Once established, this level will be difficult to withdraw from, even if a "demand" (income assistance) approach is eventually implemented. The demand from the construction industry for production assistance will not be satisfied by income assistance to eligible consumers, so any production level may become a future floor.

Attachment

Decision: Approve HUD recommendation RF

Approve OMB recommendation ________

Other (see me) ________

A

Attachment A

Budget Authority/ Outlays ($ in millions)	1975 BA	1975 O	1976 BA	1976 O	1977 O	1978 O	1979 O	1980 O
Alternative #1	1,800	1,849	2,295	2,147	2,560	3,430	4,929	6,193
Alternative #2	1,800	1,849	2,245	2,120	2,403	3,001	4,055	4,874

Unit Reservations (Units/000's)	1975	1976	1977	1978	1979	1980
Bona Fide Commitments	68	29	-	-	-	-
Alternative #1	406	406	406*	406*	406*	406*
Alternative #2	200	200	200	200	200	200

---

* At about FY 1977 it is hoped that a program of direct cash assistance will begin to be phased in.

Cost per 100,000 Units
($ in millions)

Per 100 K Units	1976 BA	1976 O	1977 BA	1977 O	1978 BA	1978 O	Lifetime Cost
All Existing	99	49.5	198	148.5	198	198	2,970
75% Existing/25% New	80	30	187	133	225	206	5,303
50/50	49.5	25	176	113	253	216	6,098
25% Existing/75% New	30	10	147	88	203	165	7,661
All New	-	-	78	38	154	115	9,225

Assumptions

1. All existing units assumed to be under 15 year contracts.
2. New units assumed to be under 40 year contracts in the 25 percent new option; for all other options, new units assumed to be half under 40 year contracts and half under 20 year contracts.
3. No increases in subsidy costs related to fair market rental increases were assumed.

THE WHITE HOUSE

WASHINGTON

December 27, 1974

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: ROY L. ASH

FROM: JERRY H. JONES

SUBJECT: Subsidized Housing Program Level

Your memorandum to the President of December 16 on the above subject has been reviewed and Option 1 -- approve HUD recommendation -- was approved with the following notation:

> -- I signed for HUD proposal but would go for 300,000 if that makes sense as a compromise.

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld

STAFFING

THE WHITE HOUSE

WASHINGTON

ACTION MEMORANDUM

LOG NO.:

Date: December 16, 1974

Time:

FOR ACTION: Phil Buchen
Ken Cole
Bill Seidman for EPB
Bill Timmons

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Wednesday, December 18, 1974 Time: noon

SUBJECT:

Ash memo (12/16/74) re: Subsidized Housing Program Level

ACTION REQUESTED:

___ For Necessary Action	X For Your Recommendations
___ Prepare Agenda and Brief	___ Draft Reply
X For Your Comments	___ Draft Remarks

REMARKS:

12/18 Cole - ok HUD
Buchen - ~~ok~~ no comment
Seidman - ok (I vote w/ Lynn due economic needs)
BT - ok HUD

12/20 w/P

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jerry H. Jones
Staff Secretary

cc rh

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: December 16, 1974 Time:

FOR ACTION: Phil Buchen
Ken Cole
Bill Seidman for EPB
Bill Timmons

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Wednesday, December 18, 1974 Time: noon

SUBJECT:

Ash memo (12/16/74) re: Subsidized Housing Program Level

ACTION REQUESTED:

___ For Necessary Action

___ Prepare Agenda and Brief

_X_ For Your Comments

_X_ For Your Recommendations

___ Draft Reply

___ Draft Remarks

REMARKS:

I vote with Lynn due to Economic needs.

[signature]

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jerry H. Jones
Staff Secretary

THE WHITE HOUSE

WASHINGTON

December 18, 1974

MEMORANDUM FOR: JERRY JONES

FROM: WILLIAM E. TIMMONS BT

SUBJECT: Ash Memo (12/16/74) re: Subsidized Housing Program Level

The Office of Legislative Affairs concurs with the attached memorandum and has no additional recommendations.

