

THE WHITE HOUSE
WASHINGTON September 23

TO: THE PRESIDENT
FROM: Douglass Cater

A close friend of Mayor Lee's says he would deeply appreciate a letter like this as he begins his campaign for re-election.

(Pen to be
enclosed)

Meelis

Miller

Sept. 13

X 754

Dear Doug,

Dick has been reluctant to write to the President himself, but a member of his staff prepared the letter I enclose here as the kind of thing we would like to have Dick receive. It seems to me to need editing, but I leave that to you.

The best thing from our point-of-view, of course, would be that the White House release the letter.

I enjoyed that evening at your house a great deal, and I appreciated your getting me in to the signing.

I'll write about the Keppel matter later.

Cordially,

Bill

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

September 28, 1965

TO: Mr. Harry McPherson

FROM: Lee C. White *lee*

Joe Califano tells me you are to be the liaison with the new Urban Development Department. Accordingly, you may want to get together with John Gunther. I will be glad to set up such a meeting and introduce you to Gunther if you don't already know him.

The reason I have not acknowledged this is that John called on the telephone, and I indicated to him that we would let him know the appropriate individual in the White House.

*I'd appreciate
meeting him with you.
Hm*

Encl. Ltr to LCW, 9/1/65 from John J. Gunther,
U. S. Conference of Mayors

Nothing else sent to
Central Files as of *1-11-66* *LB*

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JAN 6 1966
CENTRAL FILES

EXECUTIVE

FG-170

FG-11-8-11 McPherson

LG

Harry

File



TELEPHONE 2000
(Area Code 202)

UNITED STATES CONFERENCE OF MAYORS

1707 H STREET, NORTHWEST

WASHINGTON, D. C. 20006

President:

NEAL S. BLAISDELL
Mayor of Honolulu

September 1, 1965

Vice President:

JEROME P. CAVANAGH
Mayor of Detroit

Past Presidents:

RICHARD J. DALEY
Mayor of Chicago
RICHARD C. LEE
Mayor of New Haven
ROBERT F. WAGNER
Mayor of New York City

Trustees:

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Mayor of Ogden
JOHN J. BUCKLEY
Mayor of Lawrence
JOHN F. COLLINS
Mayor of Boston
CLYDE E. FANT
Mayor of Shreveport
HERMAN W. GOLDNER
Mayor of St. Petersburg
JAMES B. MCKINNEY
Mayor of Sacramento
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Mayor of Portland, Ore.
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Mayor of Rochester, Minn.
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Mayor of Jackson, Miss.
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Mayor of Houston
SAMUEL W. YORTY
Mayor of Los Angeles

Executive Director:

JOHN J. GUNTHER

Mr. Lee White
Counsel to the President
White House
Washington, D.C.

Dear Lee:

As you know, the nation's Mayors are delighted with the prospect of the establishment of a Department of Housing and Urban Development. The Conference of Mayors has for a number of years urged this step. Now that the Congress has acted, and the bill has been sent to the President, we are most anxious to work with those who will be organizing the new department. We are not so much concerned with the personalities of those who will man the department, but rather with the organizational structure. We appreciate the fact that no new and expanded functions were assigned to the department but we do believe that organizational structure will have a great deal to do with giving focus and direction to the developing urban programs. To this end, could you suggest to us appropriate persons in the Administration with whom we might discuss the matter? Your assistance will be very much appreciated.

Sincerely,


John J. Gunther
Executive Director

Fwded: Mr. James Reid
President, Prince Georges
Maryland Young Democrats
Room 1630
Longworth H. O. B.

PL 10/ST 20
ST 20
EF 170
Masley, Peter A.

September 30, 1965

Dear Fellow Democrat:

You are to be commended for organizing and participating in the Washington Area Metropolitan Affairs Symposium on November 13, 1965.

The improvement of life in our sharply expanding metropolitan areas has been assigned top priority by my Administration. Congress has responded to the challenge by adopting new and far-reaching housing programs, and by creating a new Department of Housing and Urban Development. It is my hope that this new Department will be a major force in guiding the destiny of our cities and suburban areas.

The vast majority of the American people live in these great metropolitan complexes. They look to us -- the Party of ideas -- for the creative and humane programs which will enrich their lives, make their streets safe once more, and provide new opportunities for their children.

By holding group discussions like your Metropolitan Affairs Symposium you are demonstrating your sense of awareness and responsibility for the destiny of the metropolitan areas. My best wishes and congratulations are yours as you undertake this work.

Sincerely,

LBJ

RECEIVED
SEP 30 1965
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LBJ/HCM/crm

01
MASSACHUSETTS INSTITUTE OF TECHNOLOGY
DEPARTMENT OF POLITICAL SCIENCE

EXECUTIVE

LG

FG170

CAMBRIDGE, MASSACHUSETTS 02139

October 5, 1965

Mr. Joseph A. Califano, Jr.
Special Assistant to the President
The White House
Washington, D.C.

Dear Joe;

Herewith the paper I mentioned Saturday prepared for
Wayne Phillips, National Democratic Committee, at the
request of Weaver.

Best regards,

RCW
Robert C. Wood
Head

RCW/jwa
Enclosure

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

October 13, 1965

TO THE PRESIDENT

FROM Joe Califano *jc*

Harry McPherson, Charlie Schultze, Bob Weaver and I plan to meet with our outside group on the urban problem (Reuther, Whitney Young, Edgar Kaiser, Professors Haar and Wood, and Kermit Gordon) this Friday at noon.

We have set December 15th as the deadline for the first interim report (in time for your State of the Union Message if the panel develops something worthwhile), and January 15th for the more detailed report (in time for a possible special message on cities).

A small staff of some young, capable people, complemented by one or two of Weaver's experts, is now being formed so that the group can begin to work immediately. They will work out of the Bureau of the Budget.

When the group meets, if you approve, I would like to express:

- Your regrets at not being able to welcome the group personally and your appreciation for their assistance.
- Your urgent interest in doing something far-reaching about the problems of the city -- without becoming the mayor of every city.
- Your desire, which I will underscore, to keep the work under tight wraps so we don't read about our work in the papers.

Approve ✓

Disapprove _____

done
10-16-65
L.P.J./nmw
10:10 pmw

October 15, 1965
Friday - 12:30 p.m.

TO : The President

EXECUTIVE

FROM: Jack Valenti

99170

9911-1

SUBJECT: Organization planning for the new Department of
Housing and Urban Development

I have been giving thought to how this new department ought to get started -- and the importance of the latest management techniques applied to it. The danger is the department begins its life without the thoughtful scrutiny that produces a lean, fit, efficient organization.

Once bad management habits begin, or a department begins to proliferate without planning, it multiplies the difficulties.

I suggest:

1. ~~[We bring to this new department the professional illumination that a management consulting firm like McKinsey and Company can produce.]~~

2. We have this consulting firm begin now to work out sound, sensible management techniques that will get the department moving in right directions BEFORE trouble appears.

3. ~~Once the Secretary is chosen, the firm could work with him in their studies~~ -- and in active concert with the Secretary shape an organizational body and blueprint of movement that the Secretary will feel a part of.

Budget Bureau has done some work in this area. I have no quarrel with the Budget Bureau's thinking. But in the casting of a lean department, we ought to have the advantage of outside professionals whose views are not totally government-oriented so that whatever assets the business world has can be transported to the new department.

~~This will be the first department created under President Johnson. It ought to become the model for efficiency, results and imaginative thinking. It can do nothing of this sort, unless it is first given a shape and form that is without fat, sharply defined, immersed in spirit, and able to function without hesitancy and snarly red tape.~~

I am meeting his week with the Budget Bureau to go over their organizational plans.

QUESTION: Does the President feel the above suggestion makes sense?

Shall I look into the possibility of a management consulting firm doing this kind of job without making commitments of any kind?

Yes

No ✓

Ed. [unclear] [unclear]

Revised 10/30/65

Jack
I took the
liberty of
putting your
ring in the library-
okay?
wyder



Federal Housing Administration
Public Housing Administration
Federal National Mortgage Association
Community Facilities Administration
Urban Renewal Administration

HOUSING AND HOME FINANCE AGENCY

OFFICE OF THE ADMINISTRATOR

WASHINGTON, D.C. 20410

Return to Joe Califano
②

EXECUTIVE

FI 4/FG 170

FG 170

FG 170-5

October 21, 1965 -

MEMORANDUM FOR: Joseph A. Califano, Jr.
Special Assistant to the President
The White House

SUBJECT: Rent Supplements

In removing the contract authority for rent supplements from the Supplemental Appropriation bill today, the conferees prevented any approval of applications or commitments under the program. However, the retention of the Senate item of \$450,000 for FHA administrative expenses in connection with the program gives us an opportunity and responsibility to do more than develop further regulations, procedures and standards.

In fact, we understand that the Congress expects the funds to be used, in part, for surveys and the development of further information which will assist the Congress in acting on future appropriations for the program, and to develop projects which will be ready to go when funds are made available for rent supplement payments. We understand that it will be made clear on the House floor today that we are expected to "develop some applications".

We will begin working as soon as possible with prospective sponsors. With an aggressive administration of the limited authority given us, we should be able to develop a pipeline for use at appropriation hearings late next February or early March.

In this way, we can recoup much of the loss resulting from the action of the conferees today.

Robert C. Weaver
Robert C. Weaver
Administrator



Federal Housing Administration
Public Housing Administration
Federal National Mortgage Association
Community Facilities Administration
Urban Renewal Administration

HOUSING AND HOME FINANCE AGENCY
OFFICE OF THE ADMINISTRATOR

WASHINGTON, D.C. 20410

EXECUTIVE
FI 11/FG170 (2)
FG170-5
FG170

October 21, 1965

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Special Assistant to the President
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In this way, we can recoup much of the loss resulting from the action of the conferees today.

