

**The original documents are located in Box 17, folder “Home Ownership - Meeting with Secretary Hills, September 9, 1976” of the James M. Cannon Files at the Gerald R. Ford Presidential Library.**

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MEETING WITH SECRETARY HILLS  
Thursday, September 9, 1976  
4:30 p.m.  
Situation Room

Re: Housing Alternatives



Several fundamental questions must be answered regarding a Presidential homeownership initiative. Two important ones are:

1. Are the cost of downpayment<sup>s</sup> or the amount of monthly interest payments the main impediments to expanded homeownership?

-- Poll surveys in 2 <sup>states</sup> sectors indicate the former but additional data from other states will be developed by the middle of next week.

2. Should a new homeownership program benefit all homeowners or people purchasing a home for the first time? Current tax laws and government mortgage insurance tend to aid more affluent homeowners. Perhaps a new program should only aid those who want entry into homeownership.



1. FORMAT:	HOMEOWNERSHIP OPPORTUNITIES FOR MIDDLE AMERICA (HOMA)	BROCK-ASHLEY	GRADUATED PAYMENT/FIXED RATE MORTGAGE	TAX EXEMPT SAVINGS	DOWNPAYMENT VOUCHER/GRANT	FEDERAL SECOND
	This program would provide a tax credit to purchasers of first homes. Both new and existing homes would be eligible. There would be a maximum mortgage limit of \$38,000. The amount of the tax credit would be the lesser of (1) the difference between payments to principal and interest at the current market rates (9% assumed in this analysis) and payments to principal and interest at 6% or (2) the difference between principal and interest at 9% and 20% of the family's income. This program would phase out at about the \$18,000 income level.	GMA would pay 2% interest on the mortgage initially, and any additional interest due to the variable rate provisions. This would accumulate with interest in the borrower's GMA loan account which is to be repaid when the house is sold or by arrangement with GMA.	Initial mortgage payments would be reduced and later payments increased at a set rate of increase. Increasing mortgage payments should better match rising incomes. This mitigates initial income constraints on homeownership.	Contribution made to, and interest earned on, a savings account would be deductible from taxable income if the savings in that account are used for a downpayment by first time home purchasers. Limits would be \$20,000 income, \$10,000 total savings, \$2,500 per year in addition to savings.	\$1,000 cash payment to buyer	Federal second
2. Number of Families Assisted:	1.33 million	1.7 million	1.5 million	1.5 million families	1.46 million	1.55 million
3. Subsidy per Family:	The average subsidy per family in the first year of about \$500 and of about \$650 over the life of the loan.	There is no direct subsidy involved in the program. There are, however, indirect costs involved in all direct loan programs.	NONE	\$2,500	\$1,000	NONE
4. Number of Incremental Purchaser per Year:	230,000	The GMA loan would reduce monthly payments enough such that 250,000 to 300,000 additional families would be able to afford a \$35,000 house without spending more than 25% of their income on housing. The GMA loan would reduce current costs but increase total costs because the GMA loan must be repaid with accumulated interest. Thus, there may be market resistance to this program, since it substantially reduces or eliminates homeownership equity accumulation, one of the primary perceived benefits of homeownership.	80,000 (under constraint than loan to value ratio cannot exceed 100%)	75 - 100,000	60,000 Raises loan-to-value from .86 to .89 Based on in-house research, this would increase housing demand by 60,000 units per year.	90,000 Lower home be in
5. First Year Outlays:	About \$665 million	The average GMA loan would be about \$500 after one year. If 1.7 million loans were issued, total lending under the program would reach \$850 million.	NONE	\$938 million	\$1.4 billion	NONE
