



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

NOV 7 1975

OCT 10 1975

Honorable Paul E. Tsongas  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Tsongas:

Thank you for your letter of October 10, 1975, describing the financial difficulties of the state housing finance agencies in the current distressed condition of the tax-exempt securities market. This same reply is being sent to each member of Congress who signed the October 10 letter.

We are well aware of these difficulties, and very much concerned, particularly because we have been counting on these agencies to be a major source of financing for new construction to meet our housing goals. In fact, on October 6, Assistant Secretary-FHA Commissioner David Cook met in Chicago with the officers of the Council of State Housing Agencies and the Presidents or Executive Directors of five of the major state housing agencies to confer at length about their present financial difficulties. At the meeting, potential aid under Section 244 and Section 802 was explored at length, along with other available Federal programs. It was agreed that, as the next step, the state agency officials would immediately form a task force to prepare and submit to HUD a detailed proposal on possible Federal assistance to the agencies using coinsurance under Section 244 or other Federal housing programs. You can be assured that HUD will give urgent and full consideration to the state agency proposal as soon as we receive it.

In the meantime we are, of course, continuing our own study of possible ways to implement Section 244 coinsurance for multifamily housing. Our first priority for coinsurance has been for single family. The single family coinsurance program will be implemented in a few

areas before the end of the year and nationwide early next year. We strongly endorse the basic concept of coinsurance -- a sharing of risk with the mortgage lender and commensurate reduction in Federal underwriting review and processing -- and clearly recognize the potential helpfulness to state agencies of placing Federal insurance behind their mortgages.

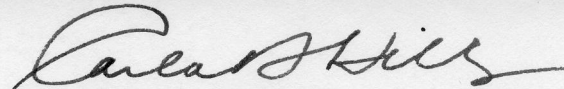
A successful multifamily coinsurance program, however, requires a careful balancing of the amount of underwriting authority delegated to the coinsurer by HUD with the amount of financial risk shared by the coinsurer. If much underwriting authority is delegated, but little or no financial risk is placed on the coinsurer, excessive Federal losses could result. Yet inadequate delegation of authority, or too onerous a shifting of risk, will make the program unattractive or unworkable. We note that, as applied to state agencies which would raise bond funds backed by federally coinsured mortgages, the Federal interest, in one important aspect, is similar to that of bondholders: to assure that the authority to underwrite mortgages delegated to a coinsuring state agency is carried out carefully so as to reduce the risk to bondholders for the portion uninsured by HUD.

We are studying the potential applicability of the Section 802 guarantee as well. We note, however, that this guarantee, for housing bonds or notes, is limited to activities in connection with the revitalization of slum or blighted areas. We understand that many, and probably the majority, of the projects of most state agencies could not qualify under this statutory limitation. The guarantee authority is also limited to a total of \$500 million of taxable bonds. Aside from these restrictions and the policy questions inherent in the implementation of such guarantees, we feel that Federal mortgage insurance is more promising for the present. Any responsibly managed program of guaranty will necessarily require close examination of the underlying security for repayment. This, in effect, is what is done through the insured mortgage programs. These insurance programs are in place, with the underwriting policies and procedures already set forth, and therefore are more quickly available for use now. As to mortgages on existing projects in state

agency portfolios, we would be pleased to examine with the state agencies the potential use of the authority under Section 223(f), added by the 1974 Act, for insurance of mortgages on existing projects.

Again, let me thank you for your interest in helping improve the condition of the state housing agencies and in our administration of HUD's housing programs. If there is any further information I or my staff can provide at this time, please let me know.

Sincerely,

A handwritten signature in cursive script, reading "Carla A. Hills". The signature is fluid and elegant, with a long, sweeping underline that extends to the right.

Carla A. Hills