Robert C. Weaver
Administrator

10/22

gah/k

Milt Semer says he
doesn't mind doing
your work, but he
wants you to pay
attention and read
this before Nov. 9!

leb



Federal Housing Administration
Public Housing Administration
Federal National Mortgage Association
Community Facilities Administration
Urban Renewal Administration

EXECUTIVE
76170
76245
①

HOUSING AND HOME FINANCE AGENCY
OFFICE OF THE ADMINISTRATOR • WASHINGTON, D.C. 20410

OCT 22 1965

MEMORANDUM FOR: Lee C. White
Special Counsel to the President
The White House

Subject: Proposed Department Interim Order 1

I am attaching copies of proposed Department Interim Order 1 to be issued by the Secretary (or person designated to act as Secretary) of Housing and Urban Development immediately after he takes office.

This proposed Order contains the minimum legal provisions necessary for the continuity of the performance of the functions transferred to the Secretary by the Departmental Act.

Although continuity is largely provided for in the Act itself, major organizational units and offices which will lapse under the Act must be reestablished, and changes in nomenclature of some officials must be made.

Also, in order that current supplies of forms may be used without waste, authority would be conferred on the Federal Housing Commissioner and the Public Housing Commissioner to take action in their own names on behalf of the Secretary.

In addition to the necessary changes in titles made by the Interim Order, certain other specific titles, such as the many "Assistant Administrators", should be changed to avoid confusion. This could be cared for by an order of the Housing and Home Finance Administrator immediately before Departmental status.

The attached Order would be of a temporary or interim character, and its provisions would remain in effect only until modified or superseded by the Secretary.

Milton P. Semer

Milton P. Semer
Deputy Administrator and
General Counsel

Attachments

10/22/65

TITLE 24--HOUSING AND HOUSING CREDIT
SUBTITLE A--OFFICE OF THE SECRETARY,
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

PART 10--ORGANIZATION DESCRIPTION

Department Interim Order 1

Pursuant to Public Law 89-174, establishing the Department of Housing and Urban Development, Subtitle A of Title 24 is amended to read as set forth above, and a new Part 10 is added.

Sec.

10.1 Purpose.

10.2 Nomenclature changes.

10.3 Certain offices or positions and organizational units;

delegation of authority.

10.4 Applicability of rules, regulations, orders, authorizations,

delegations, or other actions continued in effect.

10.5 Conclusive evidence of authority.

10.6 Custody of and accountability for assets and liabilities.

AUTHORITY: The provisions of this Part 10 issued under sec. 7(d) of P.L. 89-174, 79 Stat. 670.

§ 10.1 Purpose.

This Department Interim Order 1 provides for continuity of performance of functions transferred to the Secretary of Housing and Urban Development (herein called the Secretary) under Public Law 89-174,

the Department of Housing and Urban Development Act (herein called the Act), on and after the effective date of the Act and until changed by appropriate authority.

§ 10.2 Nomenclature changes.

Wherever the words "Housing and Home Finance Administrator" or "Administrator" appear in a rule, regulation, order, authorization, delegation, or other action continued in effect under section 9(c) of the Act, except in the position title of a Regional or field office employee, such words are hereby changed to "Secretary of Housing and Urban Development" and "Secretary" respectively; and, wherever the words "Housing and Home Finance Agency" or "Agency" appear in such a document, such words are changed to "Department of Housing and Urban Development" and "Department" respectively.

§ 10.3 Certain offices or positions and organizational units;
delegation of authority.

The offices or positions and organizational units in the Department shall include, in addition to those otherwise prescribed:

<u>Office or Position</u>	<u>Respective Organizational Unit</u>
Federal Housing Commissioner	Federal Housing Administration
Public Housing Commissioner	Public Housing Administration
Community Facilities Commissioner	Community Facilities Administration
Urban Renewal Commissioner	Urban Renewal Administration.

Each officer or employee appointed to, or designated to act in, the office or position listed immediately above and each organizational

unit so listed is hereby authorized to exercise the functions, powers, and duties vested in, or delegated or assigned to, the office or position or officer or employee or organizational unit having the same title immediately prior to the effective date of the Act, and to redelegate and authorize successive redelegations of such authority to the extent empowered under authority vested, delegated, or assigned immediately prior to the effective date of the Act. Authority delegated herein or redelegated hereunder shall be exercised in the name of the Secretary except that authority delegated to the Federal Housing Commissioner or the Public Housing Commissioner may be exercised in the name of the Federal Housing Commissioner or the Federal Housing Administration, or the Public Housing Commissioner or the Public Housing Administration, respectively, and any action taken under this delegation or a redelegation hereunder by or in the name of the Federal Housing Commissioner, the Federal Housing Administration, the Public Housing Commissioner, or the Public Housing Administration shall be deemed to be the action of the Secretary.

§ 10.4 Applicability of rules, regulations, orders, authorizations, delegations, or other actions continued in effect.

Subject to § 10.2, a reference in a rule, regulation, order, authorization, delegation, or other action continued in effect under section 9(c) of the Act to an office or position, officer or employee, or organizational unit (including board or committee) shall be deemed to refer to the office or position, officer or employee, or organizational unit having the same title in the Department.

§ 10.5 Conclusive evidence of authority.

Any instrument or document, including an instrument purporting to transfer any right, title, or interest in or to real or personal property, executed by an officer or employee of the Department under the authority of this Order shall be conclusive evidence of the authority of such officer or employee to act for the Secretary in executing such instrument or document.

§ 10.6 Custody of and accountability for assets and liabilities.

The assets, liabilities, contracts, property, records, and unexpended balances of appropriations, authorizations, allocations, allotments, or other funds transferred to the Secretary shall be in the custody and subject to the accountability of the office or position, officer or employee, or organizational unit, responsible for such custody and accountability immediately prior to the effective date of the Act.

Effective as of the 9th day of November 1965.

Secretary of Housing and Urban Development

Friday, October 22, 1965
4:00 p.m.

FOR: THE PRESIDENT

FROM: Leo C. White

SUBJECT: Status of the Department of Housing and Urban Development

I do not know whether you have reached a decision on the Secretary of Urban Development, but it occurred to me that you would want to know the legal situation.

The Act becomes effective 60 calendar days following signing by the President (Nov. 9) or at such earlier time as the President shall specify by Executive Order.

If no Secretary has been named by November 9, the available alternatives for launching the new Department would be (1) to designate some Housing Agency official to act as Secretary (and presumably the same could be done for the other Presidential appointments), or (2) Presidential position other than Secretary could be filled on a recess basis, for example, an Assistant Secretary, with a letter from the President instructing that individual to serve as Acting Secretary.

There is some question about what would happen if none of these alternatives are exercised by November 9. My best information at this time is that someone below the Presidential appointee level in the new Department could conceivably be designated as Acting Secretary, although this obviously would not be a very desirable course.

The Executive Order that must be signed on or before November 9 effecting the wholesale transfer of the personnel of the Housing Agency into the new Department is being drafted and will be in hand whenever needed.

Orig not sent to file

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EXECUTIVE 19
18/25
SP-3/25
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- I. List of Major Legislative Proposals of Housing and Home Finance Agency for 1965
- II. Outline of Message on Housing and Urban Development
- III. Briefing Papers:
 1. What Form of Subsidy Will Best Enable Low- and Medium-Income City Dwellers to Meet Housing Needs?
 - A. Should A Program of Subsidized Sales Housing Be Established and, if so, What Form of Subsidy Should Be Provided?
 - B. Should Rent Supplement Payments Be Provided to Low- and Medium-Income Families to Enable Them to Occupy Standard Housing?
 - C. Should Grants Replace the Present Below-Market-Interest Rate Loan Programs As A Method of Financing Special Purpose Housing?
 2. Should the Federal Government Undertake A New Grant Program to Assist Communities to Finance Public Facilities?
 3. Should A New Federal Grant Program Be Established for Improving the Urban Social Environment?
 4. What Should Be the Future Direction of the Urban Renewal Program?
 5. Issues Involving Overlapping Agency Functions
 6. Should the Administration Propose An Urban Affairs Office or Council in the Executive Office in Addition to a Department of Housing and Community Development?
 7. Cost Estimates.

Filed
7/23/65

MAJOR LEGISLATIVE PROPOSALS OF
HOUSING AND HOME FINANCE AGENCY
FOR 1965

I. Special Provisions for Disadvantaged Persons

1. Monthly payments for low- and medium-income lessees who have potential to purchase certain FHA-insured homes they occupy.
2. Rent supplements to low- and medium-income families occupying FHA-insured nonprofit rental housing financed by market-interest-rate mortgages.
3. Rehabilitation grants to homeowners in urban renewal areas.
4. Assistance for physical improvements in connection with community social services.
5. Increased relocation payments to displaced families and elderly individuals.
6. Relocation provision in the Urban Mass Transportation Program.

II. Low-Rent Public Housing

1. Greater use of existing housing supply through leases and rehabilitation.

III. Community Facilities

1. Grants for basic public facilities.
2. Loans for advance acquisition of land.

IV. FHA Insurance Operations

1. FHA mortgage insurance for land development.
2. Optional cash payment of FHA insurance benefits.

V. Urban Renewal

1. Make community renewal program a prerequisite to urban renewal projects in cities over 50,000 population and counties.
2. Increase in residential exception.

Urban Planning Act

1. Extend sec. 50,000. Planning grant a to cities over

VII. Open Space

1. Increase in general program. level and broadening space land

VIII. Miscellaneous

1. Temporary National Commission on Codes ing.
2. National Council of Redevelopment Financing Institutions.
3. Urban Development Fund System.