I support HUD option — max

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: December 16, 1974 Time:

FOR ACTION: Phil Buchen
Ken Cole
Bill Seidman for EPB
Bill Timmons

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Wednesday, December 18, 1974 Time: noon

SUBJECT:

Ash memo (12/16/74) re: Subsidized Housing Program Level

ACTION REQUESTED:

____ For Necessary Action

_X_ For Your Recommendations

____ Prepare Agenda and Brief

____ Draft Reply

_X_ For Your Comments

____ Draft Remarks

REMARKS:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jerry H. Jones
Staff Secretary

THE WHITE HOUSE

WASHINGTON

December 16, 1974 ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: ROY L. ASH

SUBJECT: SUBSIDIZED HOUSING PROGRAM LEVEL

The Department of Housing and Urban Development is recommending that the 1976 Budget include 406,000 units of subsidized housing. The 1975 Budget authorized 400,000 units in FY 1975; however, HUD currently estimates that no more than 200,000 units will be approved.

The attached memorandum and supporting table have been jointly prepared by OMB and HUD staff setting forth the major considerations which affect the issue.

In summary, Secretary Lynn believes authorization for 406,000 units is necessary in the interest of "continuing an acceptable climate on the Hill" so that the Administration can continue to achieve progress on other desired programs, and to avoid the risks of having Congress mandate higher expenditures under the Section 8 program or use of the old subsidy programs. I recommend that the number of units approved should be as low as politically feasible, and in no case greater than 200,000 units. My recommendation is based on the belief that any level of activity will be criticized as inadequate in some quarters, but that political support for the program cannot be linked to any particular commitment level. I believe that the estimated direct Federal costs of the Section 8 program (annual --$1,093 for existing housing and $2,044 for new construction; lifetime--$8 billion per 100,000 units) are excessive and would seriously limit your ability to phase in welfare reform, such as HEW's proposed Income Supplementation plan. These costs coupled with other program defects outweigh any political advantages of a high level of activity. Your decision on this issue should be made within the broader context of where does the Administration go with respect to Income Assistance across the board.

Attachment

December 16, 1974

MEMORANDUM FOR: THE PRESIDENT

FROM: James T. Lynn
Secretary of Housing and Urban Development

Roy L. Ash
Director, Office of Management and Budget

SUBJECT: Subsidized Housing Program Level

Statement of Issue

How many units of subsidized housing should HUD be authorized to approve under the Section 8 (Lower Income Assistance) program in fiscal years 1975 and 1976?

Background

The 1975 Budget proposed the approval of subsidies for 300,000 units under the revised leasing program, recently superseded by the Section 8 Lower-Income Housing Assistance Program. The Budget, as printed, provided only "for an additional 200,000 units" for FY 1975. Between the time the Budget was printed and the figures were announced, President Nixon decided to provide for an additional 100,000 units for FY 1975. This decision was based, in large part, upon the necessity of providing assistance for lower income families at a level, as informally communicated by key Majority Members, acceptable to the Congress. Indeed, there was a tacit understanding that if the Administration showed its good faith at the 300,000-unit level, key Majority Members would do all in their power to see that the housing program design and community development block grant program followed the general lines of the Administration proposal. Those Members fulfilled their promise.

In addition to the 300,000 units for FY 1975, 116,000 units under the revised leasing program originally budgeted for FY 1974, but not approved, were carried over into FY 1975, for a total FY 1975 authorization of 416,000 units. The contract authority needed for the 416,000-unit production level was provided by the Congress pursuant to an Administration request in the Housing and Community Development Act of 1974. Finally, 108,000 units representing the balance of units for bona fide commitments under the suspended housing programs were carried into FY 1975.

Units actually approved under HUD subsidized housing programs in recent years follow:

1970	1971	1972	1973	1974
393,900	400,900	426,900	105,500	30,100

The lower levels of commitment in fiscal years 1973 and 1974 have resulted in runout cost reductions in the range of about $18.5 billion.

