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HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1977

DOCUMENTS

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON

HOUSING AND COMMUNITY DEVELOPMENT

OF THE

COMMITTEE ON

BANKING, FINANCE AND URBAN AFFAIRS

HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

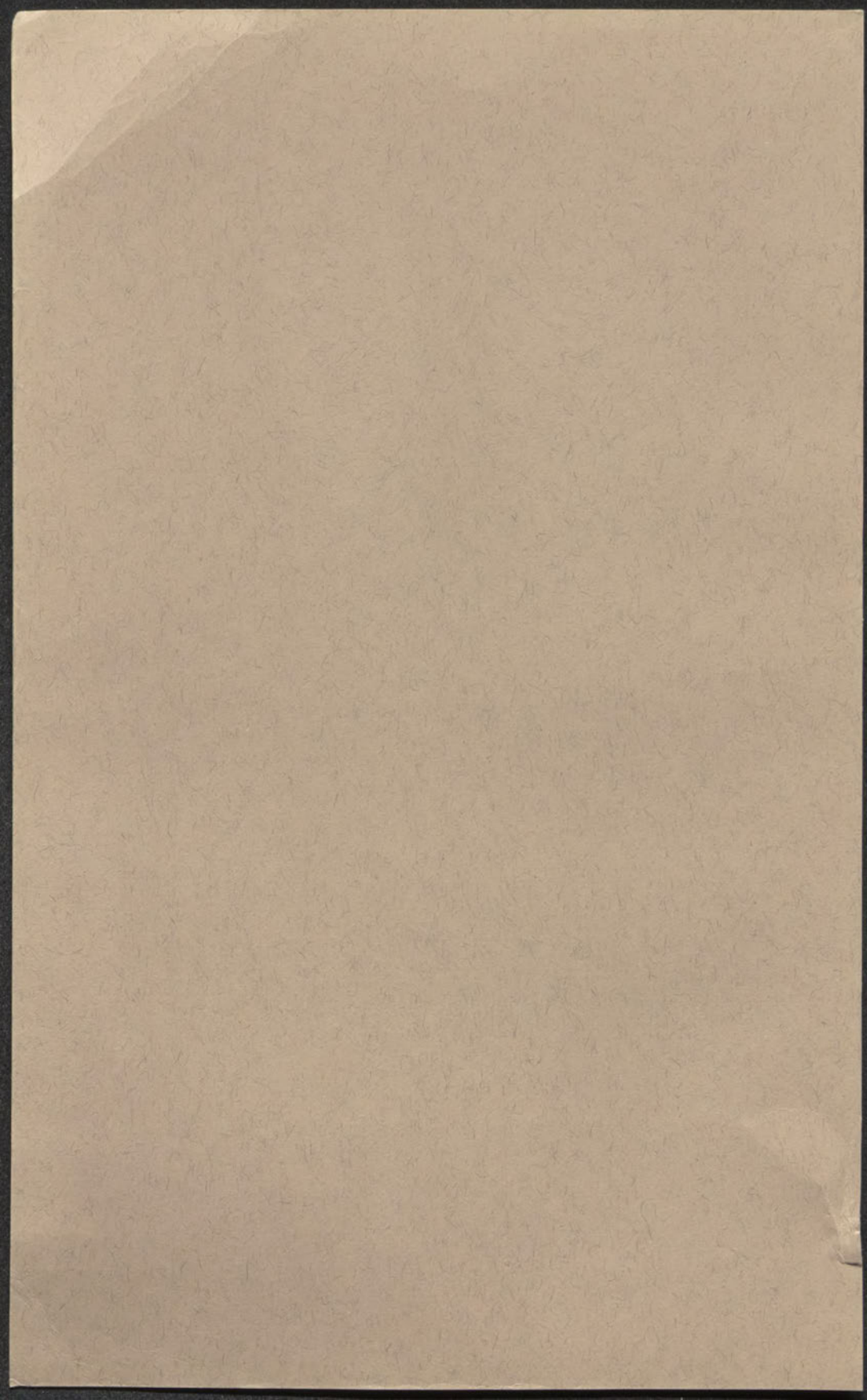
FIRST SESSION

PART 3

MARCH 7, 8, AND 9, 1977; APPENDIX

Printed for the use of the
Committee on Banking, Finance and Urban Affairs





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WASHINGTON : 1977

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HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1977

MONDAY, MARCH 7, 1977

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY
DEVELOPMENT OF THE COMMITTEE ON BANKING,
FINANCE AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 10:10 a.m. in room 2128 of the Rayburn House Office Building; Hon. Gladys N. Spellman, presiding.

Present: Representatives Patterson, LaFalce, AuCoin, Spellman, Rousselot, and Grassley.

Mrs. SPELLMAN. The Subcommittee on Housing and Community Development this morning begins its final week of hearings on the administration's proposals regarding the extensions of various housing programs and authorities. Our witnesses this morning represent industry trade groups: the Mortgage Bankers Association of America, the National Association of Mutual Savings Banks, and the Mortgage Insurance Companies of America, as well as the National Committee Against Discrimination in Housing. We have a panel of industry witnesses who will be testifying on housing assistance programs, particularly extensions and changes in Federal Housing Administration programs.

We welcome you, gentleman, and we would ask you to attempt to limit your oral presentations to about 10 minutes.

I would now like to call up the panel representing the Mortgage Bankers Association of America, the National Association of Mutual Savings Banks, and the Mortgage Insurance Companies of America.

We will be joined in just a little while, I understand, by a few of our colleagues. But, of course, as you know, the record is being made so that all of those who are not here can read what is being said here today. Who is our first spokesman? Mr. Rothchild?

STATEMENT OF KENNON V. ROTHCHILD, PRESIDENT, MORTGAGE BANKERS ASSOCIATION OF AMERICA (MBA)

Mr. ROTHCHILD. Thank you very much.

I would like to submit our full statement for the record, and I would like to comment on aspects of that presentation.

I am Kennon V. Rothchild, president of the Mortgage Bankers Association and chairman and chief executive officer of H. & Val J. Rothchild, Inc., of St. Paul, Minn.

In the first two paragraphs of our presentation, we have simply reminded the subcommittee of the role of the mortgage bankers in the

national housing economy. Mortgage bankers have originated more than 75 percent of all loans insured by the Federal Housing Administration. Those loans are now an important part of the GNMA-backed security which has broadened the mortgage market. The mortgage bankers in doing that work have contributed significantly to both the development of the nationwide secondary mortgage market and the implementation of FHA's housing program. This work has been a direct benefit to the housing consumer.

MBA has been speaking most emphatically about the need for the FHA. FHA is a major social invention of our time, and it continues to be needed. It is needed to assure private participation in financing homeownership for as broad a range of American families as possible. It is needed to assure the availability of an adequate supply of privately financed rental housing.

It is needed to supply the uniform mortgage instrument that is essential to the nationwide secondary mortgage market. It is needed to provide mortgages that back securities guaranteed by GNMA. It is needed to develop and to maintain innovations in mortgage lending practices. It is needed to preserve minimum property standards. It is needed to protect consumers.

FHA really is the foundation on which the secondary market has been built, on which the broadening of the mortgage market has been built. Without FHA as the foundation, that structure of mortgage financing would collapse, we believe.

The administration has proposed extending the authority of FHA to insure mortgage loans and to extend other housing related authorities for 1 year until the end of 1978. Those proposals are for essential programs, and MBA supports the administration's recommendations.

In the past, MBA has advocated multiyear extensions to diminish the possible opportunities for FHA's insurance availability lapsing. We urge the administration and Congress to use this year to develop and enact comprehensive legislation that will simplify and consolidate FHA's mortgage insurance programs.

On page 4 of our presentation, we refer to the extension of the authority to establish FHA interest rate ceilings. The Secretary now has the administrative authority to set rates administratively. That is a temporary authority.

We believe it is simply the time to amend the National Housing Act to allow the Secretary to do directly what she has been allowed to do in two steps, and that is what that paragraph refers to.

On the paragraph about unoccupied FHA-insured section 8 units, the Secretary has the right to provide a contract for section 8 on some unoccupied housing units. Those are units that are conventionally financed or FHA coinsured. We believe that to make section 8 more effective, the authority of the Secretary should be broadened to include all FHA-insured projects that are used for section 8.

Under the proposals for the maximum mortgage amounts, MBA supports the Secretary's proposal for increasing the maximum mortgage amount to \$60,000. On pages 5 and 6 of our presentation, we have given a detailed rationale.

I won't read all of those items, but I do want to point out that in the Housing and Community Development Act of 1974, the increase of

maximum mortgage amounts did not keep up with the inflation since 1969. The administration proposal for \$60,000 would seek to make up for that failure from the 1969 to 1974 period and, additionally, match the inflation of housing costs through the current year. There is much inflation to be accounted for, not just the last 3 years, but going back to 1969, when the previous increase in mortgage ceilings was simply not equal to that change in cost. On page 8, then, you see MBA's recommendations for limits.

MBA also believes it is necessary to amend the section 203(b), downpayment requirements. Those requirements are set by statute, and they provide the same kind of problems that maximum mortgage limits do. Therefore, we support the administration proposal: a 3-percent downpayment for the first \$25,000 of the value of the house, and 5 percent on all above \$25,000.

Many families, especially younger ones, can meet mortgage payments but cannot amass the required downpayment. Private mortgage insurers have insured some 95-percent ratio loans, but downpayments of from 10 to 20 percent are most common. MBA believes that reduced downpayment requirements for purchasers using FHA financing will demonstrate that such high ratio loans are viable investments for everyone.

In the other proposals under consideration, we support the administration's efforts to amend section 222, mortgage insurance for servicemen, and 234, mortgage insurance for condominiums, for larger mortgage amounts. We also support the administration's efforts to amend section 235, homeownership for low-income families, to authorize the Secretary to insure mortgages on single-family units involving a higher maximum mortgage amount than is currently authorized. We believe that by endorsing those increases, we are true to MBA's commitment to support a properly administered section 235 interest subsidy program to house disadvantaged persons. We also endorse the administration's proposal to reduce the maximum downpayments for these programs.

I do appreciate very much, Madam Chairman, the opportunity to testify on this proposal.

[The prepared statement of Mr. Rothchild, on behalf of the Mortgage Bankers Association of America, follows:]

STATEMENT OF
KENNON V. ROTHCHILD
PRESIDENT
MORTGAGE BANKERS ASSOCIATION OF AMERICA
before the
SUBCOMMITTEE ON HOUSING AND
COMMUNITY DEVELOPMENT
of the
HOUSE COMMITTEE ON BANKING,
FINANCE AND URBAN AFFAIRS

MARCH 7, 1977

Mr. Chairman and members of the Subcommittee on Housing and Community Development, my name is Kennon V. Rothchild. I am President of the Mortgage Bankers Association of America (MBA) and Chairman and Chief Executive Office of H. & Val J. Rothschild, Inc., St. Paul, Minnesota. Accompanying me is Mr. Bruce Johnson, MBA's Assistant Legislative Counsel.

We appreciate the opportunity to present our views on the proposed Housing Authorization Act of 1977.