IX. Continuation of P

1. Low-rent public housing - increase in authority. contributions
2. FNMA special assistance - increase in authority (including housing for small towns).
3. Urban renewal - increase in capital grant authority.
4. College housing - increase in authority for loans.

3

5. Increase in authority for appropriations -

- a. Housing for the elderly
- b. Urban planning assistance grants
- c. Public works planning advances
- d. Open space grants
- e. Grants for Federal-State training

6. Extensions of FHA insurance authorizations -

- a. Title I repair loan program
- b. General mortgage insurance authority
- c. Section 221 program for low- and moderate-income, and displaced
- d. Sections 809 and 810 programs (military, NASA, and AEC)

X. Department of Housing and Community Development

- 1. Establish Department of Housing and Community Development. Authority in the Department to establish a National Institute of Community Development.

Outline of Message
on
Housing and Urban Development

I. Introduction

We must take prompt and vigorous steps to help meet the problems of rapid urban and metropolitan growth and press forward towards our national goal of a decent home in a decent environment for every American family. To accomplish this we must:

- A. Undertake new programs to assist low- and medium-income people in our large urban areas to obtain decent housing, extend our housing programs to small cities and towns, assist more effectively the provision of adequate housing in rural areas, and continue our existing housing programs for all income levels;
- B. Undertake new programs to assist our communities to provide improved public facilities and social services;
- C. Undertake new programs to help the future growth around our urban areas take place in a planned and orderly fashion with adequate highways, sewer and water facilities, schools, and other public facilities and services;
- D. Improve and continue the existing urban renewal, urban planning, public works planning advances, and open space programs as a means of eliminating slums and promoting the orderly development of cities, and place greater emphasis upon the reclamation of "grey areas";
- E. Encourage good design, desirable community and site planning, - conserve our natural beauty, and provide an urban environment that is attractive as well as functional;
- F. Provide governmental machinery necessary to effectively administer all housing and urban development programs by creating a Department of Housing and Community Development.

II. Housing

- A. We recommend a program which will provide, over the next four years, one million dwelling units for those who need financial help to obtain decent housing.

1. A new program which would help low- and medium-income families, who have the economic potential, to become homeowners, by permitting them to occupy, under a lease with option to buy agreement, certain FHA-insured single-family homes.
 2. A new program of rent supplements to low- and medium-income families occupying nonprofit rental housing.
 3. Continuation of the existing public housing program with flexibility in the subsidy formula to permit greater use of existing housing, as in the Administration proposal of 1964.
 4. Continuation of the existing rental housing program for moderate-income families which makes use of below-market-interest-rate mortgages. (Sec. 221(d)(3))
- B. We recommend that the existing loans program for housing for the elderly and handicapped and for college housing be expanded.
- C. We recommend new programs to enable the residents of our small towns and rural areas to obtain adequate housing.
1. A new program to assure availability of FHA financing for housing in small cities and towns which will include FIMA special assistance for mortgages on such houses.
 2. An insured rural housing loan program for rural areas.
- D. We recommend equal opportunity in housing for all.
- E. We recommend a substantial new effort to improve the quality and reduce the total cost of housing generally.
1. Establishment of a temporary National Commission on Codes and Zoning.
 2. Meaningful Federal appropriation for technological research in home production and construction and for research on land and public facilities and all other cost factors.

III. Improving our communities

- A. We recommend a new program of "block grants" to assist urban communities to provide needed social services and necessary related physical facilities.
- B. We recommend a new program of matching grants to assist urban communities to finance basic public facilities.
- C. We recommend continued use of the urban renewal program to eliminate slums, but on a more community-wide, planned basis.

The Federal program of urban renewal is today our principal instrument for eliminating slums and renewing the vitality of older communities and worn-out neighborhoods. To make this program more effective we will:

- 1. Ask for authorization to continue urban renewal for four years at a level of approximately \$800 million a year.
 - 2. Ask for legislation making the existence of a community renewal program a prerequisite to urban renewal projects in cities with a population of over 50,000.
 - 3. Utilize urban renewal project funds to rehabilitate rental properties which will be sold to nonprofit groups and made available to low-income groups at prices they can afford.
 - 4. Make use of the low-interest-rate direct loan program authorized by section 312 of the Housing Act of 1964 to encourage private rehabilitation of properties in urban renewal areas.
 - 5. Ask for authority to make grants to low-income homeowners in urban renewal areas to enable them to finance repairs required to bring their homes up to code standards, where loan facilities are not adequate.
- D. We recommend that those families and elderly individuals displaced by urban renewal, public housing, and mass transit activities be provided relocation adjustment payments as proposed in the Administration's Housing and Community Development Act of 1964.

- E. We recommend the establishment of an urban extension service.
- F. We recommend that the open space program be continued and improved by increasing the maximum grant to 50 percent, and permitting the use of the proceeds to provide neighborhood parks and playgrounds.

IV. Assistance for orderly growth and development

- A. We recommend a program of direct loans to private developers for the acquisition and development of sites for major projects in suburban and outlying areas.
- B. We propose direct loans to States and State-chartered public corporations for land acquisition to be used in such development; loans to such corporations for the construction of public utilities to serve areas of development.
- C. We recommend that the new matching grant program be available to public bodies for public facilities being developed on sites acquired with insured private developers or direct loans to State-chartered public corporations.
- D. We recommend a program of Federal low-interest loans to finance the advance acquisition of land for future public use.
- E. We recommend the continuation of the urban planning program broadened to cover cities above 50,000.

V. Implementation of 1964 Act Provisions

- A. Promote appropriation for section 312 rehabilitation program.
- B. Promote appropriation for Federal-State training program.

VI. Department of Housing and Community Development

We recommend that the Congress establish a Department of Housing and Community Development. The Department would have authority to establish a National Institute of Community Development.

WHAT FORM OF SUBSIDY WILL BEST ENABLE
LOW- AND MEDIUM-INCOME CITY DWELLERS TO MEET HOUSING NEEDS

**A. Should a Program of Subsidized Sales Housing Be Established
and, if so, What Form of Subsidy Should Be Provided?**

1. Nature of Problem.

There are many low- and medium-income families who have a strong desire and proven capacity or potential for home ownership but who presently are unable, even apart from questions of racial discrimination, to acquire new homes at prices and on credit terms presently available.

2. Basic Questions.

There are two basic questions involved: (a) whether any subsidy program to enable low- and medium-income families or any class of such families, to become home owners should be adopted and, if so, (b) what general form of subsidy should be provided. These two issues are necessarily connected because any form of subsidy presents some obvious problems. The difficulty of settling upon an acceptable form of subsidy is a factor to consider in determining the merits of adopting a program.

Issue (I) Should a program of subsidized sales housing be adopted for low- and medium-income urban families, or any class or classes of such families?

a. Recommendations.

- (1) Task Force. The Task Force recommends that programs be initiated, at least on an experimental basis, that would provide some form of subsidy for sales housing.
- (11) Housing Agency. The Housing Agency concurs in the Task Force recommendation for a program but believes that such a program should be limited to those who are in need of securing housing other than that which they presently occupy and who have a

demonstrated or reasonably determinable capacity to increase their incomes as necessary to assume the burdens of home ownership. It recommends, accordingly, that the experimental program be limited to those with home ownership capacity who (1) are displaced by governmental action and are ineligible for public housing, or (2) are in public housing but have successfully increased their incomes to the point where it equals or exceeds the regular limits for continued occupancy.

b. Issues - Pro and Con.

Generally, existing FHA programs, which are designed to secure maximum leverage within the existing market credit structure, are inadequate to meet the desire for home ownership among many lower income families. To a large degree, these families are confined within central city areas and are unable to secure new sales housing constructed largely in suburban areas.

An appropriate program of subsidized sales housing would permit more families to realize aspirations for home ownership, would facilitate dispersion of lower income families into suburban areas, and could stimulate the production of housing by increasing effective demand.

It should be recognized that not all lower income families, with limited resources, may be able or expected to assume long-range home ownership burdens. Even so, the supply of housing that is or may be made available within a limited program period is so small, relative to total demand, that very difficult problems of selection, equity, and program control would be presented unless eligibility were limited to groups with some recognized and identifiable special need for sales housing assistance. The Housing Agency has accordingly recommended that the experimental program be limited to families with home ownership potential who are confronted with a need to abandon their present housing and secure new housing accommodations, either because (1) they are displaced by governmental action, or (2) they have increased their incomes to a point where they are no longer eligible to remain in public housing units which they have occupied. A program so limited would have the collateral advantages of assisting in meeting mounting problems of displacement, easing the transition problems inherent in public housing income limitations, and facilitating the use of the existing public housing supply for families in the lowest income groups.

Of course, the desirability of any program must be measured against the forms of subsidy available. Any overt grant subsidy is novel and could have serious political implications. These would, however, be limited to the extent that the program was restricted to those who have some special and more or less accepted claim to special treatment. A more concealed loan or credit subsidy, while more likely to be broadly acceptable, may be less effective and under forms presently suggested would have an adverse budget impact.

c. Previous Legislative or Other Considerations.

A limited loan subsidy for rural lower income families is presently provided under the direct loan program of the Farmers Home Administration. Proposals for some form of loan subsidy available to lower income urban families have been suggested in recent years by a variety of private groups and included in specific recommendations received by Congressional Committees during consideration of the Housing Act of 1964.

With respect to displacees, several proposals for special loan assistance, above and beyond the existing FHA 221(d)(2) program, have been made in recent years and are understood to be under consideration by the Select Committee on Real Property Acquisitions of the House Committee on Public Works. Proposals to assist over-income public housing tenants have also been frequently made in recent years but have involved a further relaxation of existing income limits rather than assistance in securing new housing.

d. Reactions of Interested Groups or Leaders.