Alternatives

1. Continue the 400,000 authorized unit level under the Section 8 program in FY 1976, requiring an additional 200,000 units of authorization in view of an estimated 200,000-unit carryover from FY 1975, and provide an additional 6,000 units for Indian housing under the Conventional Public Housing Program (HUD recommendation).

2. Reduce the authorized unit level in 1975 to the lowest level politically feasible, but in no case more than 200,000 units (excluding bona fide commitments) for all programs and maintain it at that level in 1976 (OMB recommendation).

The budget impact of each alternative is shown in Attachment A.

Program Analysis

Alternative levels of subsidized housing approvals can be analyzed from four different standpoints: (1) the housing needs of low-income families, (2) supply and demand conditions in the homebuilding industry, (3) costs of Section 8 units, and (4) political realities.

(1) Consumer Needs

Estimates of "housing needs" of lower income families range from 4 million units (the number of occupied units lacking complete plumbing) to over 11 million units. Clearly, a gap in units required cannot be met in the near future at either of the alternative production levels.

HUD and OMB agree that inadequate housing is basically an income problem, rather than a supply problem. However, the Department believes that housing subsidies are warranted, pending a policy decision on a better solution.

HUD argues that--as a bridge, both theoretically and politically, to direct cash assistance--the new Section 8 program is an improvement over the suspended subsidy programs (albeit certainly no panacea):

- The role of private owners is expanded to include management and maintenance of units.
- Tenants are able to select the unit in which they choose to live.
- The term of the subsidy payment is limited to 20 years for private owners.
- The program permits more emphasis on use of existing housing stock rather than on new construction, substantially decreasing costs and eliminating tax preferences associated with new construction.
- The program can encourage economic integration.
- Benefits are more directly related to need.
- State and local government participation is increased.
- The program permits more flexible financing since housing may be financed conventionally, by public bodies or under FHA mortgage insurance programs.
- The program encourages direct competition between private developers and local housing authorities so that better site selection and lower development costs will result.
- Subsidy requirements are limited to fair market rent in any area, rather than being open ended as they were in the suspended programs.

OMB believes in-kind subsidies are an inefficient means for addressing the problems of low-income families, since they limit choices between housing and other goods. Moreover, a HUD-commissioned opinion survey found that even though poor housing conditions were found to be "serious" by 35% of low-income families and 51% of minorities, such conditions ranked lower on the low-income population's list of serious neighborhood problems, than such problems as drug addiction, transportation, and crime. In addition, OMB believes the Section 8 program represents only a small improvement over the previous subsidy programs that have been suspended since January, 1973, and will have these defects:

- Benefits would be distributed inequitably in that only a small fraction of eligible families (at 400,000 units, only 1.5% of the approximately 28 million families with qualifying incomes) will receive benefits.

- The costs of the program will be substantial relative to the benefits perceived by the assisted family. In fact, under the rent supplement program, to which the new construction feature of Section 8 bears a strong resemblance, HUD found that only 48% of Federal expenditures were perceived as a direct benefit by the low-income recipient.

- To the extent new construction is emphasized, low-income families will not have freedom to choose their own unit.

(2) Stimulation of the Housing Market

The production of new subsidized housing units can be rationalized in terms of the need to offset depressed housing market conditions.

HUD and OMB agree that some portion of federally subsidized housing units come at the expense of unsubsidized units, so that the net addition to total starts is less than the number of units subsidized. (The Federal Home Loan Bank Board staff estimated that, during a period when mortgage money was reasonably available, only 14 out of every 100 subsidized starts represent a net addition to total starts.)

To the extent that Section 8 does stimulate additional activity in the housing sector, actual construction will not begin for some time. For instance, construction on units approved during FY 1975 will begin, at the earliest, in the Spring, 1976. Similarly, actual construction on units approved in FY 1976 will begin later in FY 1976, at the earliest. However, most industry members have taken the position publicly that the decrease in total starts is attributable in large part to the decrease in units approved in Federal subsidized programs.