THE ROLE OF MORTGAGE BANKERS IN FHA

Mortgage bankers originate more than 75 percent of all loans insured by the Federal Housing Administration (FHA). These mortgage loans are, in turn, either sold to other financial institutions, to the Federal National Mortgage Association (FNMA), or to non-traditional investors through issues of securities guaranteed by the Government National Mortgage Association (GNMA). This makes the FHA mortgage a basic instrument in the secondary mortgage market. By moving funds in the nationwide market from capital surplus to capital deficit areas, mortgage bankers bring competition into capital-short areas and reduce borrowing costs.

Mortgage bankers have contributed significantly to both the development of the nationwide secondary mortgage market and the implementation of the objectives of FHA's housing programs. This has benefited both the mortgage banking industry and the housing consumer.

THE NEED FOR FHA

FHA, a major social invention of our time, continues to be needed.

It is needed to assure private participation in financing homeownership for as broad a range of American families as possible.

It is needed to assure the availability of an adequate supply of privately financed rental housing.

It is needed to supply the uniform mortgage instrument that is essential to the nationwide secondary mortgage market.

It is needed to provide mortgages that back securities guaranteed by GNMA.

It is needed to develop and to maintain innovations in mortgage lending practices.

It is needed to preserve minimum property standards.

It is needed to protect consumers.

Since 1934, FHA has been the foundation of the nation's residential financing structure. Since that time the Federal government has built upon the original enactment in order to implement national objectives throughout the mortgage market. Private industry has also built upon that foundation. Mortgage bankers, commercial banks, mutual savings banks, and insurance companies have invested in FHA's mortgage insurance programs in various ways. Without FHA as the foundation, the structure would collapse.

THE HOUSING AUTHORIZATION ACT OF 1977

The Administration has proposed legislation to extend the authority of FHA to insure mortgage loans and to extend other housing related authorities until the end of fiscal year 1978. The proposed legislation contains specific proposals which MBA supports because they contribute to the strength and the continued existence of FHA.

EXTENSION OF FHA INSURANCE AUTHORITY

The authority of the Secretary of Housing and Urban Development to insure mortgages under certain FHA mortgage insurance programs is contained in the National Housing Act. Under existing law the authorizations for these programs will generally expire on June 30, 1977, with a few due to expire on September 30, 1977. The Administration has proposed extending the authorizations for all of these programs through September 30, 1978. MBA supports the Administration's recommendations.

In the past, MBA has advocated multi-year extensions to diminish the possible opportunities for FHA's insurance authority to lapse. We urge the Administration and Congress to use this year to develop and to enact comprehensive legislation that will simplify and consolidate FHA's mortgage insurance programs.

EXTENSION OF AUTHORITY TO ESTABLISH FHA INTEREST RATE CEILINGS

The Administration has recommended extending through September 30, 1978, the Secretary's authority to establish administratively the maximum interest rates for FHA-insured mortgage loans. Under existing law, this authority will expire June 29, 1977. MBA supports this proposal, but only as a second choice.

Since the National Housing Act holds the FHA interest rate at a level far below today's market, e.g., 6 percent in section 203, the Secretary needs the proposed authority to set a maximum interest rate that realistically reflects the market.

A better alternative would be to amend the National Housing Act by deleting the unrealistic statutory interest rate ceiling on FHA-insured mortgages.

We trust that the Secretary, if granted this authority, will maintain the ceiling at a level that is competitive with other investments. History has proven that attempts to hold down interest costs by maintaining an unrealistically low FHA interest rate have simply made funds unavailable for borrowers who need FHA loans the most.

UNOCCUPIED FHA-INSURED SECTION 8 UNITS

The Administration recommends broadening the Secretary's present discretionary authority to make section 8 housing assistance payments on unoccupied units.

At present, the Secretary may make such payments for multi-family units unoccupied beyond 60 days and insured under the National Housing Act only if the mortgage is coinsured pursuant to section 244 of the National Housing Act.

The recommendation, if it becomes law, would put projects financed with FHA-insured mortgages on the same footing as conventionally financed or FHA coinsured projects. This should facilitate financing an increased volume of FHA-insured section 8 projects. MBA believes Federal mortgage insurance should play a major role in FHA's objective of increasing section 8 housing starts. For this reason, MBA endorses the Administration proposal.

The present restriction has acted as an impediment to those private lenders who would otherwise have participated in the section 8 housing assistance payments program. The amendment would reassure potential investors and make investment in section 8 housing more attractive.

SECTION 203(b) MAXIMUM MORTGAGE AMOUNTS

Congress has traditionally established statutory limits on the maximum per unit mortgage amount that can be insured. Under the basic section 203(b) single-family mortgage insurance program, the limit is currently \$45,000. The purpose of mortgage limits is to assure that FHA programs serve primarily low- and moderate-income families. It is sometimes argued that ceilings also help to avoid inflationary pressures on housing costs that might otherwise occur if there were no limits.

These artificially low limits have caused problems in the past. First, Congress has been slow at times to raise FHA loan limits. Until the Housing and Community Development Act of 1974 was passed, the single family limit was \$39,000—a level significantly below the price of most new houses on the market. As a result, in many areas, including Washington, D.C., much of New York, New England, and

Southern California, few houses could be financed using FHA insurance. Even moderate-income families in those areas could not take advantage of the federally-insured mortgage credit which FHA provides. A similar situation exists today.

Second, the mortgage limits force FHA to insure mortgages in the higher risk portion of the market. Households with low incomes, buying low-priced houses, present higher insurance risks than do households with moderate incomes. Making insurance available for realistically priced housing would not affect FHA's ability to serve low- and moderate-income families. It would enhance FHA's capacity to maintain an actuarially sound insurance fund while making insurance available to low-income families for lower priced housing. It would also make FHA more competitive with private mortgage insurers and, thereby, help restrain possible monopolistic insurance practices.

The record has shown that FHA mortgage ceilings do little to hold down the cost of housing to the consumer. The construction industry is as competitive as most industries and, in view of the small share of FHA insurance in the total construction market, it is absurd to think that FHA mortgage ceilings have any marked effect on housing costs.

Ideally, MBA would like to see statutory authority for the Secretary to establish mortgage limits administratively. In that way, FHA could keep the limits in line with current local costs, thereby recognizing the geographic variation in housing costs. To the extent that some statutory limitations are still considered necessary, however, the question arises: How much should the maximum mortgage amounts be increased?

The maximum mortgage amounts were increased in the 1974 Housing and Community Development Act for the first time since 1969. That year Congress raised the ceilings from \$39,000 to \$45,000, an increase of \$6,000, or 15 percent. During the same period the median sales price of existing single-family homes increased from \$22,000 in December, 1969 to \$32,700 in December, 1974, an addition of \$10,700, or 49 percent. This increase in the limit was inadequate, and contributed to the decreased use of FHA loans by borrowers.

Similarly, proposals to raise the limit from \$45,000 to \$55,000, an increase of \$10,000, or 22 percent, do no more than keep pace with the inflation of 1975 and 1976. Such an inadequate increase would not compensate for the failure to keep the limit in line with the inflation of the 1969-1974 period and would not keep pace with the current, as yet unrecorded, rate of inflation for 1977. If Congress maintained the 1969 ratio of the maximum loan limit to the median sales price of 39 to 22, a maximum loan limit of \$55,000 would be commensurate with a median sales price of \$31,000. The median price for December, 1976, was already \$39,000 which would justify a loan limit of nearly \$70,000 if the Congress maintained the 39:22 ratio. Moreover, these calculations do not include future inflation, which is almost a certainty. The decision to move from the 39:22 ratio in 1969 to a 45:32 ratio in 1974 sharply reduced the availability of FHA insurance to moderate-income families. For these reasons, we strongly support the Administration's proposal for a basic \$60,000 ceiling, with other related ceilings set accordingly.

MBA suggests that Congress amend the present limits as follows:

<u>Present Limits</u>	<u>Unit Size</u>	<u>Proposed Limits</u>
\$45,000	One family	\$60,000
\$48,750	Two	\$65,000
\$48,750	Three	\$65,000
\$56,000	Four	\$75,000

SECTION 203(b) DOWNPAYMENT REQUIREMENTS

The current downpayment requirements set by statute for the section 203(b) mortgage insurance program create the same kind of problems as do the maximum mortgage limits. The basic FHA single-family program requires a downpayment equal to 3 percent of the first \$25,000 of the value of the house, 10 percent of the next \$10,000, and 20 percent of the balance.

MBA supports the Administration proposal: a 3 percent downpayment for the first \$25,000 of the value of the house, and 5 percent on all value above \$25,000.

Many families, especially younger ones, can meet mortgage payments, but cannot amass the required downpayment. Private mortgage insurers have insured some 95 percent ratio loans, but downpayments of from 10 to 20 percent are most common. MBA believes that reduced downpayment requirements for purchasers using FHA financing will demonstrate that such high ratio loans are viable investments.

INCREASE IN MAXIMUM INSURABLE MORTGAGE AMOUNTS AND DECREASE
IN DOWNPAYMENT REQUIREMENTS IN OTHER FHA PROGRAMS

The Administration is also seeking to amend sections 222 (mortgage insurance for servicemen) and 234 (mortgage insurance for condominiums) of the National Housing Act to authorize the Secretary to insure mortgages under these programs for single-family units up to \$60,000. MBA fully supports the amendments.

The Administration would also amend section 235 (home-ownership for low-income families) of the National Housing Act to authorize the Secretary to insure mortgages on single-family units involving a higher maximum mortgage amount than authorized under existing law. Specifically, the Administration would raise section 235 maximum mortgage amounts from \$25,000 to \$31,000 (from \$29,000 to \$36,000 in high-cost areas), and would increase the maximum loan size with respect to families of five or more persons from \$29,000 to \$36,000 (from \$33,000 to \$42,000 in high-cost areas).

MBA endorses such increases in these limits, consistent with its commitment to support a properly administered section 235 interest subsidy program to house disadvantaged persons.

The Administration would also reduce the maximum downpayment requirements under sections 222 and 234 of the National Housing Act. MBA supports the Administration's recommendations.

Thank you for the opportunity to present our views.

Mrs. SPELLMAN. Thank you very much.
We will go on, then, to Mr. James.

**STATEMENT OF WILLIAM A. JAMES, SENIOR VICE PRESIDENT,
SPRINGFIELD INSTITUTION FOR SAVINGS, SPRINGFIELD, MASS.,
ON BEHALF OF THE NATIONAL ASSOCIATION OF MUTUAL SAV-
INGS BANKS, ACCOMPANIED BY LOUIS H. NEVINS, DIRECTOR-
COUNSEL OF THE ASSOCIATION**

Mr. JAMES. Madam Chairman, I am William A. James, senior vice president of the Springfield Institution for Savings in Springfield, Mass., and a member of the Mortgage Committee of the National Association of Mutual Savings Banks. With me is Louis H. Nevins, director-counselor of our national association.

We do appreciate this opportunity to appear before the subcommittee and present our views on the housing legislation presently before the subcommittee. In the testimony that follows, I would like to briefly highlight the statement which we are presenting and speak a little bit about the role of mutual savings banks in housing and the mortgage market.

Mutual savings banks are all State chartered institutions. We are totally oriented to promoting thrift and meeting the housing, credit, and other financial needs of individuals and families. We are a \$136 billion industry; we have 471 institutions in 17 States, primarily in the Northeast.