Various groups, including the home builders, the National Housing Conference, and the Urban League, have suggested some form of program. This support would clearly extend to appropriate proposals to assist displacees in securing sales housing. Liberals and charitable groups, among others, would probably endorse appropriate proposals for aiding over-income public housing tenants to make the transition to the regular sales housing market. Some of the public housing lobby may be cool or opposed to the proposal because they feel that income limits on public housing occupants should be raised and that program utilized to house the moderate-income households.

c. Issue - Pro and Con.

Any form of below-market-interest loan program, direct or indirect, involves substantial initial outlays and accordingly has an adverse budget impact. An outright grant subsidy, on the other hand, would be novel and far less likely to be politically acceptable, even if limited to displacees and over-income public housing tenants.

The Housing Agency proposal would authorize grants only during the period when the family occupies the property as a tenant and before it exercises its option to purchase. The purchase itself would be made on the same basic terms and conditions as apply to any other family seeking to acquire FHA section 221(d)(2) housing. The family would, therefore, be assisted in preparing for home purchase but no grant or special loan assistance would be directly in support of the purchase itself. Moreover, since the housing would be initially constructed with the assistance of a market-interest rate loan, budget impact would be limited substantially to the cost of the rent supplement or grants during the period the family remained a tenant.

The Housing Agency proposal also has the advantage of following, in general outline, a much-discussed low-income demonstration project now under way in Tulsa, except that that project is assisted by a below-market-interest rate FHA-insured loan.

d. Previous Legislative or Other Considerations.

As indicated, the Housing Agency proposal reflects experience obtained from a low-income demonstration project already undertaken. Low-interest, direct and indirect loan programs have been proposed by private groups during Congressional consideration of the Housing Act of 1964 which would apply to all middle, or lower-middle income families.

3. Reactions of Interested Groups and Leaders.

Any program involving an application of, or reasonably close variation upon, the Tulsa demonstration would be supported by the National Association of Home Builders and would probably be either indorsed by, or acceptable to, liberal groups. A direct loan program would be opposed by at least mortgage lenders. An overt grant subsidy for home purchase would be vigorously opposed by most conservative groups and would have potentially serious political implications among other groups as well, in view of its application in suburban areas. Grant assistance, limited to assisting families to prepare for home ownership, would be more widely acceptable, particularly if limited to families in groups recognized as meriting special concern.

B. Should Rent Supplement Payments Be Provided
to Low- and Medium-Income Families to Enable
Them to Occupy Standard Housing

1. Nature of Problem

Families within the low- and medium-income range cannot allocate much more than 20 percent of their incomes for housing without cutting back on other urgent necessities of life. As a result, in many urban areas there are a large number of families who cannot afford the price of standard housing.

At present, many of these families are ineligible to occupy public housing (because their incomes are too high to qualify for occupancy) and cannot afford to pay the rentals required for housing constructed under the below-market-interest rate program (section 221(d)(3)) of the FHA-FNMA for families of moderate income. These families fall into the income gap that presently exists between the group served by public housing and the group served by the 221(d)(3) program.

Many of these families have demonstrated a capacity or potential to ultimately sustain themselves as non-subsidized home owners. The Housing Agency's recommendations under "A" above are geared to the aspirations and capabilities of this group.

On the other hand, many of these families do not aspire to home ownership, and some of these families, for economic reasons, have neither the capacity or potential to purchase a home.

2. Recommendations.

(a) Task Force. The Task Force recommends "full-scale experimentation with rent supplements for families, utilizable only in standard housing, in areas with adequate vacancies, with periodic checking of market and social effects".

(b) Housing Agency. The Housing Agency recommends a 4-year program of monthly payments in the form of rent supplements to the following classes of low- and medium-income families ineligible to occupy public housing (because their incomes are too high to qualify for occupancy): (1) elderly (62 years of age and over), (2) families displaced from their homes by governmental action, and (3) those families required to leave public housing units because their incomes exceed public housing income limits.

These rent supplements would be made only to those eligible families who occupy rental housing built by nonprofit organizations with the assistance of market-interest-rate mortgages under the section 221(d)(3) program. The rent supplements would not be available to occupants of housing built with section 221(d)(3) below-market-interest rate mortgages.

The rent supplement would equal the difference between 20 percent of the eligible families' monthly income and the amount of the monthly rent for the unit the family occupies. The family income would be reviewed annually and the monthly rent supplement would be adjusted accordingly.

The availability of this program of rent supplements for the elderly may make it possible to reduce the volume of, or phase out, the elderly direct loan program.

(c) Other Alternatives.

- (i) Simply increase the scope of the public housing program to include families in this lower middle-income range.
- (ii) Make the Housing Agency recommendation apply to the below-market-interest rate program under section 221(d)(3).
- (iii) Provide grants to nonprofit corporations or others to construct housing to be occupied by these families, or provide either directly, or through a FNMA take-out, extremely low-interest rate loans to such builders.

3. Basic Issues - Pros and Cons.

(a) Extension of public housing to serve this income group.

Of course, extending public housing to higher income groups could conceivably meet the problem if this could be done practically and with unlimited resources. The necessary administrative machinery is all available. As a practical matter, however, the public housing program will probably have to remain confined to serving a limited income range, and only a small segment of that range. This is dictated by the position of public housing politically, and its limited public acceptance. Its use for higher income groups would also present some legal and other problems.

(b) Making rent supplements available in existing 221(d)(3) program.

Making the rent supplement payments applicable to the below-market-interest rate program or section 221(d)(3) would have the advantage of such in that rates in reducing the amount of the subsidy, and thus bringing a lower income group with the same amount of grant would also utilize an existing successful program. However, the reaction in Congress may be unfavorable. Some regard the section 221(d)(3) program as a subsidy on construction, and a double subsidy would be involved.

(c) Increasing the range of this income group. bring its rentals within

The direct rent supplement payment seems far more desirable than any attempt to reduce the rent through capital grants available toward the cost of construction of the project or very low-interest rate loans covering the full cost of construction.

The monthly payment to the tenant has the virtue of not capitalizing the amount of subsidy needed at the very outset -- when construction of a project is begun. It also is more flexible in that the payment can be adjusted to the shifting income of the family which receives it. There would thus be much less budget impact than if grants were made toward the cost of construction or a low-interest rate loan covering the full cost of construction.

(d) Tying rent supplements to identifiable project properties.

A problem in developing an acceptable rent supplementation proposal results from the need to develop some rational limitation on the group eligible to receive the payments. Although made to individual families, the payments must be tied to occupancy of some specific identifiable project properties if the plan is to be feasible. Unless the payment is tied to a project property there is no feasible method of selecting those families who will receive the payments and no administratively feasible method of assuring the quality of the housing they occupy.

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The Housing Agency proposal meets this problem by limiting payments to those families (otherwise eligible by virtue of their income) who occupy dwelling units in a special category of FHA-insured housing.

- (e) Limiting rent supplements to the elderly, those displaced by governmental action, or those required to leave public housing.

In addition to the need to tie the payment of rent supplements to identifiable project properties, there is a need to select from a limited universe of eligibles from the large group of low-moderate income families.

The supply of identifiable project properties, as to which rent supplements may be paid, will be so small relative to the total needs of the low- and medium-income group that very difficult problems of program control would be presented unless selection were made from special members of the income group deserving of priority treatment. The Housing Agency has accordingly recommended that the program of rent supplements be limited to those listed in heading (e) above.

The elderly have obvious and well-documented needs for financial assistance. The special responsibilities of the public to those required to leave their homes because of public action is well recognized. Making these rent supplements available to those required to leave public housing helps to make private housing available to these persons and serves as a method of increasing the turnover in public housing so that more persons can receive its benefits.

- (f) Relationship of Housing Agency proposal to public housing.

The Housing Agency rent supplement proposal would (for a group less in need of the community and social services provided in public housing) utilize the public housing formula of subsidy in privately financed and privately constructed housing. In addition to lesser NOA impact, this approach would be more economical and also avoid dislocation of families when and if they achieved incomes which no longer needed to be supplemented.

The Housing Agency rent supplement proposal would not be made available to those eligible for public housing. The average benefit of the Federal subsidy provided by the rent supplement proposal will be approximately \$27 per month per unit, whereas the Federal benefit provided by public housing is considerably greater -- averaging approximately \$42 per month per unit in addition to the value of the local tax exemption. In addition,

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public housing includes certain social services appropriate for this low-income group.

Because of the deep subsidy, including local tax exemption, required for public housing occupants, and the necessary administration of social services and often welfare payments, it is important that the housing subsidy for this income group be administered by a local public body. It is not appropriate for nonprofit sponsors to administer the necessary social and welfare services, and normally they cannot provide the benefits of real property tax exemption. Accordingly, the needs of the income group now served by public housing should continue to be served by public housing, and the program proposed by the Housing Agency with respect to a higher income group should not extend into the income group eligible for public housing.

4. Previous Legislative or Other Considerations.

The idea of direct payments to families in the form of rent supplements has, in effect, been accepted by the Congress in very limited circumstances. The relocation adjustment payment provisions contained in the Housing Act of 1964 contemplates that those displaced by urban renewal will receive a payment equal to the difference between 20 percent of their income and the cost of standard housing for a 12-month period.

In the late 1940's and again in 1953 there was considerable discussion and consideration of the idea of rent supplements. Also, in 1960 the Home Builders had a housing report prepared which recommended some versions of this idea. The idea foundered partly because those considering the proposal could not tie the family eligible to receive the payments to occupancy of some specific dwelling units. This problem would be avoided in the Housing Agency recommendation.