6. Total Costs:	\$1.7 billion over the period of subsidy for each year's assisted families. Assuming a 7% growth rate in normal income, the \$14,000 family would phase out in 5 years and higher income families would phase out sooner.	Total lending for the first year participants will reach about \$5 billion after 5 years. Lending to participants entering in years 2-5 will be about \$10 billion. As currently conceived, total lending under the program will increase at an exponential rate. In theory, however, all of these outlays would be recovered as recipients ultimately repaid their GMA loans.	NONE	Year 1: \$938M a year Year 2: \$1.88B a year Year 3: \$2.86B a year Years 4-8: \$3.75B	All costs are borne in the first year a family is a subsidy recipient.	NONE
7. Cost per Incremental Purchaser:	(First Year) - \$2,900 (\$665 million divided by 230,000) (Total) - \$7,391 (\$1.7 billion divided by 230,000 incremental purchasers)	(First Year) - There are no direct costs to the government, but in terms of budget impact, total lending would be about \$2,800 per incremental purchaser in the first year. After 25 years, GMA would have lent about \$250,000 per incremental first year purchaser.	(First Year) - NONE (Total) - NONE	(First Year) - \$37,500 to 50,000 (Total) - \$37,500 to 50,000	(First Year) - \$23,000 (Total) - \$23,000	(First Year) - \$23,000 (Total) - \$23,000
8. Risk to the Government:	Essentially no default risk since FHA insurance is not required.	There is a particularly high risk of default associated with second mortgages such as the GMA loan which may be higher than the original principal of the first mortgage, by the time it becomes due.	Increased FHA default risk	NONE	NONE	A significant increase in rate
9. Ease of Administration:	If assistance is provided as a tax credit, administration is extremely inexpensive but costs uncontrollable. If the assistance is provided by direct subsidies, administration is complex, but the number of recipients, hence costs, can be controlled.	GMA would have to become a mortgage originator and servicer or would have to pay mortgage bankers to provide this service.	FHA underwriting. FHA will finance some this year (Section 245)	Run through tax system; so minimal administrative cost	Would impose significant operational capacity to administer the program (e.g., would have to certify incomes of participants (\$20,000 income limit), and if constraints such as requiring purchase of decent safe and sanitary housing were imposed, would have to verify that constraints were met.)	Requires the
10. Other Problems:		The homeowner's real equity in the home is substantially reduced by the GMA second lien. His mobility also is reduced because he must repay the loan if he sells his home. Given the potential exponential growth rate of total lending under the program, the indirect cost of additional interest on all Treasury borrowing is likely to be substantial. Finally, GMA could become a large holder of single family homes if default rates are as high as may be reasonably expected.	Lender resistance due to increased default risk and reduced cash flow.	Creation of a new tax loophole with a large constituency. Slow implementation, most recipients will take several years to accumulate enough in their downpayment account to make a purchase. Also, deduction amount need not correlate with housing expenditures.	Equal subsidy would be paid to families of different wealth. May have slight inflationary impact on price of housing since subsidy reduces purchase price.	Amount to a high
IMPACT on Typical \$15,000 Income Family Buying a \$39,000 House with \$35,000 Mortgage:	Monthly mortgage payment reduced by \$36, from \$286 to \$250, in first year; reduced by \$15 in second year. No impact after second year.	Monthly mortgage payment reduced by \$44, from \$286 to \$242, in each year. Total mortgage debt increases continually, by over \$5,500 per year.	Monthly mortgage payment reduced by \$75, from \$286 to \$211, in first year; payment rises by 3 percent per year over the mortgage term.	Downpayment effectively reduced by \$1,000, from \$4,000 to \$3,000, through tax saving.	Lowers downpayment by \$1,000 from \$4,000 to \$3,000.	Reduction in mortgage

SAVINGS

made to, and interest earned on, a savings account deductible from taxable income if the savings in that used for a downpayment by first time home purchasers. If be \$20,000 income, \$10,000 total savings, \$2,500 addition to savings.

DOWNPAYMENT VOUCHER/GRANT

\$1,000 cash payment to buyer

FEDERAL GUARANTEE OF DOWNPAYMENT

Federal guarantee of loan for one half of downpayment. This second loan would be secured by a second lien.