Our mortgage holdings presently represent 65 percent of our total savings bank assets. We are the most important sources of mortgage credit in the States in which we are concentrated, but we are also a major source of mortgage loans for borrowers in other States, too, through our nationwide out-of-State lending program.

We hold almost \$27 billion of FHA and VA loans, which represents well over one-third of the total amount of such loans held by the four major private institutional lenders; and I refer to savings and loans, commercial banks, life insurance companies, and ourselves.

We today support an extension of existing housing programs. Such extensions at realistic funding levels will add the element of continuity to our Nation's housing programs. In the past, frankly, sudden shifts in program authorizations and funding levels have disrupted the marketplace. This has caused apprehension in the housing industry and the housing financing industry which inhibits the commitment of resources to programs which are vulnerable to shifting political currents. The continuation of existing programs will serve to alleviate this kind of concern.

For example, members of our industry have been working almost 2 years on a coinsurance program for existing multifamily residences. These efforts are reaching fruition. We are hopeful the program will be operational in the near future. However, HUD's authority to coinsure mortgage loans under section 244 is scheduled to expire on June 30. The premature ending of this program would eliminate what might be a source of considerable financing for existing multifamily projects.

We also strongly support both an extension and an expansion of the experimental payment mortgages under section 245. The traditional level payment, fixed rate mortgage contract is just not meeting the requirements of many borrowers or many lenders. We continue to think that HUD should experiment with the graduated payment mortgage and also should be permitted to experiment with flexible rate mortgages as well.

We testified 2 years ago, in 1975, on the subject of variable rate mortgages and are, therefore, well aware of the controversy surrounding VRM's. We do hope the subcommittee will be receptive to an amendment to section 245 which would at least authorize HUD; subject to any limitations the subcommittee deems appropriate, to experiment with mortgage financing instruments that vary interest rates as well as varying payments.

Again, we also strongly urge the Congress to undertake a comprehensive examination of the present status of FHA. We hope the subcommittee will begin to focus on this important issue this year. In the meantime, we believe that some immediate action is necessary to increase the statutory FHA mortgage limits, as was mentioned by the previous speaker. We also support HUD's proposal for decreasing downpayment requirements.

FHA's volume and share of the mortgage market has declined considerably in recent years, and there are a number of factors which have contributed to this decline, including the fact that in recent years the price of homes, particularly in the suburbs, has risen considerably, to record heights. The financing requirements for home purchases are well beyond the present FHA maximums, and many middle-income families just cannot gain access to federally insured mortgage credit.

When FHA was a more dominant market force, it acted as a stabilizing influence on housing prices. Today the FHA mortgage ceiling is so low vis-a-vis the going price of housing that FHA is unable to provide any assistance at all in neighborhoods that may well have been 100 percent financed by FHA loans when they were first developed. Realistic mortgage ceiling would permit FHA to assert itself in many suburban areas once again and act as a stabilizing influence on house prices.

We also support an increase in the maximum conventional mortgage eligible for purchase by both FNMA and FHLMC. Existing limits constrain the ability of these institutions to fully serve secondary mortgage market needs of savings banks as price inflation continues.

FHA has made possible the development of the national secondary markets. This in turn has facilitated the trading of mortgages on a national scale. Strengthening the ability of FHA to insure mortgages for a larger number of home buyers through liberalization of insurance limits and downpayments would enable FHA to continue to perform these important functions. We simply do not believe that the private mortgage insurers—and they are doing very well, but, however well they are doing, that they can ever become a complete substitute for FHA.

In addition to performing an essential role in the operation of the secondary market, we believe that FHA can and should play a major role in rehabilitating mature communities. Governmental assistance

is necessary if lenders such as mutual savings banks are to lend in situations where the risk is greater than that which we can reasonably be expected to bear on our own.

FHA pioneered the creation of the secondary market, and a revitalized FHA can, through an expanded urban insurance or coinsurance program, provide the assistance and impetus necessary to encourage private lenders to make safe and sound loans in older neighborhoods just beginning in the stages of decline. A solution to our urban problems demands a partnership of private and public interests. A strong and reconstituted FHA, operating on an economically sound basis, could help us forge that necessary partnership and permit the achievement of public goals through private means.

We do appreciate this opportunity to present our views and our statement and would be pleased to respond to any questions.

Thank you, Madam Chairman.

[The prepared statement of Mr. James, on behalf of the National Association of Mutual Savings Banks, follows:]

Statement of the
National Association of Mutual Savings Banks
before the
Subcommittee on Housing and Community Development
of the
Committee on Banking, Finance and Urban Affairs
House of Representatives
on
Housing Program Authorizations
March 7, 1977

Mr. Chairman and Members of the Subcommittee, my name is William A. James. I am senior vice president of the Springfield Institution for Savings, Springfield, Massachusetts, and a member of the Committee on Mortgage Investments of the National Association of Mutual Savings Banks. I am accompanied today by Louis H. Nevins, director-counsel of the National Association of Mutual Savings Banks.

We appreciate this opportunity to appear before the Subcommittee and present our views on the housing program authorization legislation presently before the Subcommittee. In the testimony that follows, I would like to briefly place in perspective the role of mutual savings banks in the housing and mortgage markets, indicate our support for extension of existing housing programs, and then comment in somewhat more detail on a topic of particular concern to our industry -- modification of the statutory limitations on Federal Housing Administration mortgage insurance programs.

Mutual savings banks -- all state chartered institutions -- are the nation's oldest thrift specialists. First organized 161 years ago, they are totally oriented to promoting thrift and to meeting the housing credit and other financial needs of individuals and families. Today, savings banking is a \$136 billion industry of 471 institutions located in 17 states, primarily in the northeast.

Mortgage loans were among the first investments authorized for savings banks, and mortgage holdings presently represent 65% of total savings bank assets. Savings banks are the most important source of mortgage credit in the states in which they are concentrated and are also a major source of mortgage funds for borrowers in other states, through their nationwide lending programs and through acquisitions of GNMA mortgage-backed securities.

The savings bank industry's commitment to meeting the housing credit needs of lower- and moderate-income borrowers is underscored by the fact that savings banks hold \$26.7 billion of FHA and VA loans (not including GNMA mortgage-backed securities). This sum represents well over one-third of the total amount of such loans held by the four major private institutional lenders -- savings and loan associations, commercial banks, life insurance companies and mutual savings banks. Moreover, the industry has historically had a high degree of participation in special-purpose FHA programs, including redevelopment and relocation housing (sections 220 and 221) and the homeownership and rental housing assistance subsidy programs (sections 235 and 236).

Extension of Housing Program Authorizations

We support extension of authorizations of existing housing programs. Extension of existing programs at realistic funding levels will add the element of continuity to our nation's housing programs. In the past, sudden shifts in program authorizations and funding levels have disrupted the marketplace. Builders and lenders experienced severe problems when the tap of federal assistance to a particular segment of the housing market was suddenly turned off. There is thus apprehension in the industry that inhibits the commitment of staff and resources to programs all too vulnerable to shifting political currents. Continuation of existing programs will serve to alleviate this concern.

Additionally, we support the extensions because we believe that it often takes a period of time for certain programs to find their proper role and achieve their full potential. For example, members of our industry have been working almost two years on a coinsurance program for existing multi-family residences under the Section 244 program. At the present time these efforts are reaching fruition, and we are hopeful that the program will be operational in the near future. However, HUD's authority to coinsure mortgage loans under Section 244 is scheduled to expire on June 30. The untimely and premature termination of this program would constitute a waste of already expended resources as well as eliminate what may be a source of considerable financing for existing multifamily projects.

We also strongly support both an extension and an expansion of the experimental payment mortgage program authorized by Section 245 of the National Housing Act. It has become apparent in recent years that the traditional level payment, fixed rate, mortgage contract is not meeting the requirements of many borrowers or of many lenders. The graduated payment mortgage, with which HUD is now experimenting, is designed to enable families who, because of their inability to afford payments in the early years, cannot qualify for traditional mortgage financing to purchase housing adequate for their needs. The theory behind the GPM is to enable these younger, upwardly mobile families to take advantage of anticipated increases in their income and provide them with the opportunity to buy a home they could not otherwise afford. For this reason alone, we urge continuation of the Section 245 program as it presently exists.

But we think HUD should also be permitted to experiment under the Section 245 program with flexible rate mortgages as well. This is the one element sorely lacking in the present program. We testified in 1975 before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance on the subject of variable rate mortgages and we are,

therefore, aware of the controversy surrounding VRMs. Without belaboring the point, we would simply like to point out that a controlled, limited experiment with the use of variable interest rate mortgages by HUD under this program might give all of us further insights as to public receptivity. We hope the Subcommittee might be receptive to an amendment to the Section 245 program which would at least authorize HUD, subject to any volume limitation the Subcommittee deems appropriate, to experiment with mortgage financing instruments that vary interest rates and not just payments.

Federal Housing Administration

We strongly urge the Congress to undertake a comprehensive examination of the present status of FHA and make determinations as to its future role in housing and mortgage markets. We hope the Subcommittee will begin to focus on this important issue this year. In the meantime, we believe that immediate action to increase statutory FHA mortgage limits is required. We also support HUD's proposal for decreasing downpayment requirements.

As we earlier indicated, savings banks have been substantial participants in FHA-insured mortgage lending over the years. However, FHA's volume of mortgages insured and proportional share of the mortgage market has declined considerably in recent years. Statistics indicate the FHA presently insures only 8 percent of all newly-constructed, unsubsidized single-family homes. While there are a number of factors which have contributed to this decline, certainly the outstripping of the maximum insurable mortgage amounts by soaring housing prices has been a substantial factor. Recent years have seen the price of homes, particularly in the suburbs, rise to record heights. As a result of the increase, the financing requirements for such home purchases are well beyond the FHA maximums and many middle-income families cannot gain access to federally-insured mortgage credit.

Such a situation concerns the savings bank industry for several reasons. First FHA, to an increasing degree, is insuring low-priced homes purchased by families of modest means. Such transactions involve higher risks and, as a result, our institutions' portfolios of FHA loans have an increased potential for default and eventual foreclosure. Second, when FHA was a more dominant market force, it may have acted as a stabilizing influence on housing prices. When the market price of most houses was within the FHA limit, the FHA appraisal was a factor in price negotiations. The seller, in determining his asking price, would seek to broaden his potential market and would ask a price which would accommodate FHA insurance, often obtaining an appraisal before placing his home on the market. Similarly, the borrower, recognizing the benefits of the independent appraisal and inspection, would actively seek a home that would qualify for FHA insurance. Today the FHA mortgage ceiling is so low vis-a-vis the going price of housing that FHA is unable to provide any assistance at all in neighborhoods that may well have been 100% financed by FHA loans when they were first developed. Realistic mortgage ceilings would permit FHA to assert itself in many suburban areas once again.

We also support an increase in the maximum conventional mortgage eligible for purchase by both the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Existing limits constrain the ability of these institutions to fully serve secondary mortgage market needs of savings banks as price inflation continues.