5. Reactions of Interested Groups or Leaders.

Labor, liberal and minority groups would support the Housing Agency proposal. So would the building industry since the proposal would make for more effective demand for housing units.

C. Should Grants Replace the Present Below-Market-Interest-Rate
Loan Programs as a Method of
Financing Special Purpose Housing?

1. Nature of Problem.

In terms of budget impact, the Housing Agency's below-market-interest-rate loan programs for financing special purpose housing (the College Housing Loan Program; the Elderly Direct Loan Program; and the Moderate Income Rental Program, section 221(d)(3)) require the maximum use of Federal funds. In these direct loan programs, the full amount of the loan, which covers the entire cost of the special purpose housing, is ultimately charged as a budget expenditure.

A Federal grant (either as a direct capital contribution towards the construction of the project, or as an annual payment to help amortize private financing) could achieve special purpose housing with the same cost to the ultimate occupant as do the direct loan programs and with less immediate impact on the budget. There are, however, serious problems involved in going to some form of grant assistance.

2. Recommendations.

- (a) Task Force. The Task Force "while urging the continuation and expansion of successful financial assistance programs pending the development of acceptable alternatives" recommend that "programs of direct assistance for reducing the costs of low- and moderate-income housing be combined with a shift to private lenders of as much of the total financing as possible."
- (b) Housing Agency. The Housing Agency views this recommendation as endorsing a continuation of the existing section 221(d)(3) below-market-interest-rate program as a method of financing rental housing for moderate-income families. The Housing Agency strongly recommends the continuation of the 221(d)(3) program in its present form until alternative methods of providing low-moderate-income rental housing are adopted and proved successful.

It may be feasible to effectively accomplish the purposes of the College Housing Loan Program and the Elderly Direct Loan Program with some form of Federal grant assistance rather than through a below-market-interest-rate direct loan program. There are, however, serious questions as to the ultimate cost, the equity, and the feasibility of switching from direct loans to some form of grant assistance.

3. Basic Issues -- Pros and Cons.

(I) College Housing and Elderly Direct Loan Programs.

Advantages. Substituting some form of grant assistance for the below-market-interest-rate direct loans provided by these two programs has two advantages: (1) there could be a substantial reduction in the impact these programs have on the budget, and (2) the maximum amount of private financing would be used in the construction of the special purpose housing facilities for which the grant is made available.

Disadvantages. (1) The grants required to carry out the purpose of the loan program would actually cost the Federal Government far more than does the loan program.

The loans made under the College Housing and Elderly Direct Loan Programs, while of great benefit to those who receive them, cost the taxpayer only a minimal amount at worst. The interest rate charged on loans made under these programs is sufficient to cover the average cost of all outstanding interest-bearing obligations of the United States. If there is a cost to the taxpayer involved in these direct loan programs, it is measured by the difference between the average annual interest rate on the public debt and the interest rate that would have to be paid by the Treasury if, for these programs, it issued securities having maturities comparable to the maturity of the program loan.

The amount of grant necessary to accomplish the same program purpose would, however, involve substantial costs, since the grant would have to equal the value of the benefit the loan program confers upon those who use it.

To confer as much benefit on the sponsor of a college housing project as does a 3-3/4 percent direct loan, a grant, made at the outset, towards construction of the project would have to equal approximately 27 percent of the cost of the project.

Grant subsidy in the form of an annual payment to help amortize private financing would be far more costly and would apparently have almost as much budget impact as does the existing direct

loan program, because a commitment would have to be made for the entire period of the loan.^{1/}

It seems, therefore, that this alternative is not only much more costly than a direct loan program, but involves very little savings in terms of budget impact.

(11) A general rise in mortgage interest rates could result if grants were substituted for below-market-interest-rate loans, and the private money market were relied on for the remainder of the financing.

This is true because substantial additional demand for private market money would be created with no compensating increase in the supply of mortgage money.

(II) The 221(d)(3) Program. It is not now feasible to convert this program to grants.

The arguments as to the advantages and disadvantages of converting the college housing and elderly direct loan program to some form of grant subsidy are equally applicable to the 221(d)(3) program. But, in addition, a proposal by this Administration to depart from the loan approach of the existing 221(d)(3) program would endanger its continuance. Its loss would mean the loss of the most successful innovation of the Kennedy Administration in the field of housing.

Federal financial aid for housing moderate-income families has long been a very controversial subject in the Congress. Attempting to change the present method of financing would add to the controversy. Thus, failure to hang on to the gains we have made in this field could through confusion of issues result in the loss of a very successful program for one of the areas of greatest housing need.

^{1/} For example, a one million-dollar, 50-year college housing loan at 3-3/4 percent would involve an annual debt service charge of \$44,570. The same loan obtained in the private market would presently bear a 5-3/4 percent interest rate, and the annual debt service charge would be \$61,240.

If the difference, \$16,670 per year, were to be financed by an annual Federal payment, the total cost for the 50-year period would involve the expenditure of \$833,500 for the 50-year period. And it appears that the total amount (\$833,500) would be charged as a budget expenditure in the year in which the contract to pay the annual subsidy was entered into.

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Congressman Albert Thomas has articulated the Congressional consensus that a below-market-interest-rate loan program, which repays to the Federal Government the cost of the money used in the program, involves no cost to the Treasury. The vast majority of the members of the House and Senate Committees on Banking and Currency support the existing loan programs. They regard the programs as being both popular and successful. They undoubtedly regard loan operations as being much more acceptable to many of their constituents than Federal grants. Those few who may question existing loan authority would undoubtedly be opposed to grant authority.

Alternative Proposals. Insofar as the desire to convert the College Housing and Elderly Direct Loan Program to grant subsidies reflects a need to reduce budget impact, the result could be achieved by alternative means.

Salable Assets. Unlike a Federal annual grant, a Federal loan is repayable and constitutes an immediate asset which may be sold at the market price to improve budget position.

Capital Budget. Certainly there is no logic in charging self-liquidating loans, of the type involved in the College Housing and Elderly Direct Loan Program, against the debt ceiling, and with appropriate legislative changes, these programs could be removed from the administrative budget.

4. Previous Legislative or Other Consideration.

At least twice in the recent past, attempts have been made to convert direct loan programs into loan guaranty programs.

Last year the Administration proposed, in effect, that the Farmers Home Administration direct loan program be converted to a loan guaranty program. The Congress soundly rejected the proposal.

Earlier it had been suggested to the Congress that this Agency's college housing program be converted from a direct loan program to a loan guaranty program, and that proposal too was rejected by the Congress.

5. Reactions by Interested Groups or Leaders.

The mutual savings banks and other financial institutions would, of course, support a discontinuance of direct loan programs.

SHOULD THE FEDERAL GOVERNMENT UNDERTAKE A NEW GRANT
PROGRAM TO ASSIST COMMUNITIES TO FINANCE PUBLIC FACILITIES?

1. Nature of Problem.

There is a critical backlog of needed public facilities in most of the communities in the Nation. The lack of necessary public facilities has greatly impaired the ability of many small towns to establish and maintain healthy economies and to provide jobs for their young people.

Inadequate and makeshift planning for future growth plus a failure to invest sufficient resources in public facilities has been responsible for much of the ugliness and waste involved in the rapid growth of our urban areas.

With the tax resources presently available to them, the States and localities themselves seem unable to finance the necessary investment in public facilities.

2. Recommendations.

- (a) Task Force. The Task Force recommends a program of "grants for public facilities in urban areas" to insure "the timely construction of water treatment plants, sanitary disposal systems, solid waste disposal systems, hospitals, community and recreational facilities."

The Task Force recommends that grants for specific public facilities which are (or should be) genuinely regional or metropolitan in nature be made only if a comprehensive regional plan covering both physical and social services which are to be provided has been developed and only for specific public facilities which conform with these plans.

The Task Force recommends that the fiscal capabilities of applicants be considered in making the grants proposed and that "an equitable allocation formula" be adopted "to assure the most effective expenditure of Federal funds, and its direction to those portions of our new cities in greatest need . . .".

- (b) Housing Agency. The Housing Agency concurs in the Task Force recommendation for a program of grants for public facilities. The Housing Agency also agrees with the Task Force recommendation requiring regional planning for the entire urban area as a condition to the making of grants for specific public facilities, the construction of which must be consistent with regional planning.
- (c) Other Alternatives. Congressional staff are preparing a public works bill to be introduced by members of appropriate Congressional committees. Those working on the Congressional bill appear to be considering a grant program which contains no stringent planning requirements and makes no attempt to condition the availability of grant funds upon some test of fiscal capacity of communities.

The consensus of opinion among Congressional people is that the program they propose would be administered by the Housing and Home Finance Agency under substantially the same ground rules adopted in connection with the Accelerated Public Works Program.

3. Basic Issues -- Pros and Cons.

Arguments Against. The principal argument made against a Federal grant program is that it will not stimulate any additional construction of public facilities but will merely substitute Federal, for local, money.

The total expenditures of States and localities on public facilities run to around \$16 billion a year. It is difficult to establish the amount of additional expenditure that is stimulated by a Federal grant program the dollar volume of which will be very small in relation to annual expenditures presently being made.

However, it does not appear impossible to assure that a community does not use Federal grant funds to reduce its total expenditures for public facilities. The statutory language authorizing the accelerated public works program in effect required that the Federal grant result in incremental expenditures for public facilities by the community receiving the grant.

Arguments For. There is almost unanimous agreement that there is a large backlog of public facilities needs; that the country should be investing more of its gross national product in public facilities; and that the States and local governments do not have the tax resources available to them to do the job that must be done.