Although the housing market is currently depressed, the Troika forecasts a natural upturn in housing starts to a level of 2 million units by mid-1976. A high level of approvals during FY 1975 and 1976 could possibly contribute to overstimulation of the market by the time of actual construction, as it did in CY 1972.

(3) Costs of Section 8 Units

Costs under the Section 8 program can be looked at from three standpoints:

a. On a per unit basis

The existing component of the Section 8 program is a less costly alternative than the new construction component, and comes closer to the goal of minimizing the role of the Federal Government in the operation of local programs. On the other hand, the more expensive new construction component continues HUD's involvement in review and approval of plans, as under the suspended housing programs. A comparison of per unit cost for both existing and new Section 8 units, as well as HUD's experimental housing allowance program and an earlier program, are shown below:

Comparison of Annual Per Unit Housing Assistance Costs

	Total Annual Rent Payment	Local Agency Administrative Costs	Tenant Contrib. (family(4); $5,000 annual income	Shopping Incentive Savings	Direct Cost to Govt.
Direct Cash Assistance	$2,067	$203	$1,250	$106	$ 914
Sec. 8 -					
Existing	$2,067	$223	$1,100	$ 97	$1,093
New	$3,144	Fee may be allowed, but not yet determined	$1,100	n/a	$2,044
Sec. 236 with Rent Supplement	$3,144	n/a	$1,038	n/a	$2,106

b. Short-term budget impact

Attachment A illustrates the budget impact of alternative levels of subsidized housing approvals.

Existing units approved for subsidy result in outlays more quickly than newly constructed units, despite the lower average annual subsidy per existing unit.

The attachment also shows the cost per 100,000 units, using different mixes of new and existing units.

c. Lifetime costs

Each 100,000 units approved under the Section 8 program are estimated to cost approximately $8 billion over the life of the contracts (assuming approvals are split 75% new/25% existing, and that the average contract runs 26.25 years). In addition, Section 8 units can be insured under certain FHA and other Federal mortgage insurance programs, thus increasing the contingent Federal liability.

d. Political Realities

HUD believes that, Administration promises having been made to key Members of the Congress, they ought to be kept--certainly for FY 1975 and, because the new Section 8 program will not get rolling until FY 1976, through that year as well. Failure to keep our word, combined with the present low level of housing starts will, in HUD's view, result in a mandating of the Section 8 program, or the old suspended programs, or both. During the current year, serious attempts were made to mandate these programs in the Housing and Community Development Act of 1974, HUD's basic appropriation and the supplemental appropriation needed to fund the Community Development Block Grant Program. In each instance, the ability of the Administration to have the mandating provision deleted was based upon its "good faith" to move ahead on the Section 8 program at the budget levels it had promised.

OMB acknowledges that the subsidized housing programs enjoy substantial political support, but believes that this support cannot be linked to any particular commitment level. Any level will be criticized as inadequate in some quarters. An individual builder, on the other hand, is only interested in how many units he gets approved, not the national total. While his chances are greater at a higher level of commitments than a lower level, this is equally true at 100,000, 200,000, or 400,000 units.