In examining these proposals to upwardly adjust existing statutory ceilings, it should be remembered that while private mortgage insurance performs a very useful service, it does not do the whole job. FHA's share of the mortgage market has decreased in recent years but it remains a vital factor in secondary market operations. FHA insurance made possible the development of national

secondary markets. This, in turn, has facilitated the trading of mortgages on a national scale, the transfer of capital from capital surplus to capital short areas of the country, and the tapping of additional sources of mortgage credit. Strengthening the ability of FHA to insure mortgages for a larger number of homebuyers through liberalization of the insurance limits would enable FHA to continue to perform these important functions. We simply do not believe that privately insured mortgages can ever become a complete substitute for FHA.

In addition to performing an essential role in the operation of the secondary market, we believe that FHA can, and should, play a major role in rehabilitating mature communities. Governmental assistance is necessary if lenders, such as mutual savings banks, are to loan in situations where the risk is greater than we can reasonably be expected to bear on our own. FHA pioneered the creation of a secondary market and a revitalized FHA can, through an expanded urban insurance or coinsurance program, provide the assistance and impetus necessary to encourage private lenders to make safe and sound loans on older properties in neighborhoods in the beginning stages of decline. A solution to our urban problems demands a partnership of private and public interests. A strong and reconstituted FHA, operating on an economically sound basis, can help us forge that necessary partnership and permit the achievement of public goals through private means.

We appreciate this opportunity to present our views and would be pleased to respond to any questions you may have.

Mrs. SPELLMAN. Thank you very much for your testimony. We will get into some questions later.

Mr. Williamson?

**STATEMENT OF JOHN C. WILLIAMSON, EXECUTIVE VICE
PRESIDENT, MORTGAGE INSURANCE COS. OF AMERICA**

Mr. WILLIAMSON. My name is John C. Williamson, and I am the executive vice president of the Mortgage Insurance Co. of America. I appreciate the opportunity for me to present a brief statement about this industry.

The subcommittee is considering legislation that involves the mortgage insurance system of the FHA. Invariably, the question arises as to the role of non-Government entities in the field of mortgage insurance, the size of the industry, the market which it serves, its financial integrity, its role in the secondary market, and its potential for serving a wider market as the housing needs of American families of moderate income continue to expand. I hope that I will be able in this statement to at least answer some of the questions which may already have occurred to you.

First, I want to state that our industry does not consider itself to be in competition with the Federal Housing Administration. We believe that there is a vital market which the FHA is in a better position to serve at this time than the private mortgage insurance industry.

The modern version of the private mortgage insurance industry emerged in Wisconsin in 1957 in the chartering of the Mortgage Guaranty Insurance Corp. There are at present 15 companies. Two of these are of recent origin; four are relatively small companies whose insurance activity is limited to one or two States. Of the remaining nine, at least six are engaged in mortgage insurance on a national scale: that is, in every State, including Puerto Rico, Virgin Islands, and Guam. There are about 90 regional underwriting offices which serve the industry.

In January of this year, the insurance in force of all companies aggregated in excess of \$50 billion. In 1976 our companies received 518,343 applications, insured 452,023 mortgages on single-family homes, for a total on new insurance written of \$14,566 million.

Mortgage insurance companies are regulated by the States. In addition to State regulation, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation exercise some supervisory responsibilities with respect to underwriting and financial integrity. The basis for this supervision is the purchase by these two secondary markets of conventional mortgages which carry private mortgage insurance.

As of December 31, 1976, FNMA held \$4.3 billion in mortgages which were privately insured, and FHLMC, \$5.2 billion. By law, such mortgages, if in excess of 80 percent of value, must be insured by an insurer deemed qualified by FNMA and the Mortgage Corporation. In addition, the Federal Home Loan Bank Board requires that all over-90-percent loans originated by savings and loan associations be insured by a qualified insurer.

Both FNMA and FHLMC require a qualified MIC to have a minimum of \$5 million in policyholders surplus, with not less than \$3 million in capital stock and capital surplus. In addition, an MIC may not at any time have total insurance risk outstanding in excess of 25 times its policyholder surplus. MIC's which are not qualified by these two secondary market corporations are governed by the minimum capital requirements of the States in which they are doing business.

MIC's generally insure the top 20 percent or 25 percent of a mortgage. Upon a claim being filed, the MIC has the option of paying 20 percent of the total claim or paying the entire claim and taking title to the property. MIC's generally take the percentage settlement option in about 65 percent of the claims filed.

As of December 31, 1976 the combined assets of the industry was about \$800 million. By law, 50 percent of each earned premium dollar goes into a 10-year reserve which cannot be drawn upon during the 10-year period unless losses exceed 35 percent of earned premiums. Contingency reserves of the industry presently are approximately \$300 million.

In 1976 about 71 percent of the mortgages insured by MIC's were less than \$40,000. The average mortgage is approximately \$33,000, and the average purchase price about \$36,500.

I think this is an important statistic, Madam Chairman. The people who need mortgage insurance are in the market for modestly priced homes. Our private mortgage insurers can insure the top 20 percent of \$75,000 mortgages and \$100,000 mortgages but, because they serve a market that is for moderate-priced homes, the average is about \$33,000. Over 70 percent of the mortgages insured were less than \$40,000.

Generally, about two-thirds of the mortgages insured by MIC's are on existing homes. Savings and loan associations constitute about 73 percent of policyholders; mortgage bankers, 15 percent; commercial banks, 8 percent; mutual savings banks, 3 percent; and credit unions, less than 1 percent.

In 1974 the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation contracted with Arthur D. Little Co. to conduct a study of the industry. The report, released in May 1976, concluded that the typical MIC could withstand economic adversity comparable to that of the great depression and still remain solvent.

1975 was a bad year, and mortgage insurance companies paid out \$39.7 million in claims, more than 50 percent of the total claims paid since the inception of the industry. However, no company was forced to draw upon its contingency reserve.

While there is some variation in the premium plans of different companies, most insurance plans are on an annual basis, with the first year's premium varying from one-half of 1 percent to 1 percent depending on the loan-to-value ratio. All annual renewal premiums are one-fourth of 1 percent. There are some single-premium plans for 5, 7, 10, or 15 years with the premiums varying from 1½ percent to 3¾ percent, depending on the loan-to-value ratio and whether coverage is 20 percent or 25 percent.

The average life of an insurance policy is about 8 years. Most lenders cancel the policy after the principal has been reduced to 80 percent. FNMA, for example, requires the cancellation of any policy at that point. Also, annual insurance policies are automatically renewable, at the option of the lender. Some of the companies charge a constant premium until the principal has been reduced to 80 percent and then a lesser constant for subsequent years during which the lender opts to renew the policy.

On January 16, 1977, the Department of Housing and Urban Development released a report of a departmental study entitled "Future Role of FHA." I am attaching to this statement a four-page excerpt of the report on the subject of the relationship of the Federal Housing Administration to the private mortgage insurance industry.

This concludes my statement.

[The prepared statement of Mr. Williamson, on behalf of the Mortgage Insurance Companies of America, along with the referred to report of the Department of Housing and Urban Development entitled "Future Role of FHA," and a letter dated March 8, 1977, to Chairman Ashley commenting on the HUD report, follows:]

Statement of John C. Williamson, Executive Vice President, Mortgage Insurance Companies of America, before the Subcommittee on Housing, House Committee on Banking, Finance and Urban Affairs in regard to the private mortgage insurance industry.

March 7, 1977

Mr. Chairman and Members of the Subcommittee:

I am grateful for the opportunity afforded me by the Subcommittee to present this brief statement on the private mortgage insurance industry.

The Subcommittee is considering legislation that involves the mortgage insurance system of the Federal Housing Administration. Invariably, the question arises as to the role of non-government entities in the field of mortgage insurance, the size of the industry, the market which it serves, its financial integrity, its role in the secondary market, and its potential for serving a wider market as the housing needs of American families of moderate income continue to expand. I hope that I will be able in this statement to at least answer some of the questions which may already have occurred to you.

First, I want to state that our industry does not consider itself to be in competition with the Federal Housing Administration. We believe that there is a vital market which the FHA is in a better position to serve at this time than the private mortgage insurance industry.

The modern version of the private mortgage insurance industry emerged in Wisconsin in 1957 in the chartering of the Mortgage Guaranty Insurance Corporation. There are at present fifteen companies. Two of these are of recent origin; four are relatively small companies whose insurance activity is limited to one or two states. Of the remaining nine, at least six are engaged in mortgage insurance on a national scale, that is in every state including Puerto Rico, Virgin Islands, and Guam. There

are about ninety regional underwriting offices which serve the industry.

In January of this year, the insurance in force of all companies aggregated in excess of \$50 billion dollars. In 1976 our companies received 518,343 applications, insured 452,023 mortgages on single-family homes, for a total on new insurance written of \$14,566,000,000.

Mortgage insurance companies are regulated by the states. In addition to state regulation, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation exercise supervisory responsibilities, particularly with respect to underwriting and financial integrity. The basis for this supervision is the purchase by these two secondary markets of conventional mortgages which carry private insurance. As of December 31, 1976 FNMA held \$4.3 billion in mortgages which were privately insured, and FHLMC, \$5.2 billion. By law, such mortgages, if in excess of 80% of value, must be insured by insurer deemed qualified by FNMA and the Mortgage Corporation. In addition, the Federal Home Loan Bank Board requires that all over 90% loans originated by savings and loan associations be insured by a qualified insurer.

Both FNMA and FHLMC require a qualified MIC to have a minimum of \$5 million in policyholders surplus, with not less than \$3 million in capital stock and capital surplus. In addition an MIC may not at any time have total insurance risk outstanding in excess of 25 times its policyholder surplus. MICs which are not qualified by these two secondary market corporations are governed by the minimum capital requirements of the states in which they are doing business.

Private mortgage insurance companies (MICs) generally insure the top 20% or 25% of a mortgage. Upon a claim being filed, the MIC has the option of paying 20% of the total claim; or paying the entire claim and taking title to the property. MICs generally take the percentage settlement option in about 65% of the claims filed.

As of December 31, 1976 the combined assets of the industry was about \$800 million. By law, 50% of each earned premium dollar goes into a ten-year reserve which cannot be drawn upon during the ten-year period unless losses exceed 35% of earned premiums. Contingency reserves of the industry presently are approximately \$300 million; unearned premium reserve about \$180 million, and loss reserves about \$35 million.

In 1976 about 71% of the mortgages insured by MICs were less than \$40,000. The average mortgage is approximately \$33,000 and the average purchase price about \$36,500.

Generally, about two-thirds of the mortgages insured by MICs are on existing homes. Savings and loan associations constitute about 73% of policyholders; mortgage bankers, 15%; commercial banks, 8%; mutual savings banks, 3%; and credit unions less than 1%.

In 1974 the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation contracted with the Arthur D. Little Co. to conduct a study of the industry. The report, released in May 1976, concluded that the typical MIC could withstand economic adversity comparable to that of the Great Depression and still remain solvent.

1975 was a bad year and mortgage insurance companies paid out \$39.7 million in claims, more than fifty percent of the total claims paid since the inception of the industry. However, no company was forced to draw upon its contingency reserve.