Other Issues.

Measuring Fiscal Capacity. No one has yet devised a successful method of measuring the fiscal capacity of a community to finance public facilities. Any attempt to condition the availability of grant assistance, or the percentage of the grant that could be made available, upon some test of the communities' ability to pay for the facility would be far more trouble than it is worth.

Planning Requirements. The planning requirements must not be so inflexible as to deny to small towns outside of large urban complexes the right to receive a grant for a specific public facility. In the case of water and sewer, the most prevalent public facilities that will occur, economies of size could be a criterion. This would mean that minimum scale of facilities would be required, thus also avoiding a series of small unrelated developments.

4. Previous Legislative or Other Considerations.

The Accelerated Public Works Program was extremely popular with the Congress. While that program was initially sold primarily as an employment generator, the unemployment criteria for eligibility were quite loose, and a very large number of communities were able to participate.

5. Reactions of Interested Groups or Leaders.

Labor has strongly recommended a public works program. It has very wide support in the Congress. Mayors and the cities support it.

SHOULD A NEW FEDERAL GRANT PROGRAM BE ESTABLISHED
FOR IMPROVING THE URBAN SOCIAL ENVIRONMENT?

1. Nature of Problem.

Improvement of the urban social environment requires additional expenditures for a variety of urban services and supporting physical facilities. Comprehensive planning directed to urban social problems is also largely lacking at the local level and is necessary if localities are to define goals and priorities so as to secure the greatest benefit from limited funds.

2. Recommendations.

- (a) Task Force. The Task Force recommends that new Federal assistance be made available to urban communities in the form of (i) block grants for urban services and (ii) grants for supporting physical, health, educational and cultural facilities, both conditioned upon the preparation of local social renewal plans.

The block grants would be provided on a "non-categorical basis" designed to permit local determination of the urban services that would be provided, and local adjustments to take into account the different patterns of local revenues. Among the services proposed to be provided could be aid in training police, funds for increases in police salaries, and aids to individuals for getting legal advice.

The amount of block grant assistance would be related to need by indices measuring the number of low-income families, obsolescence of housing units, density of population, and mean income of population.

The block grants would provide assistance to "inner-ring" local governments whose land uses are primarily of the "gray area" variety and central area municipalities where very large social needs coexist with sizeable but not sufficient local tax resources.

- (b) Housing Agency. Favors the Task Force recommendation.

- (c) Other Alternatives. Expansion, as appropriate, of existing programs, coupled with continued efforts to secure better coordination of all programs affecting the urban environment, would be one alternative to the entire proposal.

3. Basic Issues - Pros and Cons.

The increased social and urban services proposed to be financed by block grants are extremely desirable. The Task Force proposal seems to be in the direction of the Heller proposal for returning Federal tax receipts to the States.

In principle, the need for both increased expenditures for urban services and supporting facilities, as well as for better social planning at the local level, is widely recognized. There are, however, some practical and operational problems. These include --

- (i) Coordination with existing programs. The recently enacted poverty program, for example, includes Federal grant assistance to locally planned community action programs which are not necessarily limited to education, work and training projects but may embrace aid for a wide range of urban social services in particular communities. Additional complications could result from a new program which covered the same types of services but in a different form ("block grants") and with a different (Social Renewal) plan. Possibly the two local plans could be coordinated at the local level and reviewed for consistency by a Federal interdepartmental board of review.
- (ii) Administration of "block grants". To avoid jurisdictional problems of Congressional committees and Executive agencies, it may be desirable to have HEW administer block grants for urban social services (excluding possibly police services and law enforcement) and the Housing Agency administer physical facilities (excluding educational).
- (iii) Congressional reluctance. Congressional committees in charge of housing and community development legislation have in the past been extremely reluctant to authorize Federal assistance to local social and other services, such as some of the house-keeping training and other services so badly needed by tenants of public housing. Also, of course, they have been reluctant to give such broad authority as is contemplated by block grants, where large expenditures are involved.

4. Previous Legislative or Other Considerations.

In connection with the 1961 Housing Act, proposals were made for extending the demonstration program to social services in connection with public housing. The Congress did not accept this. However, the existing legislation with respect to public housing and urban renewal does cover such directly related matters as services to displaced persons and businesses. The Social Security program and other HEW programs may be regarded as similar to a block grant proposal for assistance to municipal services. However, they are generally delineated by specific formulae and other prescribed limitations. We know of no serious consideration having been given in the Congress to a block grant proposal for municipal services or other municipal functions or activities.

5. Reactions of Interested Groups or Leaders.

Obviously, organizations representing State and local Governments and social welfare organizations would favor the proposal. Some conservative Congressmen may favor the proposals as a return of Federal tax funds to localities, but most would blast the proposals as "give-aways." The degree of support, however, could vary considerably according to which Federal agency or agencies might be assigned to administer the program. Particular aspects of the proposal, such as grants for educational or cultural facilities, could also encounter strong opposition on obvious grounds.

ISSUES INVOLVING
OVERLAPPING AGENCY FUNCTIONS

I. OUTDOOR RECREATION PROGRAM

The Problem - Overlapping Functions as Follows:

1. The new Land and Water Conservation Fund Act of 1965 authorizes the Secretary of Interior to provide matching grants to States for Statewide outdoor recreation planning and the acquisition and development of land and waters for outdoor recreation use. This authority applies to urban as well as other areas.

2. The Housing Agency makes grants, to States and local public bodies, under its legislation for comprehensive urban planning and for the acquisition in urban or urban-related areas of open-space land primarily for recreational purposes.

The Land and Water Conservation Fund Act provides that the President, in order to assure consistency in policies under these programs, could issue such regulations as he deems desirable.

Recommendations of the Housing Agency:

1. Agency to Make Grants for Open-Space:

The Housing Agency should make grants for open-space land in urban and urban-related areas, and the Interior Department should make grants for open-space for recreation use outside urban areas. However, the Interior Department could make its grants even in urban areas if made pursuant to a State plan involving 50 percent State funds. In other cases, the grants in urban areas would have to be made pursuant to the Housing Agency legislation. This would mean that in such cases the urban area would not have the advantage of the more liberal Interior legislation (50 percent instead of 20 or 30 percent grants, and funds for development of land). However, the Housing Agency recommends legislation to put its open-space program on a par with the Interior legislation.

2. Planning:

a. Any grants in urban areas by either agency should be subject to the following planning requirements:

- (1) There must be a program of comprehensive urban planning actively being carried on, and the comprehensive planning must include a completed open-space plan.

(ii) The land to be acquired must be important to the execution of the open-space plan.

(iii) The Housing Agency would establish criteria for determining the adequacy of comprehensive urban planning.

b. The Housing Agency will provide assistance for State-wide recreation planning meeting Interior criteria wherever that can be done as part of comprehensive planning. Interior would assist such planning only where the State is unable or unwilling to carry on a comprehensive urban planning program.

II. HOUSING IN SMALL TOWNS

The Problem - Overlapping Jurisdiction as Follows:

The Farmers' Home Administration makes direct loans, and certain insured loans, to finance housing in small towns with populations less than 2,500, and suggestions have been made for extending their programs to larger towns..

The Federal Housing Administration insures loans for housing in small towns (the same as in cities) although this operation has not been extensive in these towns.

Recommendations:

The Farmers' Home Administration has engaged in non-farm housing activities only in recent years and only to fill a gap between its farm housing and the actual use of Housing Agency programs in many small communities. It is generally agreed that all Federal farm housing activities should be handled by the Department of Agriculture because of the relationship of a farmhouse to the economy of the farm. Traditionally, the Housing Agency has been considered the agency primarily responsible for handling all other Federal housing activities. The overlapping jurisdictions of these agencies need further examination and redefinition.

The Housing Agency recommends that in any event the programs of the Housing Agency in small towns be strengthened and made more generally applicable. It proposes that the Federal National Mortgage Association be authorized to provide up to \$350 million during the next four years in special assistance to FHA-insured housing in small towns, and that FHA take special steps to help and encourage lenders in small towns to originate and service FHA-insured loans.

Assistance to the provision of housing in small towns is a part of the Housing Agency's housing and community development responsibilities. It is now serving small towns, not only in the housing field, but in assistance for community facilities, planning, and some urban renewal.

The present overlapping of housing functions in small towns has been confusing to the public and to the housing and lending industries. The Mortgage Bankers Association opposes expansion of Agriculture's programs to assist people "who are not farmers on properties that are not farms". It cites the superior experience in mortgage loan underwriting of the Federal Housing Administration.

Continued division of responsibility for housing assistance to small towns could hurt the proposal for the establishment of a Department of Housing and Community Development. The Department has been opposed on the basis that it would be more concerned with cities than small communities.

WHAT SHOULD BE THE FUTURE DIRECTION OF THE URBAN RENEWAL PROGRAM?

1. Nature of Problem.

Much effort has been directed toward urban renewal in the core or central business areas of larger cities, involving commercial, industrial, or relatively high-rent residential reuse. There has been increasing criticism that urban renewal has been primarily at the expense of minority groups and other lower-income persons, and has not adequately met the needs of such persons for adequate housing in desirable neighborhoods.

2. Recommendations.

(a) Task Force. "Redirect" the program to stress "total community renewal" utilizing, for example, coordinated city-wide social services and public facilities programs. As part of this approach:

- (1) Increase Federal aid to city planning and to city-wide programs of code enforcement.
- (2) Enforce the "Workable Program" requirement more strictly.

As a "necessary supplement", concentrate program efforts less on central-city renewal and more toward lower-income residential renewal, through large-scale projects in "grey" and blighted areas.