REDUCE FHA DOWNPAYMENT REQUIREMENT

Legislative change to reduce downpayment required for FHA insurance

Current

3% for up to \$25,000  
10% for \$25,000 - \$35,000  
20% for \$35,000 - \$45,000

Option

3% for up to \$25,000  
5% for \$25,000 - \$40,000  
10% for \$40,000 - \$50,000  
20% for \$50,000 - \$60,000

families	1.46 million	1.55 million	275,000 (expected FHA volume plus incremental purchases)
	\$1,000	NONE	NONE
	60,000 Raises loan-to-value from .86 to .89 Based on in-house research, this would increase housing demand by 60,000 units per year.	90,000 - 140,000 Lowers downpayment required at purchase but raises total price of home if the second lien is amortized at mortgage rate which will be in excess of rate of inflation.	20,000 Reduces downpayment requirement for FHA only by an average of 3%.
	\$1.4 billion	NONE	NONE
\$938M a year \$1.88B a year \$2.86B a year \$3.75B	All costs are borne in the first year a family is a subsidy recipient.	NONE	NONE
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	NONE	A significant increase in foreclosure rates. For example, by increasing loan-to-value ratio by 8 percent (.86 to .93) foreclosure rate would be increased by 11 percent. (elasticity of 1.4).	An increase in foreclosure rate. Losses should be covered by the .5% premium.
tax system; so minimal administrative cost	Would impose significant operational capacity to administer the program (e.g., would have to certify incomes of participants (\$20,000 income limit), and if constraints such as requiring purchase of decent safe and sanitary housing were imposed, would have to verify that constraints were met.)	Requires HUD processing at time of guarantee and management in the event of foreclosure.	Simple change in FHA processing. Larger volume of FHA insurance would increase work load.
new tax loophole with a large constituency. Attention, most recipients will take several years enough in their downpayment account to make Also, deduction amount need not correlate with features.	Equal subsidy would be paid to families of different wealth. May have slight inflationary impact on price of housing since subsidy reduces purchase price.	Amortizing second lien will require a higher income to support loan (e.g., a higher monthly payment because of the higher mortgage amount).	Requires legislative change. Has greatest effect on homes in excess of \$30,000. Could result in FHA becoming more competitive with private mortgage insurance.
effectively reduced by \$1,000, from \$4,000 to in tax saving.	Lowers downpayment by \$1,000 from \$4,000 to \$3,000.	Reduces downpayment by \$2,000, from \$4,000 to \$2,000; raises monthly payment by \$20, from \$286 to \$306.	Could lower downpayment by up to \$2,500, from \$4,000 to \$1,500.





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20% for \$35,000 - \$45,000	10% for \$40,000 - \$50,000
	20% for \$50,000 - \$60,000

1.46 million

1.55 million

275,000 (expected FHA volume plus incremental purchases)

\$1,000

NONE

NONE

60,000

Raises loan-to-value from .86 to .89 Based on in-house research, this would increase housing demand by 60,000 units per year.

90,000 - 140,000

Lowers downpayment required at purchase but raises total price of home if the second lien is amortized at mortgage rate which will be in excess of rate of inflation.

20,000

Reduces downpayment requirement for FHA only by an average of 3%.

\$1.4 billion

NONE

NONE

All costs are borne in the first year a family is a subsidy recipient.

NONE

NONE

(First Year) - \$23,000

(Total) - \$23,000

(First Year) - NONE

(Total) - NONE

(First Year) - NONE

(Total) - NONE

NONE

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An increase in foreclosure rate. Losses should be covered by the .5% premium.

Administrative cost

Would impose significant operational capacity to administer the program (e.g., would have to certify incomes of participants (\$20,000 income limit), and if constraints such as requiring purchase of decent and sanitary housing were imposed, would have to verify that constraints were met.)

Requires HUD processing at time of guarantee and management in the event of foreclosure.

Simple change in FHA processing. Larger volume of FHA insurance would increase work load.

With a large constituency. Payments will take several years. Downpayment account to make payments need not correlate with

Equal subsidy would be paid to families of different wealth. May have slight inflationary impact on price of housing since subsidy reduces purchase price.

Amortizing second lien will require a higher income to support loan (e.g., a higher monthly payment because of the higher mortgage amount).

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Could lower downpayment by up to \$2,300, from \$4,000 to \$1,500.