While there is some variation in the premium plans of different companies, most insurance plans are on an annual basis, with the first year's premium varying from $\frac{1}{2}$ of 1% to 1% depending on the loan to value ratio. All annual renewal premiums are $\frac{1}{4}$ of 1%. There are some single premium plans, for 5, 7, 10, or 15 years with the premiums varying from $1\frac{1}{2}\%$ to $2\frac{3}{4}\%$ depending on the loan to value ratio and whether coverage is 20% or 25%. The average life of an insurance policy is about 8 years. Most lenders cancel the policy after the principal has been reduced to 80%. FNMA, for example, requires the cancellation of any policy at that point. Also, annual insurance policies are automatically renewable, at the option of the lender. Some of the companies charge a constant premium until the principal has been reduced to 80%, and then a lesser constant for subsequent years during which the lender renews the policy.

On January 16, 1977 the Department of Housing and Urban Development released a report of a departmental study entitled "Future Role of FHA". I am attaching to this statement a four-page excerpt of the report on the subject of the relationship of the Federal Housing Administration to the private mortgage insurance industry. This concludes my statement.

January 16, 1977

III. The Relationship of FHA to PMIsA. The Single Family Home Market

The continued importance of FHA insurance, particularly for single family residential mortgages, depends upon the extent to which private insurers cannot or will not provide mortgage insurance to families capable of homeownership at premium rates which are acceptable in terms of our national commitment to increasing homeownership opportunities.

Three potential shortcomings in the PMI industry have been examined:

1. The financial integrity (actuarial soundness) of the private firms in the industry;
2. The degree of monopoly power in the private market; and
3. The ability (or willingness) of the private firms to meet the insurance needs of the various sectors of the housing market.

It appears that, at least in the first two instances, the PMIs do not suffer problems sufficiently serious to warrant concern.*

On the other hand, the evidence clearly does not warrant elimination of Federal mortgage insurance. In

*An extensive analysis of the strength and structure of the PMI industry by the A.D. Little Co. documents this and the subsequent conclusions. (A.D. Little Co., The Private Mortgage Insurance Industry, April 1975)

several States, the default insurance market is dominated by a single firm which, in the absence of an FHA alternative, could exhibit monopolistic behavior. In these areas the availability of FHA mortgage insurance provides a latent restraint on the pricing policies of those private insurers.

In other areas PMIs are not yet active and for some groups of homeowners, such as young first-time purchasers, the private sector may not be providing mortgage credit at reasonable terms.

An abrupt exit by FHA from the home mortgage market also would have a disruptive effect on the secondary mortgage market, because of many investors' continuing preference for the 100%, full faith and credit insurance coverage available from FHA. FHA increasingly is serving mortgage bankers, who originate loans for sale in the secondary market rather than their own portfolios.

Thus, FHA should not exit the unsubsidized single family default insurance market, but it should focus its efforts on offering coverage where the PMIs are unable or unwilling to do so, while at the same time exerting a latent restraint on the pricing policies of private firms.

In such a "complementary" role, FHA would be providing coverage on individual loans primarily when:

- (a) private mortgage insurance is unavailable due to either an absence of active private mortgage insurance firms in particular market areas or to unacceptably

restrictive underwriting policies on the part of those firms that are present; or (b) private mortgage insurance is available only at unreasonably high prices.

To achieve this market role, FHA's strategy should incorporate three basic features. First, the insurance coverage provided by FHA should be priced at a cost which avoids subsidization of the insurance premium, thereby ensuring that consumers will not be bid away from the private market at public expense. This strategy is dependent, therefore, upon HUD's success in achieving actuarial soundness in most of its programs.

Second, FHA should guard against unnecessarily stifling the future growth of the private mortgage insurance industry. As new firms enter the industry and as the private firms expand their underwriting policies to incorporate more risky business, FHA should not be protective of its share of the single family market.

Third, FHA should place a greater emphasis on its historic role in demonstrating and supporting innovative mortgage instruments as well as on serving discrete segments of the home purchasing market, which private mortgage insurers either have not or cannot assist because of the potential risks involved.

The volume of FHA insurance activity may continue to decline as the private mortgage insurance industry

expands. It is likely, too, that FHA insurance activity will be concentrated increasingly in certain regional markets and higher risk markets, such as inner city areas. And, the nature of FHA's activity is likely to change over time as the PMIs enter some markets and leave others.

A decline in FHA activity is not inevitable, however. If FHA procedures can be made more efficient, through the elimination of unnecessary "red tape," and there is an increasing willingness to meet needs which PMIs cannot or will not serve, it may be possible to benefit even larger numbers of families than presently have access to FHA insured financing.

Recommendation:

The appropriate future role of FHA should be to expand the availability of mortgage credit at reasonable interest rates by providing insurance in areas and to groups inadequately served by the private mortgage insurance industry, and to exert a latent competitive influence on the pricing policies of private insurers.



MORTGAGE INSURANCE COMPANIES OF AMERICA

1825 K STREET, N. W., SUITE 604 - WASHINGTON, D. C. 20006

March 8, 1977

Honorable Thomas L. Ashley, Chairman
 Subcommittee on Housing and Community Development
 Committee on Banking, Finance and Urban Affairs
 House of Representatives
 Washington, D.C. 20515

Dear Mr. Chairman:

In my testimony before the Subcommittee on March 7 I submitted for the record excerpts from a report "Future of FHA" by the Office of Policy Development and Program Evaluation, U.S. Department of Housing and Urban Development, dated January 18, 1977.

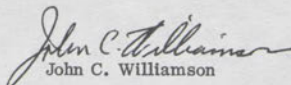
The HUD Report recommends that the future role of FHA should be directed at "areas and to groups inadequately served by the private mortgage insurance industry." This is consistent with the position of the Mortgage Insurance Companies of America which has adopted this policy with respect to the Federal Housing Administration:

"The Federal Housing Administration should be continued as an effective mortgage insurance agency with respect to areas of the market, not substantially served by non-government insurers."

We do not believe that the FHA should be granted changes in its basic authority as to mortgage limits and premiums in order to better compete with the private mortgage insurance industry. This points the FHA in the wrong direction. FHA's mandate should be directed toward assistance to marginal risks, inner cities, and other groups and areas which the private mortgage insurance industry, at least at this time, is unable to serve adequately.

It is requested that this letter be incorporated in the printed hearings as part of my March 7 testimony.

Sincerely,


 John C. Williamson

Mrs. SPELLMAN. Thank you very much.

I would like to ask each of the witnesses to comment, if you will. The administration is recommending raising the FHA single-family mortgage limits to what some people consider to be a mind-boggling \$60,000. I must say that my mind isn't boggled by that figure when I look around to see what it is costing to build homes in the Metropolitan Washington area. But I guess out in Peoria, \$60,000 sounds so enormous. Do you think it is really necessary to go that high, and will this encourage builders to build up to the new maximum limits?

I would like to ask each of you if you would comment on that.

Mr. Rothschild first.

Mr. ROTHSCHILD. Madam Chairman, I think your statement is proof of the need. It is not universally needed in every community, but the fact is that the FHA operates nationally and must have, I believe, the flexibility to provide FHA insurance in such particularly high-cost areas as Washington, D.C., southern California, areas of New York, and Boston. Increasing these limits simply is going to provide a broader housing market for more people. FHA's share of the new construction market has steadily declined, and I think that has been as a consequence of too low maximum limits, particularly since 1969, as we point out in the statement. That, I believe, has kept some people from being able to enter the new-home market. Therefore, we think the \$60,000 limit is not unrealistic.

Mrs. SPELLMAN. Mr. James?

Mr. JAMES. I think that the \$60,000 limit is not excessive. I don't think, frankly, it will affect the lower priced houses. I don't think that this would mean that all houses will cost \$60,000 or excess. We are not Podunk, but we are pretty close to it in western Massachusetts, and we probably would not make that much use of the higher priced ones. But I think of an example just about 2 weeks where an executive from a national concern which is headquartered in our city could afford only a modest downpayment and wanted to buy a house in excess of \$50,000. We were hard pressed to help him. He had to get some help from his family, and fortunately he could get help from his family to get the downpayment necessary. With the increases in mortgage limits and the lower downpayments, he had ample income to support a house like this. So while we in our area might not use it very much, there would be times where it would be very helpful.

Mrs. SPELLMAN. If a figure as high as \$60,000 weren't available to builders, would they then attempt, in order to get funds, to build lower priced homes? Or would this discourage them? If they were able to build the \$60,000 homes, would they just move into that area and leave low-income housing go by the board?

Mr. JAMES. I think really their production would be governed by the market. They would build to that market.

So I think builders will build to meet the market that can afford the houses that they can produce.

Mrs. SPELLMAN. Mr. Williamson?

Mr. WILLIAMSON. I think it will have very little impact on the existing house market in FHA because with the limit of \$45,000, the average FHA mortgage in existing homes is down, I think, below \$30,000. So it will have very little impact.

There is always the danger that on new construction that the builder would build for the upper range of the market. I personally think

that has been the history. That doesn't necessarily mean it is bad. It just happens that inflation has caused the average price of the new home to keep moving up.

Mr. NEVINS. Mrs. Spellman, I wonder if I could just make a comment at this point?

For many years we have heard the fear expressed that higher mortgage ceilings automatically mean that lenders will only be interested in or builders will only be interested in the higher priced housing. And I have never seen a study; I have never seen verification; I have never seen evidence that suggests that because the mortgage limit is, say, up here somewhere and you have a demand that is \$20,000, \$30,000 below that ceiling, that people won't build or lenders won't lend at this lower level. I really think that it is an unsubstantiated contention. And I would be very impressed if I saw evidence to the contrary. But I just don't believe that by raising the ceiling you shut out people at the lower levels.

Mrs. SPELLMAN. I have a question for Mr. James.

On page 5 of your testimony I note that you said when FHA was a more dominant market force it may have acted as a stabilizing influence on the price of houses in the past.

Would you expand a bit on that point. Also, given FHA's current small role in the mortgage market, do you think that it could ever expand again sufficiently to play this price-stabilizing role again?

Mr. JAMES. I think—to answer the second part first, I think, yes, it could be expanded, and it could become a very effective force. The FHA appraisal is an independent verification of value which many people have come to rely on. And we see examples when a person is about to sell his house, he will get the FHA appraisal first, and we encourage people to do this. This helps to give them a feel of value of the house. When there is absolutely run-away inflation, probably nothing can help. But the fact that there is an independent appraisal available which can be purchased by a seller as well as by a buyer does help to keep some sort of sense of continuity and feel of the market.

Mr. ROTHSCHILD. I wonder, Madam Chairman, if I could comment on that, as well.

Mrs. SPELLMAN. Mr. Rothschild.

Mr. ROTHSCHILD. It is not uncommon these days to find investors who say: "I don't make FHA loans anymore." The reason for that has been the kind of fluctuation and variation in that role in the marketplace as referred to by Mr. James.

There is something to the habit of making loans, the familiarity with the process that has to be preserved and should be continued. If it is, there will be those who reenter the market and continue to make those investments. So we think that is very important to broaden the flow of capital into housing.

Mrs. SPELLMAN. Mr. Williamson, on page 3 of your testimony you state that the average mortgage insured by MIC's is \$33,000. Since two-thirds of your insured mortgages are on existing houses, can you give us a better idea as to what the average is for new and existing housing?