(b) Housing Agency. Concurs in need to enlarge emphasis to "total community renewal". Specifically:

- (1) Has no objection to increased Federal aid to city planning.
- (2) Agrees that there should be stricter Federal requirements for city-wide code enforcement, but at present recommends using local funds.
- (3) Agrees that the Workable Program requirement should be strengthened.
- (4) Agrees that greater emphasis should be placed on reclamation of the grey areas.

Housing Agency recommends that, as a prerequisite for urban renewal assistance, localities of over 50,000 population be required, as soon as feasible, to justify the need and priority for individual projects on the basis of comprehensive Community Renewal Programs.

Housing Agency believes that any necessary shift in emphasis from central-city and non-residential projects can best be achieved through Federal administration of such a Community Renewal Program requirement, rather

than any essentially arbitrary restriction on types of projects as such. Recommends, because of short-term needs a 5 percent increase in the present ceiling on use of grant funds for non-residential projects, with understanding that future increases are not contemplated.

3. Basic Issues.

- (a) Redirection of the Program. There is need not so much for redirection of the urban renewal program as there is increased direction and increased effectiveness. There is need to strengthen urban renewal efforts, as the Task Force emphasizes, through attacking problems of slum and blight on more than a project-by-project basis and with more than the usual urban renewal tools of rehabilitation or demolition. However, such efforts should not be restricted, by across-the-board Federal decision, to any particular portion of a city. Blight and obsolescence are problems not just of residential areas but of all types of urban areas, including essential industrial, "downtown", and other commercial areas.

The proposed 5 percent increase in the authority for "non-residential" projects is a necessary short-term measure. Non-residential projects are presently receiving grant commitments at slightly more than 30 percent limit set on the overall use of urban renewal funds for such projects. Past experience has been that whenever this restriction begins to affect project planning, the main result is "gerrymandering of project boundaries to make them primarily (more than 51 percent) residential."

- (b) Mandatory Community Renewal Programs. Federal assistance is already available to communities for the preparation of Community Renewal Programs, on an optional basis, to determine where their greatest renewal problems are and how they can most effectively and economically deal with them. Such programs, given "bite" by being made a prerequisite to approval of individual urban renewal projects, would make renewal efforts more effective and direct them to where they are most needed. They would coordinate and bring to bear the many existing and proposed types of Federal and local community assistance programs. They would also provide local planning, with Federal oversight, to assure that in those localities where the most pressing problem is "gray-area" and other residential renewal, such renewal in fact receives priority.

At present the proposed Community Renewal Program requirement is probably feasible only in larger urban areas, carrying on a series of urban renewal projects. These areas are also, of

The proposed requirement for a mandatory Community Renewal Program requirement will encounter strong opposition from some urban renewal agencies and mayors, especially from the entrenched operators who have moved on an ad hoc basis.

WHAT SHOULD BE THE FUTURE DIRECTION OF THE URBAN RENEWAL PROGRAM?

1. Nature of Problem.

Much effort has been directed toward urban renewal in the core or central business areas of larger cities, involving commercial, industrial, or relatively high-rent residential reuse. There has been increasing criticism that urban renewal has been primarily at the expense of minority groups and other lower-income persons, and has not adequately met the needs of such persons for adequate housing in desirable neighborhoods.

2. Recommendations.

- (a) Task Force. "Redirect" the program to stress "total community renewal" utilizing, for example, coordinated city-wide social services and public facilities programs. As part of this approach:

- (1) Increase Federal aid to city planning and to city-wide programs of code enforcement.
- (2) Enforce the "Workable Program" requirement more strictly.

As a "necessary supplement", concentrate program efforts less on central-city renewal and more toward lower-income residential renewal, through large-scale projects in "grey" and blighted areas.

- (b) Housing Agency. Concurs in need to enlarge emphasis to "total community renewal". Specifically:

- (1) Has no objection to increased Federal aid to city planning.
- (2) Agrees that there should be stricter Federal requirements for city-wide code enforcement, but at present recommends using local funds.
- (3) Agrees that the Workable Program requirement should be strengthened.
- (4) Agrees that greater emphasis should be placed on reclamation of the grey areas.

Housing Agency recommends that, as a prerequisite for urban renewal assistance, localities of over 50,000 population be required, as soon as feasible, to justify the need and priority for individual projects on the basis of comprehensive Community Renewal Programs.

Housing Agency believes that any necessary shift in emphasis from central-city and non-residential projects can best be achieved through Federal administration of such a Community Renewal Program requirement, rather

than any essentially arbitrary restriction on types of projects as such. Recommends, because of short-term needs a 5 percent increase in the present ceiling on use of grant funds for non-residential projects, with understanding that future increases are not contemplated.

3. Basic Issues.

- (a) Redirection of the Program. There is need not so much for redirection of the urban renewal program as there is increased direction and increased effectiveness. There is need to strengthen urban renewal efforts, as the Task Force emphasizes, through attacking problems of slum and blight on more than a project-by-project basis and with more than the usual urban renewal tools of rehabilitation or demolition. However, such efforts should not be restricted, by across-the-board Federal decision, to any particular portion of a city. Blight and obsolescence are problems not just of residential areas but of all types of urban areas, including essential industrial, "downtown", and other commercial areas.

The proposed 5 percent increase in the authority for "non-residential" projects is a necessary short-term measure. Non-residential projects are presently receiving grant commitments at slightly more than 30 percent limit set on the overall use of urban renewal funds for such projects. Past experience has been that whenever this restriction begins to affect project planning, the main result is "gerrymandering of project boundaries to make them primarily (more than 51 percent) residential."

- (b) Mandatory Community Renewal Programs. Federal assistance is already available to communities for the preparation of Community Renewal Programs, on an optional basis, to determine where their greatest renewal problems are and how they can most effectively and economically deal with them. Such programs, given "bite" by being made a prerequisite to approval of individual urban renewal projects, would make renewal efforts more effective and direct them to where they are most needed. They would coordinate and bring to bear the many existing and proposed types of Federal and local community assistance programs. They would also provide local planning, with Federal oversight, to assure that in those localities where the most pressing problem is "gray-area" and other residential renewal, such renewal in fact receives priority.

At present the proposed Community Renewal Program requirement is probably feasible only in larger urban areas, carrying on a series of urban renewal projects. These areas are also, of

course, the ones having both the greatest volume and intensity of blight.

Such a requirement can probably be administratively applied as part of the present "Workable Program" requirement. However, it will be essential to obtain advance consent and positive support from the interested groups and Congressional leaders.

- (c) City Planning. The increased aid to city planning could be in the form of assistance for comprehensive urban planning, under the Housing Agency "section 701" program, for larger cities. At present such assistance is generally available only to cities of under 50,000 population, metropolitan areas, or counties.
- (d) Code Enforcement. There are dangers in too close Federal identification with so controversial a local "police" action as code enforcement. It would be desirable to defer additional Federal assistance to observe results under the Housing Act of 1964, which authorized code enforcement assistance within urban renewal areas and required, starting in 1967, adequate community-wide enforcement programs.

4. Previous Legislative or Other Considerations.

The Community Renewal Program requirement would form a link between physical renewal programs and the social action programs proposed in the anti-poverty legislation and elsewhere. It would also give increased emphasis to the community-wide comprehensive planning which would be a necessary preliminary to such a program. This would, in turn, help to coordinate and make more effective the mass transportation, open-space, and other Federal urban development programs which are closely tied to such planning.

There has been consistent expansion of the section 701 planning assistance program; for example, the Housing Act of 1964 made large counties eligible. The Housing Agency position is that priority should go to metropolitan-area and small-city planning, and that other areas fully merit assistance if enough money was to be made available.

5. Reactions of Interested Groups and Leaders.

There should be substantial political support for greater aid for planning and code enforcement. Some pressure should come from mayors and urban renewal agencies for such aid. The National Association of Real Estate Boards may also support at least the code enforcement proposal.

The proposed requirement for a mandatory Community Renewal Program requirement will encounter strong opposition from some urban renewal agencies and mayors, especially from the entrenched operators who have moved on an ad hoc basis.

Estimated NOA and Expenditures for Urban Area
Great Society Programs
(in millions of dollars)

[Note: This table does not include NOA or expenditures for such ongoing programs as Urban Renewal Title I, Urban Planning Assistance, Mass Transit Grants and Loans or Open Space Grants.]

Program	1966		1967		1968		1969*		4-Year Total	
	NOA	Expenditures	NOA	Expenditures	NOA	Expenditures	NOA	Expenditures	NOA	Expenditures
Block Grants for Neighborhood Facilities ^{/a}	100	10	200	130	300	160	400	300	1,000	600
Block Grants for Urban Services ^{/b}	100	10	200	190	300	250	400	350	1,000	800
Grants for Basic Public Facilities ^{/c}	1,000	25	--	250	--	250	--	250	1,000	775
New Communities: FHA Special Assistance Loans ^{/d}	500	15	--	75	--	125	--	175	500	390
Direct Loans ^{/e}	100	0	--	15	--	25	--	35	100	75
New Communities Total	600	15	--	90	--	150	--	210	600	465
Loans for Advance Acquisition of Land ^{/f}	100	10	--	20	--	30	--	40	100	100
Federal-State Training Program ^{/g}	10	10	15	12	25	18	25	25	75	65
Institute of Community Development Research	5	1	10	6	15	10	15	13	45	30
Urban Development Funds	25	10	25	15	--	15	--	10	50	50

Program	1966		1967		1968		1969		4-Year Total	
	NOA	Expendi- tures	NOA	Expendi- tures	NOA	Expendi- tures	NOA	Expendi- tures	NOA	Expendi- tures
Housing:										
PIA (units)	30 (50,000)	30	66 (60,000)	66	102 (60,000)	102	144 (70,000)	144	342 (240,000)	342
221(d)(3) Below Market (units)	550 (50,000)	550	550 (50,000)	550	550 (50,000)	550	550 (50,000)	550	2,200 (200,000)	2,200
221(d)(2) Sales Housing with Annual Subsidy (units)	7 (20,000)	7	16 (30,000)	16	28 (40,000)	28	38 (40,000)	38	89 (130,000)	89
221(d)(3) Market Rate and 213 with Annual Subsidy (units)	11 (30,000)	11	31 (60,000)	31	62 (100,000)	62	104 (140,000)	104	208 (330,000)	208
Rehabilitated with Sec. 312 Loans or Write-downs /h (units)	50 (15,000)	41	50 (15,000)	41	50 (15,000)	41	25 (15,000)	41	175 (60,000)	164
Senior Citizen (202) Direct Loans /1 (units)	125 (10,000)	63	125 (10,000)	99	125 (10,000)	101	125 (10,000)	105	500 (40,000)	368
Housing Total (Units)	773 (175,000)	702	838 (225,000)	803	917 (275,000)	884	986 (325,000)	982	3,514 (1,000,000)	3,371
TOTAL ALL PROGRAMS	2,713	793	1,283	1,516	1,557	1,767	1,826	2,180	7,384	6,256

Footnotes on following page.