Secretary Lynn's Recommendation: Alternative #1. The Secretary's request is based largely on "continuing an acceptable climate on the Hill" so that continued progress can be made toward programs, such as direct income assistance, desired by the Administration and so that the risks of mandated higher expenditures and mandated use of the old subsidy programs or Section 8 can be avoided. Given the depressed state of the housing industry and the drastically reduced subsidized housing commitment level in FY 1975 and most of FY 1974, he believes such mandating is not just possible but very probable. Further, Secretary Lynn believes that our programmed level of over 400,000 units for FY 1975 was in substantial part responsible for the passage of the 1974 Housing and Community Development Act in acceptable form and that, particularly since we will not commit anywhere near that figure in 1975, a reduction from 400,000 as the authorized level for FY 1976 would be construed as bad faith in the Congress. He proposes to move to what he calls an "inventory" concept in budgeting for the Section 8 program for FY 1976. Under this concept, the request for new budget authority would be for only 200,000 additional units but the text of the Budget would make it clear that this is to permit an approval level of approximately 400,000 units inasmuch as it is estimated that about 200,000 units of the FY 1975 authorization will carry over. In his judgment, the passage of additional time from the date of suspension of the old programs and enactment of the new Act, decisions on direct cash assistance and, most importantly, assuming, as expected, that housing starts are recovering reasonably well in calendar 1975--particularly in the last half, a much better climate for logical decision-making on the FY 1977 budget will prevail.

Director Ash's Recommendation: OMB believes that the number of units approved should be as low as politically feasible, and in no case should exceed 200,000 units. Given the anticipated 200,000 carryover from FY 1975 this would mean no request for new authority for FY 1976. The program defects identified above, coupled with the high cost, argue for a low level of activity under this program. A low level of authorized units would also promote quality processing, assuming personnel levels were not reduced proportionately, and preserve the Administration's flexibility to set future year unit approval levels, based on existing conditions in a given year. In the short term, Secretary Lynn's inventory concept is not necessarily unreasonable, since HUD lacks the capacity to meet the 400,000 unit goal during 1975, and perhaps in 1976 as well. However, effectively by FY 1977, a real base of 400,000 units will be established. Once established, this level will be difficult to withdraw from, even if a "demand" (income assistance) approach is eventually implemented. The demand from the construction industry for production assistance will not be satisfied by income assistance to eligible consumers, so any production level may become a future floor.

Attachment

Decision: Approve HUD recommendation ________

Approve OMB recommendation ________

Other (see me) ________

Attachment A

Budget Authority/ Outlays ($ in millions)	1975 BA	1975 O	1976 BA	1976 O	1977 O	1978 O	1979 O	1980 O
Alternative #1	1,800	1,849	2,295	2,147	2,560	3,430	4,929	6,193
Alternative #2	1,800	1,849	2,245	2,120	2,403	3,001	4,055	4,874

Unit Reservations (Units/000's)	1975	1976	1977	1978	1979	1980
Bona Fide Commitments	68	29	-	-	-	-
Alternative #1	406	406	406*	406*	406*	406*
Alternative #2	200	200	200	200	200	200

---

* At about FY 1977 it is hoped that a program of direct cash assistance will begin to be phased in.

Cost per 100,000 Units
($ in millions)

Per 100 K Units	1976 BA	1976 O	1977 BA	1977 O	1978 BA	1978 O	Lifetime Cost
All Existing	99	49.5	198	148.5	198	198	2,970
75% Existing/25% New	80	30	187	133	225	206	5,303
50/50	49.5	25	176	113	253	216	6,098
25% Existing/75% New	30	10	147	88	203	165	7,661
All New	-	-	78	38	154	115	9,225

Assumptions

1. All existing units assumed to be under 15 year contracts.
2. New units assumed to be under 40 year contracts in the 25 percent new option; for all other options, new units assumed to be half under 40 year contracts and half under 20 year contracts.
3. No increases in subsidy costs related to fair market rental increases were assumed.

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: December 16, 1974 Time:

FOR ACTION: Phil Buchen
Ken Cole
Bill Seidman for EPB
Bill Timmons

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Wednesday, December 18, 1974 Time: noon

SUBJECT:

Ash memo (12/16/74) re: Subsidized Housing Program Level

ACTION REQUESTED:

___ For Necessary Action

X For Your Recommendations

___ Prepare Agenda and Brief

___ Draft Reply

X For Your Comments

___ Draft Remarks

REMARKS:

No comment.

P.W.B.

Philip W. Buchen

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jerry H. Jones
Staff Secretary