Mr. WILLIAMSON. Our figures—I might have some breakdown here. We just started a series of reporting, and some of the companies do

not report a breakdown as between new and existing. I think that I can give you—the average mortgage, which, of course, on a new home is always higher. I think that one of the larger companies did break it down—this is Ticor Mortgage Insurance Co., which is a California-based company, and it is the only company that does more new construction than existing. In that case their new home mortgage average is \$39,382, and their average existing mortgage is \$35,834. That's the only company that has broken it down as between new and existing. But, of course, the average mortgage on a new home is higher.

I want to emphasize that two-thirds of the mortgages we insure are on existing homes.

Mrs. SPELLMAN. It seems when you say that over 70 percent of the private mortgage insurance is on loans under \$40,000 or on houses under \$40,000, that PMI's and FHA tend to serve the same market. Now, wouldn't the large proportion of privately insured homes that sell for less than \$40,000 argue against an increase in FHA limits from its current \$45,000?

Mr. WILLIAMSON. We are not against it. I think you can make an argument that the \$45,000 is unrealistic. I'm not sure that the new one ought to be \$60,000, but I hope that the Congress will not increase the statutory limit on the FHA mortgage until it is ready to cope with the overall problem. You have FNMA with a limit on authority to purchase mortgages. That limit ought to be increased. The savings and loan associations are limited to \$55,000 mortgages—that is, 20 percent off their assets may be mortgages above \$55,000. But in many areas they are bumping into that ceiling, and I think that the Congress and the subcommittee certainly ought to tackle the whole problem of statutory mortgage limits, whether it is FHA or the savings and loan associations.

Mrs. SPELLMAN. Mr. James, as you might well know, the subcommittee heard considerable testimony last week on local communities' experiences in developing rehabilitation loan programs, by leveraging their community development funds with private financial lending institutions. I am wondering what experience your institution has had concerning lending for rehabilitation of the older housing stock in urban areas.

Mr. JAMES. I just happen to have a headline I would love to show you, Madam Chairman.

Mrs. SPELLMAN. Is that why you insisted I ask that question? [Laughter.]

Mr. JAMES. I just happen to have it with me. Our bank is a half-a-billion-dollar bank, and there was an area adjacent, almost adjacent to our home office, which is close to the central business district, about a 4-block area which was surrounded by museums, churches, schools—good anchors to a community. And right in the middle of this were about five or six actually burned-out, multi-family buildings that were—some of them had been torn down, some were still standing. The area was just in a terrible state. So we have invested a fraction of 1 percent of our assets in this program and have gotten assistance from the city, and with all that prelude, I will bring out my headline.

We are SIS, and it says, we will restore the Spring/Pearl Street area—which is the area I described—and it shows a model of the proj-

ect. And we are talking the lead position in this and assuming the risk. There is some additional commentary on the back.

We have a few extra copies.

Mrs. SPELLMAN. Good. If you would submit that and any additional material for the record, we won't have any objection. I won't even ask if anybody will object to your submitting that for the record.

Mr. JAMES. It was followed up by an editorial and a drawing following up our position. I think the headline might be very interesting and goes along with your question. Here is a city's minirenewal project which meshes with the bank's investment in the area. The city investment will be in streets, new sidewalks, streetlighting, and a park that we are hoping to acquire the land for. It has been a very happy experience, to date. We are in the process of rehabilitating the buildings now. We are also taking some very careful action to counsel with the people in the apartments—trying to make it possible for whoever is living there now to stay there. Making an apartment, if there is an appropriate-size apartment, available to them to stay there. There are some real fine human interest—especially the elderly tenants. For example, one woman had lived in the same apartment for 40 years and she just wasn't about to leave that building. We moved her to another side of the building until we get her own apartment fixed up, and then we hope we can put her back in there with a subsidy under the housing allowance program.

This is an example of leveraging, I think, that has been made to come about by, frankly, our interest in helping our own community. It is not completely altruistic. It is reasonably selfish. We think what's good for the area is good for our bank and our depositors.

I would be happy to submit this to the subcommittee.

[The newspaper article referred to by Mr. James, along with additional material submitted for inclusion in the record, follows:]

[From the Springfield (Mass.) Daily News, Jan. 26, 1977]

S. I. S. WILL RESTORE SPRING-PEARL ST. AREA

DEVELOPMENT WILL HOUSE 500 PEOPLE

Springfield Institution for Savings with the assistance of four other local banks, will develop a four-block, \$3.5 million, rehabilitation effort in downtown Springfield centered at Spring and Pearl Streets.

Some 14 multi-family residential buildings will be restored, and public areas modified, in an effort to "recreate the neighborhood's 19th century character and charm."

The recreated neighborhood will be called Armoury Commons.

The development is being planned to build upon and extend the highly successful Mattoon Street restoration of townhouses along Mattoon Street, while providing multi-unit housing for more than 500 residents.

In time, 20 new townhouses will be added to the existing residential buildings. Plans for the revitalization of the area were disclosed at a news conference today by the Armoury Corp., sponsors of the program.

The Armoury Corp. is a wholly-owned subsidiary of the Springfield Institution for Savings.

The neighborhood is within three blocks of the central business district and abuts most of the major city cultural institutions as well as a considerable amount of church-owned property.

Present at the news conference were: Springfield Mayor William C. Sullivan, Springfield Institution for Savings President John McP. Collins, Stephen H. Pitkin, commissioner, community development and David W. Bearce, executive director, Better Homes for Springfield.

COUNTLESS HOURS

Collins said that he was pleased that the bank was able to sponsor and develop this program, and thanked all those who have devoted countless hours to planning what should become a vital part of the city's life and a neighborhood that its residents and future citizens will view with pride. He said Armoury Commons will preserve the rich heritage of the area, and at the same time provide for the future an exciting environment for people to live in and visit.

Planning for the renewal effort began in September with the formation of a development team consisting of Lawrence D. Beane, vice president, Springfield Institution for Savings and president of the Armoury Corporation; David W. Bearce; Lester J. Premo, real estate agent; and Attorney Stephen A. Shatz. Since September the team has been inspecting buildings, securing options on selected properties, and estimating site improvement and construction costs.

A total equity investment of \$700,000 will be made by Armoury Corporation together with Better Homes for Springfield, Inc. Construction financing of \$2.8 million for the redevelopment has been obtained from four local banks: Security National Bank, Shawmut First Bank and Trust Company, Third National Bank and Valley Bank and Trust Company. Permanent financing of 2.8 million will be provided by the Springfield Institution for Savings.

The renewal will be undertaken in three phases and is expected to be completed within three years. The properties will become tax producing real estate as required and no tax subsidies are contemplated.

The first of the three phases, which will begin next month, includes rehabilitation of eight residential buildings along Spring, Salem and Elliot Streets. Three of these buildings, currently unoccupied, will be completely reconstructed from their exterior brick shells. The remaining five require minimum to moderate internal rehabilitation. The eight buildings will provide 136 apartments. There will be 52 two-bedroom apartments, 50 one-bedroom and 34 efficiencies. These residential units are expected to be on the market within four to six months and rents will range from \$145 to \$290 including heat and hot water. In keeping with overall plans to provide off-street parking for residents, four parking lots will also be constructed during the first phase.

The second phase, to begin on or before Labor Day, focuses on the area north of Pearl Street. It includes six buildings and four parking lots. In this phase, which is expected to span 10 months, 109 apartments will be created: 50 one-bedrooms and 59 two-bedrooms.

It will be during the course of the first and second phases that the city will construct a neighborhood park at the corner of Pearl and Spring Streets. The park will be furnished with benches, a green and statuary. The 19th century motif, such as is along Mattoon Street, will dominate the area bounded by Spring, Pearl, Elliot, Salem and Mattoon Streets. Per the design plans, the city will be asked to install brick sidewalks, trees and street lanterns throughout this area. William A. Burbank and his associates of Scape Unlimited, Inc. are responsible for the design of the park, neighborhood street areas, and all other site improvements.

With the extension of the Mattoon Street environment and the formation of the park, it is hoped that the Mattoon Street Neighborhood Association will combine Mattoon Street and Armoury Commons residents.

The final phase is expected to begin the Summer of 1978. During this phase, 12 to 22 townhouses will be constructed on selected vacant lots.

MINIMAL DISLOCATION

The plans have been developed so that minimal dislocation of residents will be involved. In the first phase of the planned renovation of the Spring-Pearl neighborhood, there is only one occupied building which requires substantial or gut rehabilitation. Tenants will be relocated so that extensive repairs can be made and offered another unit of the appropriate size in the neighborhood, where such units are available. If no unit of suitable size is available or the family chooses to move out of the neighborhood, it will receive financial assistance for moving costs, and a modest relocation payment to cover the possible costs of additional rent. They also have the option of moving back into the neighborhood when repairs are completed on a unit of appropriate size.

Details of the relocation process for all other buildings remain to be worked out after individual conferences with present tenants. It is the goal of Armoury Corporation that no families other than those in the building mentioned above will have to move more than once. Rehabilitation work will be scheduled with this

in mind after a survey of existing residents is completed. In addition, application has been made to the Department of Community Affairs for rental assistance monies to assist low-income families in the rehabilitated units. The funds will be used to assist at least 50 families and elderly individuals in the neighborhood. Priority for these subsidies will be given to families who currently reside in the area so that some low-income residents can remain in the neighborhood.

Building architect for the Armoury Commons neighborhood development is Carl J. Warfield and landscape architect is Scape Unlimited, Inc. General contractor for the completely renovated buildings is Ernest A. Gralia of E. A. Gralia Construction Company. Home City Housing Development Corporation has acted as consultant to Armoury Corporation for development planning. It will be general contractor for the buildings requiring minimal to moderate rehabilitation, and will manage the apartments when construction is completed.

Armoury Corporation president is Lawrence D. Beane. Corporation vice president is John McP. Collins, William A. James, senior vice president, Springfield Institution for Savings is treasurer and attorney Stephen A. Shatz of Shatz, Schwartz and Fentin, is clerk. Directors are John Collins, William James, Lawrence Beane, David Bearce and Vincent Martin.

[From the Springfield (Mass.) Daily News, Jan. 27, 1977]

CITY MINI RENEWAL PROJECT WILL MESH WITH SIS PLANS

Springfield may undertake a "mini urban renewal project" in the Spring and Pearl Streets area which private developers have announced plans to restore, according to city Community Development Commissioner Stephen H. Pitkin.

Pitkin said today the plans announced Wednesday by Springfield Institution for Savings mesh well with the city's intentions of improving the area.

SIS will, with assistance of four other local banks, undertake restoration of 14 buildings and construction of 12 to 22 townhouses in the area, which will be given the name "Armoury Common."

Pitkin said the city had already earmarked Community Development funds for the area before the bank announced its project.

The funds are available, he said, and could be used for some "spot clearance" of a few buildings not acquired by SIS for the project, and which are "beyond rehabilitation."

Pitkin said there are some buildings in that category in the bank's project area, and, if the private market does not do anything about them, the city could, through the Springfield Redevelopment Authority.

He stressed he does not mean a major renewal project such as New North, but picking out selected buildings in the area.

While the project is being done by the banks without any tax break from the city, the city will assist the project by doing some street improvements. Pitkin said the city had planned to do some work in the area even before the bank's project was announced.

The city will do sidewalk improvements, a park at Pearl and Spring Streets, street tree planting, and streetlight installation, all with an 18th century motif.