3

Footnotes

- a/ Assuming Federal grants averaging \$250,000 per cultural and neighborhood facility, such as neighborhood centers, libraries, medical stations, museums, and concert halls, approximately 400 facilities could be financed with every \$100 million.
- b/ \$32 million equals approximately 1 percent of current annual municipal expenditures for salaries.
- c/ In October 13, 1964 submission to Bureau of Budget.
- d/ FHA-insured loans to private developers.
- e/ To States and State-chartered corporations.
- f/ In October 13, 1964 submission to Bureau of Budget NOA was \$250 million and expenditures for four years were \$200 million.
- g/ As submitted to Bureau of Budget on October 13, 1964.
- h/ No NOA or expenditure estimated for minor portion to be written down with urban renewal Title I grant funds.
- i/ Both NOA and expenditures for 1968 and 1969 each reduced about \$10 million per year below October 13, 1964 submission to Bureau of Budget.

SHOULD THE ADMINISTRATION PROPOSE AN URBAN AFFAIRS
OFFICE OR COUNCIL IN THE EXECUTIVE OFFICE IN ADDITION TO
A DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT?

1. Nature of Problem.

The previous Administration proposals for a Department have been confined to raising the status of the Housing Agency to that of a Department. The Department's activities would therefore under those proposals be primarily concerned with community development, that is - housing and physical assistance programs, thus excluding purely social and economic factors involved in the urban programs and the over-all urban policy of the Federal Government.

2. Recommendations.

- (a) Task Force. Recommends an Urban Affairs Council "staffed to develop coherent urban policy" in the Executive Office and a Department of Housing and Community Development.
- (b) Housing Agency. Recommends only a Department of Housing and Community Development be established at this time, and that greater coordination be accomplished by the President after this is achieved.
- (c) Other Alternatives. In lieu of creation of Department, appoint a Special Urban Assistant to the President, or create an Office of Urban Affairs (or Council) in the Executive Office.

3. Basic Issues - Pros and Cons.

Proposal to create an Urban Affairs Council could kill the proposed Department. Private organizations and many in the Congress have recommended a similar Office in the White House as an alternative to a Department. A function could be served by such an office in coordinating development functions with other functions relating to urban matters, such as those administered in the HEW and poverty programs. However, the recommendation for the Council (or any similar Office) could lead to impairing Administration legislative strategy, and conceivably the authorization of the Council and the establishment of the Department could both be defeated.

The President gave as one reason for the Department that the Department would develop urban policy, just as the Department of

Agriculture develops agriculture policy for the President. The establishment of the Council would remove this principal reason for the Department, particularly if the Council were staffed as recommended by the Task Force. If issues require coordination among other Departments and the proposed Department of Housing and Community Development cannot accomplish the coordination, the issues can be handled by the President as other interdepartmental issues are presently handled without an additional agency being involved.

Also, by standing between the Department and the President, the Council or other coordinating office in the Executive Office would tend to defeat one of the principal purposes of the Department, to increase the status of, and level of consideration given to, urban matters.

4. Previous Legislative or Other Consideration.

Bills to establish an executive department concerned with housing and urban affairs have been introduced in the 84th through the 88th Congresses, including four bills in the 84th, one in the 85th, eight in the 86th, twenty-five in the 87th and ten in the 88th. A bill was favorably reported by a Senate Committee during the 86th Congress, and by both Senate and House Committees in 1961. Reports favorable to a Reorganization Plan were issued by House and Senate Committees in 1962.

Twelve bills have been introduced that would establish an Urban Affairs Office in the Executive Office of the President.

President Johnson recommended a bill in 1964, but legislative strategy involving other Administration legislation, prevented action on the bill.

The proposal has been approved by the Democratic platforms of 1960 and 1964.

5. Reactions of Interested Groups or Leaders.

The Mayors' organizations, organizations of architects and planners, Labor and public interest groups will continue support of a Department as it has been proposed by the President. The Mortgage Bankers Association testified it was not unconditionally opposed to a Department. The National Association of Counties recommended coordination of Federal activities, but through an Urban Assistant to the President. NAHB opposes Department unless housing is stressed. NAREB, Chamber of Commerce, and NAM will continue to oppose.



ASSISTANT SECRETARY

TREASURY DEPARTMENT

WASHINGTON, D.C. 20220

19-20

MEMORANDUM TO:

NOV 25 1964

Mr. Robert C. Weaver
Administrator
Housing and Home Finance Agency

FROM:

Stanley S. Surrey
Assistant Secretary
Treasury Department

Recently proposals have been advanced to the effect that mutual financial institutions should take a broader role in financing the wide variety of buildings involved in urban development. Specifically, these proposals take the form of increased lending authority for savings and loan associations and greater use of the particular form of mutual savings banks outside of the few states in which it is now utilized.

These proposals raise serious questions about tax treatment. Historically, mutual financial institutions have been identified with the financing of housing, and particularly, single family housing. In 1961, the Administration recommended to the Congress that mutual financial institutions should be subject to the same kind of corporate tax on their retained earnings as a commercial bank. From a tax standpoint, this recommendation was consistent with their mutual character. The institutions would have been taxed on retained earnings after a proper allowance for a bad debt reserve in the same manner as a commercial bank. It is particularly through retained earnings that these institutions can and do compete with private banks. There was recognition of the mutual character of the organizations through complete deduction for the payments to shareholder-depositors. In the case of a commercial bank the dividend to the shareholders would also be subject to the corporate tax.

As you know, the Congress substantially modified the Administration's proposal by permitting a bad debt deduction which would make the mutual financial institutions subject to about one-half of the effective tax rate applicable to commercial banks. I have made the point that the original Treasury proposal was consistent with the mutual character of these institutions to emphasize that the preferential treatment extended by the Congress was related primarily to the fact that their activity was

concentrated in housing loans. At least this is the case that was presented by the institutions, which urged that an incentive be provided for an additional financial capacity for home mortgage lending. This is also clear from the definition of a savings and loan association which was enacted in 1962 and which makes the eligibility for the preferential treatment dependent upon maintaining a high percentage of assets in the form of housing loans, and particularly, in the form of single family housing loans. The Congress, of course, in not going all the way was also deciding to compromise a difficult political issue.

The thrust of the recent proposals would, in effect, apply this preferential tax treatment, which the Congress intended for housing investment, to a broader kind of investment in the various kinds of community facilities involved in urban development. In the first place, it should be noted that this whole development leaves the Treasury in a very undesirable position. It should not be the function of this Department to decide what kind of lending is meritorious. Nevertheless, we are thrown into issues such as the percentage of the housing loans that savings and loans can put in multi-family units and the portion of their mortgages that they can sell.

This situation is made even more complicated by the fact that the Congressional action in 1961-62 took the route of encouraging housing lending indirectly through assisting one class of lenders. Some portion of the tax advantage is going to stay with the lending institution rather than being passed on to the ultimate borrower. This disturbs the competitive relationships between financial organizations. This may have been tolerable in the 1962 action because mutual financial organizations already had the predominant role in home finance. If these institutions are to extend their lending, however, into a wider spectrum of business construction, the competitive disadvantage imposed upon the traditional organizations, such as private banks and insurance companies, becomes quite severe.

Involved in this whole tax problem is the matter involved in the Treasury recommendations of 1963-64 concerned with capital gain treatment on building investment. Our contention with the Congress at that time was that the present tax system tends to stimulate some undesirable types of building development aimed at exploiting the capital gains possibilities rather than creating long-term value. As you recall, the Congressional changes in this area were quite minimal.

I believe that there should be an interdepartmental study of these areas. A study should be made of the tax treatment of these financial institutions in the light of broader lending functions. It would, in fact,

be preferable to organize this study around the broader topic of government policy with respect to these financial institutions of which tax policy would only be one facet. In recent years attention has been given to other issues, such as the Federal chartering of mutual financial institutions. In this broad context of Federal policy with respect to these institutions, we might very well investigate whether or not the intent of the present tax treatment to facilitate availability of mortgage loan funds is not, in fact, being done and perhaps being done better through activities such as that of the Federal National Mortgage Association.

Separately, it might be useful to provide for a joint study of Federal tax influences on housing and other building investment. This would cover the absence of the investment credit on construction, the availability of capital gain treatment for accelerated depreciation, as well as the favorable treatment given to certain housing lenders.

The Treasury would be will, of course, to participate in these interdepartmental studies.