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ID 801612

THE WHITE HOUSE

WASHINGTON

DAF

DATE: 19 MAR 80

FOR ACTION: MCINTYRE

no comment

INFO ONLY: THE VICE PRESIDENT

EIZENSTAT

SCHULTZE

KAHN

SUBJECT: LETTER FROM MOON LANDRIEU RE: OMB PROPOSAL FOR CONTROLS ON MORTGAGE INSURANCE FOR PROGRAMS UNDER FHA

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+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: 1200 PM FRIDAY 21 MAR 80 +

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ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

March 18, 1980

Honorable Jimmy Carter
The White House
Washington, D.C. 20500

Dear Mr. President:

The Office of Management and Budget has again proposed placing controls on the amount of mortgage insurance that can be committed under the programs of the Federal Housing Administration and on the amount of commitments for guarantees of Mortgage-Backed Securities which can be issued by the Government National Mortgage Association.

Such a step would have a very severe actual and psychological impact on the housing industry at a critical time for housing. Figures just released today show that this February was the worst month for single family housing starts since March 1975, and these figures do not reflect the full impact of recent credit tightening measures.

In addition, the release issued last Friday March 14, 1980, describing your Anti-Inflation Program states that restraints on credit would be authorized for consumer loans "other than those for homes..." I understood this statement to mean that housing would be exempted from the proposed credit controls and have so publicly stated. It is my impression that members and leaders of the housing industry also have this understanding. To now include the FHA and GNMA programs in credit restraints therefore would appear confusing, contradictory and backing away from a position announced less than one week ago.

Enclosed are brief papers which explain my concerns in greater detail.

Respectfully,

Moon Landrieu

Moon Landrieu
by Victor Marrero

Enclosures

Issue: Controls on FHA Mortgage Insurance

HUD opposes placing limits on the amount of mortgage insurance written under the FHA programs for the following reasons:

1. Housing credit has already been severely reduced and housing production is likely to be cut to 50 percent of 1978 levels as a result of Administration monetary policy. Adding credit restrictions (or even the likelihood of credit restrictions) to an area already crippled by record high interest rates would be unnecessary and a devastating psychological blow. It would be a clear signal to the housing industry, the financial community and the building trades that, notwithstanding our declarations to the contrary, housing will be the primary victim of the current economic crisis. Note that even the President's statement of March 14 acknowledged that the housing sector -- and <u>only</u> this sector -- had already responded to monetary policy.

2. The FHA single family programs serve the lower half of the existing and new home purchase market. These are moderate to middle income households buying lower cost homes, and this segment of the market has been hardest hit by high interest rates. Restricting the FHA programs would further reduce homeownership opportunities for this group, without hitting the upper end of the market which has had the most serious inflation. The burden would also fall disproportionately on weak credit markets, such as inner cities, thus running contrary to the Urban Policy.

3. FHA multifamily mortgage insurance, through the Section 8, targeted tandem, unsubsidized construction and refinancing programs, is the primary source of financing for multifamily housing in this country. Restricting this source of financing would further aggravate what the Congress, local officials, academics and the general public acknowledge to be a crisis in rental housing.

4. FHA programs provide mortgage insurance, rather than loan guarantees; that is, they charge premiums sufficient to accommodate the risk taken. Thus, there is no need to seek further to limit the Federal Government's risk through credit controls.

5. FHA programs are historically demand programs. They fill credit gaps when conventional loans are not available or for persons who have difficulty obtaining conventional mortgages. As such they are a valuable stand-by resource in periods of tight money, and they provide access to housing for the lower half of the homebuying population. No justification has been given for changing this useful and well-established role.

6. An extensive, costly, complex and staff-intensive administrative system would have to be put in place to administer the controls and assure that limits would not be exceeded. This Administration should be for less, rather than more, bureaucracy.

Issue: Limitation on Commitments to Issue Mortgage-Backed Securities

HUD opposes any budget limits on GNMA securities issuances.

GNMA strongly urges that the Mortgage-Backed Securities (MBS) Program not be made subject to ceilings on guaranty authority. Such ceilings will be seriously detrimental to the supply of FHA and VA loans, and to the families who depend on such credit:

1. The GNMA-MBS Program supplies over two-thirds of all funds for FHA-VA loans. Setting arbitrary limits on the availability of such funds will disrupt a large segment of the real estate, mortgage lending, and home building segments of the economy.

2. The people most affected will be moderate income and minority families, and those buying homes in older neighborhoods, who rely most heavily on FHA-VA loans. These are the families who are least able to obtain conventional loans.

3. If there is a ceiling on FHA-insuring authority, there is no need for a redundant ceiling on the MBS Program.

4. The MBS Program is a countercyclical influence, helping to bolster the supply of housing credit when other sources dry up. Imposition of ceilings will come just as we are moving into a very tight credit period, in which MBS could serve an important role in avoiding undue hardship to the housing sector.

5. The lenders most likely to be injured by ceilings will be small businesses and minority owned companies that are least able to compete with the giants of the mortgage industry. Large firms will bid aggressively under whatever pricing mechanism GNMA uses to ration the available guaranty authority. Thus, an increased proportion of GNMA business would likely be done by the larger firms.