Pitkin said some of the work might be done by city crews, but that much would probably be done by private contractors hired with Community Development funds earmarked for the area.

The park and other exterior improvements are being designed by Scape Unlimited, a landscape firm, but just who will pay for the design work is uncertain.

John McP. Collins, SIS president, said he hopes the city will consider the design "as part of the public improvements."

Pitkin said a city planner will be assigned to the project, to "get the budget worked out."

Both Pitkin and Collins stressed the project will mean a long-term boost to the city's tax revenue, although tax assessments on the rehabilitated buildings are not expected to jump sharply.

"We've been trying to get across to people that if they renovate a building they're not going to get socked with a bigger tax bill," Pitkin said.

But he added the new townhouses will, of course, add to the city's tax base.

"But the bigger picture is that this project will save and upgrade the neighborhood, and will bring purchasing power to downtown," he said.

Assessor George Butterick said there is no question that project will be good for the city, and generate new tax revenue.



Slated for facelift: This is one of buildings that will be rehabilitated under a \$3.5 million program on Spring and Pearl Streets planned by Armoury Corp., a subsidiary of Springfield Institution of Savings. Twenty new townhouses are also proposed for construction. (Daily News photo by Paul Benoit.)

The new townhouses will be added to the tax base, he said, and the rehabilitated units may be taxed at a slightly higher rate if they bring in more income, he said.

Buildings that are vacant would certainly add to the tax base after rehabilitation, he said, but added there is no way to estimate now how much added revenue the city might gain.

Work is expected to start next week on rehabilitation of the three unoccupied buildings which will require complete interior reconstruction, according to Charles Maurer, project coordinator for E. A. Gralia Construction Co., the general contractor.

Maurer said the first work will involve securing the building in preparation for clearing out whatever cannot be salvaged—old plumbing and electrical works, even some walls and ceilings.

But he stressed the project will salvage as much as possible—not just to save money, but because of the emphasis on restoration. "Some of the old wood trim and doors just can't be duplicated today," he explained.

Gralia will set up an affirmative action program to hire minorities for the project, he said, adding that there will be 15 to 30 people working at the peak of activity.

Gralia has done similar restoration work, including the Hadley Mills Townhouses in Holyoke's Ward One.

David W. Bearce of Home City Housing Development Corp., the general contractor for restoration of the occupied buildings, said he hopes to have a model apartment open during February.

Home City will take over management of the buildings Feb. 1, he said, and was selected as general contractor for the occupied buildings because of past experience in management of occupied buildings.

He said Al Artioli will be hired as construction superintendent for the project, and the aim will be to reduce to a minimum the amount of relocation of tenants.

"At most, some people will have to move twice before the project is completed," Bearce said. There are about 80 families living in the buildings now, he said.

[From the Springfield (Mass.) Daily News, Jan. 28, 1977]

PRIVATE SECTOR AND CITY FIGHT URBAN BLIGHT

Urban blight is a major problem in Springfield. The city is tearing down old buildings faster than it is putting up new ones, judging from Building Department statistics for the last half of 1976 which show demolition permits far in excess of construction permits.

The problem of abandoned dwelling units became so serious that Mayor William C. Sullivan appointed a housing task force to recommend remedies. And the rash of vacant and dilapidated buildings created still another problem: vandalism and arson. Fire Department figures for last year indicate that one out of every four fires here is related to arson.

Bold steps are required to halt the housing slide. And, we are pleased to see that such an imaginative step is being taken by Springfield Institution for Savings which, with the assistance of four other local banks, will develop a \$3.5 million housing rehabilitation program in Downtown Springfield.

Known as the Armoury Commons project, the neighborhood revitalization will be centered at Spring and Pearl Streets. The development will feature restoration of 14 multi-family residential buildings which, according to the announcement, will recreate the neighborhood's 19th Century "character and charm"—hence the Armoury Commons name.

In addition, plans call for construction of townhouses along the south side of Pearl Street. Another feature will be development of a neighborhood park by the city. The timetable is completion of the three phases of the program within three years.

The key to the success of Armoury Commons is a joint effort by the private sector and the city. As Mayor Sullivan observed: "This project proves that the public sector can't do it alone. Neither can the private sector. But working together, we can and will do it."

It would be unrealistic to assume that this housing rehabilitation effort will, in itself, halt the citywide spread of urban blight. This is only one neighborhood and, while it is estimated that the project will provide multi-unit housing for more than 500 residents, this is not a large amount when set against total housing needs in Springfield.

The important thing is that it is an ambitious step in the right direction. According to John McP. Collins, president of SIS, the aim of this "village within a city" is to make available "good, decent housing that is affordable."

Rehabilitation work already done on townhouses in the historic Mattoon Street district provided much of the impetus for Armoury Commons, Mr. Collins explained. The city also cooperated in that restoration by installing new walks and lighting fixtures. In this project, the city's role will include creation of parks and installation of sidewalks.

The hope for the future is that the Spring-Pearl Streets area restoration will spur similar housing developments downtown, in which the private business sector and public government will join hands and combine resources.

Urban blight need not be a fatal disease—in Springfield or in any other city across America.

We commend SIS and other local banks, and the city, for taking positive action to halt the housing slide. In the long run, the mutual goal is to produce a new set of housing statistics—showing that Springfield is restoring old buildings, and burning new ones, much faster than it is tearing them down.

Early Valentine



The Daily News

1-28-77

[From the Morning Union (Springfield, Mass.), Jan. 27, 1977]

BANKS REVEAL NEIGHBORHOOD PLAN

Five local banks unveiled plans Tuesday to turn the blighted Spring and Pearl Streets area of Springfield into a new neighborhood—Armoury Commons.

In all, the project will provide housing for 500 persons.

The \$3.5 million restoration and construction project, sponsored by the Armoury Corp., a subsidiary of Springfield Institution for Savings (SIS), is scheduled to begin next month. It marks the first major housing development in the city in several years.

Three blocks from downtown, the project calls for restoration of 14 apartment buildings and construction of 12 new townhouses similar in style to the Mattoon Street restorations and design of parks and tree belts throughout the neighborhood.

Formal announcement of the project is the result of five months of intensive planning and negotiations by a special three-man team assembled by SIS.

Unlike housing projects which have gone up throughout the city in the past decade, this one will be financed solely by area banks without assistance from federal or state agencies. However, the city will pay for land improvements and a limited rent subsidy for 50 units in the neighborhood will be provided by the state.

In announcing the project Tuesday, John McP. Collins, president of SIS, said, "This village within a city will provide good, clean, sensible and affordable living."

Collins gave much of the credit for the Armoury Commons project to the Mayor's Task Force on Housing Abandonment, "which led us to re-examine our role."

"We asked ourselves, 'Are we doing enough?' No, we are not."

The task force, organized last year by Mayor William C. Sullivan, has been taking a hard look at housing in the city and long ago recognized the Spring and Pearl Street area as a trouble spot.



The inset shows the interior of a typical apartment in the Armoury Commons neighborhood. A total of 245 apartments will be provided in the 14 rehabilitated buildings in the Spring and Pearl Street neighborhood, background.

The four banks backing the housing project are Shawmut First, Third National, Valley and Security National. An equity investment of \$700,000 will be made by Armoury Corp. along with Better Homes for Springfield, Inc.

Construction financing of \$2.8 million will be provided by four of the banks and SIS will provide long-term financing of \$2.8 million.

The restoration project will be undertaken in three phases, the first of which is expected to be completed by Labor Day.

The first phase includes eight apartment buildings along Spring, Salem and Elliot Streets. Three of these buildings will be completely reconstructed from their brick shells. Ernest A. Gralia of E.A. Gralia Construction Co. has been hired to do the "gut rehabilitation." Home City Housing Development Corp. will be general contractor for the minimal to moderate rehabilitation.

Parks and public improvements also will begin during Phase One and carry into Phase Two.

Completion of the project is expected in three years.

The efficiency, one- and two-bedroom apartment units will rent at open market prices from \$145 to \$290.

While Collins said an all-out effort will be made to keep the present tenants in the neighborhood, those with larger families unable to pay the rents will be relocated. "We have a relocation budget set aside," he said.

Attorney Stephen Shatz, a member of the development team and the housing task force, said acquisition prices for the properties in the neighborhood were "exceedingly cheap."

The average cost per unit was \$2,300 and a total of about \$500,000 was spent to acquire property.

Off-street parking lots will ease a current parking problem in the neighborhood. Mayor Sullivan said he came to the news conference with a "big smile."

"We've been talking about our housing stock for a long time. Now we've stopped talking and begun to do something."

In addition to the park on a vacant lot at Spring and Pearl Streets, the city will provide antique-style street lights and appropriate greenery.

1906

CITY OF SPRINGFIELD

In the City Council February 7, 1977

WHEREAS, the Spring and Pearl Streets area has been plagued by vandalism and fires and is in a stage of serious deterioration; and

WHEREAS, if these conditions are allowed to remain, the same neglect and deterioration will not only grow but expand into other neighborhoods; and

WHEREAS, a significant effort has been made to halt the spread of this blight by several City banks; and

WHEREAS, the Springfield Institution for Savings with the assistance of Security National Bank, Shawmut First Bank, Third National Bank and Valley Bank and Trust Company have joined in a \$3.5 million Armoury Commons Rehabilitation Plan; and

WHEREAS, the plan will revitalize fourteen apartment buildings, construct twenty townhouses and create a park and larger green spaces at the Spring and Pearl Street locations; and

WHEREAS, the new environment established by Armoury Commons will renew the downtown area by encouraging residents of the City to remain and for making it possible for new persons to call Springfield home.

NOW THEREFORE BE IT RESOLVED that the Springfield City Council acknowledge and commend the Springfield Institution for Savings, Security National Bank, Shawmut First Bank, Third National Bank and Valley Bank & Trust Company for their commitment to the City of Springfield and its residents by their efforts to revitalize, through Armoury Commons, the Pearl and Spring Streets area.

AND BE IT FURTHER RESOLVED that the City Council of the City of Springfield commits its co-operation to the aforementioned parties in the completion of these plans.



A true copy of a resolve passed by the City Council February 7, 1977 and approved by the Mayor February 11, 1977.

Attest:

Robert Ballard City Clerk

Sponsored by Councillor Leonard J. Collamore and Councillor Daniel M. Walsh, III

FOR RELEASE: 9 a.m., Wednesday, January 26, 1977

SPRINGFIELD, MASS. - - It was announced today that a four-block, \$3.5 million, rehabilitation effort in downtown Springfield will begin next month, creating a new neighborhood called Armoury Commons.

The plans for the revitalization of the Pearl and Spring Street area were disclosed at a news conference this morning, by the Armoury Corporation, sponsors of the program. The Armoury Corporation is a wholly-owned subsidiary of the Springfield Institution for Savings.

Some 14 multi-family residential buildings will be restored and public areas revitalized, to recreate the neighborhood's 19th century character and charm. This will build upon and extend the highly successful Mattoon Street and provide multi-unit housing for more than 500 residents. In time, 20 new townhouses will be added to the existing residential buildings.

-more-

Armoury Corporation - - 2

The neighborhood is within three blocks of the central business district and abuts most of the major City cultural institutions as well as a considerable amount of church-owned property.

Present at the news conference were: Springfield Mayor William C. Sullivan, Springfield Institution for Savings President John McP. Collins, Stephen H. Pitkin, Commissioner, Community Development and David W. Bearce, executive director, Better Homes for Springfield.

Collins said that he was pleased that the bank was able to sponsor and develop this program, and thanked all those who have devoted countless hours to planning what should become a vital part of the City's life and a neighborhood that its residents and future citizens will view with pride. He said Armoury Commons will preserve the rich heritage of the area, and at the same time provide for the future an exciting environment for people to live in and visit.

Planning for the renewal effort began in September with the formation of a development team consisting of Lawrence D. Beane, vice president, Springfield Institution for Savings and president of the Armoury Corporation; David W. Bearce; Lester J. Premo, realtor; and Attorney Stephen A. Shatz. Since September the team has been inspecting buildings, securing options on selected properties, and estimating site improvement and construction costs.

A total equity investment of \$700,000 will be made by Armoury Corporation together with Better Homes for Springfield, Inc. Construction financing of \$2.8 million for the redevelopment has been obtained from four local banks: Security National Bank, Shawmut First Bank and Trust Company, Third National Bank and Valley Bank and Trust Company. Permanent financing of \$2.8 million will be provided by the Springfield Institution for Savings.

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Armoury Corporation - - 3

The renewal will be undertaken in three phases and is expected to be completed within three years. The properties will become tax producing real estate as required and no tax subsidies are contemplated.

The first of the three phases, which will begin next month, includes rehabilitation of eight residential buildings along Spring, Salem and Elliot Streets. Three of these buildings, currently unoccupied, will be completely reconstructed from their exterior brick shells. The remaining five require minimum to moderate internal rehabilitation. The eight buildings will provide 136 apartments. There will be 52 two-bedroom apartments, 50 one-bedroom and 34 efficiencies. These residential units are expected to be on the market within four to six months and rents will range from \$145 to \$290 including heat and hot water. In keeping with overall plans to provide off-street parking for residents, four parking lots will also be constructed during the first phase.

The second phase, to begin on or before Labor Day, focuses on the area north of Pearl Street. It includes six buildings and four parking lots. In this phase, which is expected to span 10 months, 109 apartments will be created: 50 one-bedrooms and 59 two-bedrooms.

It will be during the course of the first and second phases that the City will construct a neighborhood park at the corner of Pearl and Spring Streets. The park will be furnished with benches, a green and statuary. The 19th century motif, such as is along Mattoon Street, will dominate the area bounded by Spring, Pearl, Elliot, Salem and Mattoon Streets. Per the design plans, the City will be asked to install brick sidewalks, trees and street lanterns throughout this area. William A. Burbank and his associates of Scape Unlimited, Inc. are responsible for the design of the park, neighborhood street areas, and all other site improvements.

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Armoury Corporation - - 4

With the extension of the Mattoon Street environment and the formation of the park, it is hoped that the Mattoon Street Neighborhood Association will combine Mattoon Street and Armoury Commons residents.

The final phase is expected to begin the Summer of 1978. During this phase, 12 to 22 townhouses will be constructed on selected vacant lots.

The plans have been developed so that minimal dislocation of residents will be involved. In the first phase of the planned renovation of the Spring-Pearl neighborhood, there is only one occupied building which requires substantial or gut rehabilitation. Tenants will be relocated so that extensive repairs can be made and offered another unit of the appropriate size in the neighborhood, where such units are available. If no unit of suitable size is available or the family chooses to move out of the neighborhood, they will receive financial assistance for moving costs, and a modest relocation payment to cover the possible costs of additional rent. They also have the option of moving back into the neighborhood when repairs are completed on a unit of appropriate size.

-more-

Armoury Corporation - - 5

Details of the relocation process for all other buildings remain to be worked out after individual conferences with present tenants. It is the goal of Armoury Corporation that no families other than those in the building mentioned above will have to move more than once. Rehabilitation work will be scheduled with this in mind after a survey of existing residents is completed. In addition, application has been made to the Department of Community Affairs for rental assistance monies to assist low-income families in the rehabilitated units. The funds will be used to assist at least 50 families and elderly individuals in the neighborhood. Priority for these subsidies will be given to families who currently reside in the area so that some low-income residents can remain in the neighborhood.

Building architect for the Armoury Commons neighborhood development is Carl J. Warfield and landscape architect is Scape Unlimited, Inc. General contractor for the completely renovated buildings is Ernest A. Gralia of E. A. Gralia Construction Company. Home City Housing Development Corporation has acted as consultant to Armoury Corporation for development planning. It will be general contractor for the buildings requiring minimal to moderate rehabilitation, and will manage the apartments when construction is completed.

Armoury Corporation president is Lawrence D. Beane. Corporation vice president is John McP. Collins, William A. James, senior vice president, Springfield Institution for Savings is treasurer and attorney Stephen A. Shatz of Shatz, Schwartz and Fentin, P.C. is clerk. Directors are John Collins, William James, Lawrence Beane, David Bearce and Vincent Martin.

ARMOURY COMMONS

FACT SHEET

LOCATION: A four-block area in downtown Springfield, Mass. bounded by Spring, Pearl, Elliot, Salem and Mattoon Streets.

DEVELOPER: Armoury Corporation, a wholly-owned subsidiary of the Springfield Institution for Savings, Springfield, Mass.

PARTICULARS: Total rehabilitation of 5 multi-unit residential buildings
Minimal to moderate rehabilitation of 9 multi-unit residential buildings
Creation of 8 off-street parking lots
Construction of a neighborhood park
Improvements of public areas with brick sidewalks and 19th century lanterns
Construction of 12 - 22 townhouses

COST: \$3.5 million

FINANCING: Construction financing of \$2.8 million by Security National Bank
Shawmut First Bank and Trust Company
Third National Bank
Valley Bank and Trust Company
\$700,000 equity investment by the Armoury Corporation and Better Homes for Springfield, Inc.
Permanent financing of \$2.8 million by the Springfield Institution for Savings

TIME LINE: Phase 1: February - September 1977
Phase 2: September, 1977 - Summer, 1978
Phase 3: Commencing Summer, 1978

HOUSING: 245 apartments: renting between \$145. and \$290.
34 efficiencies
100 one-bedroom
111 two-bedroom
12-22 townhouses

PARKING: Eight off-street lots accommodating 177 cars

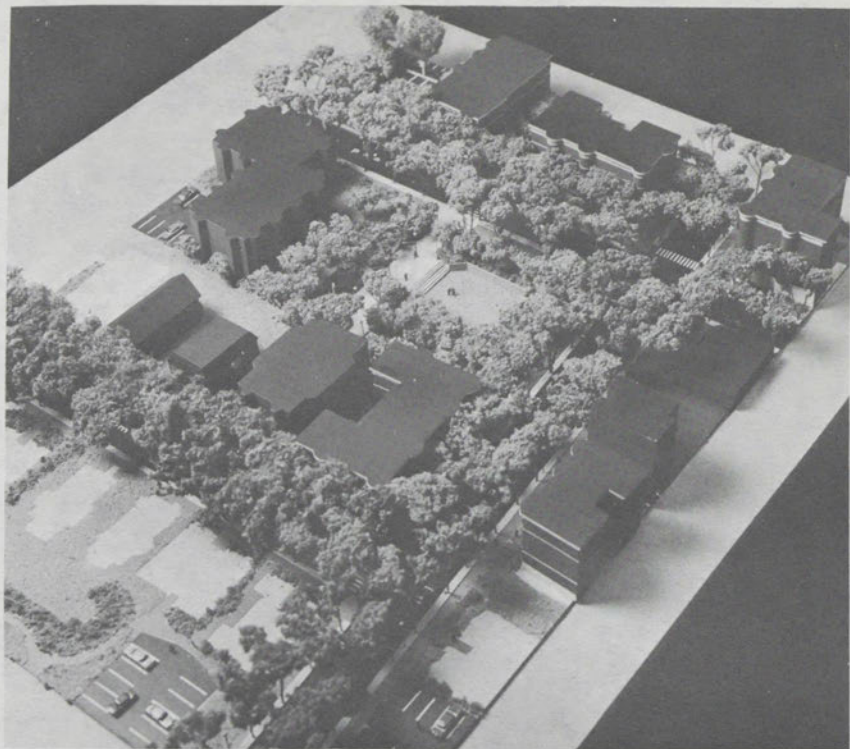
PUBLIC PARK: Neighborhood park located at the corner of Pearl and Spring Streets and furnished with benches, a green, statuary and brick sidewalks.

ARMOURY COMMONS . . . 2
FACT SHEET

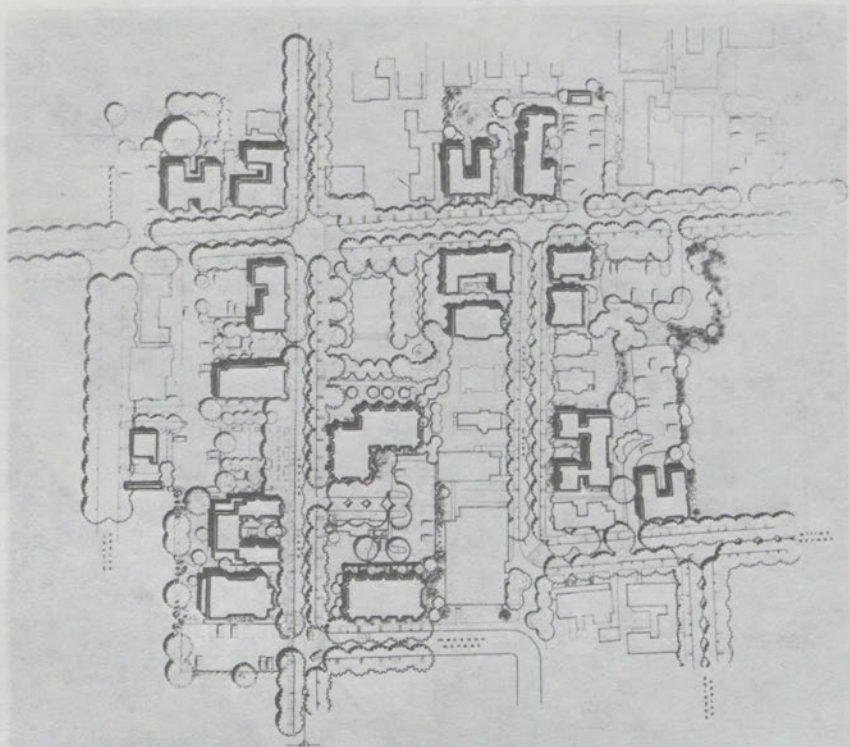
- PHASE ONE: February - September, 1977 - south of Pearl Street
Major renovation of 3 multi-unit residential buildings:
33 Salem Street
112 - 116 Spring Street
104 Spring Street
Minimum to moderate rehabilitation of 5 multi-residential buildings:
85 - 87 Elliot Street
15 - 25 Salem Street
34 Salem Street
97 Spring Street
103 - 107 Spring Street
Total: 136 apartments
Construction of four parking lots for 68 cars
Construction of park by City to begin during Summer, 1977
- PHASE TWO: September, 1977 - Summer, 1978 - north of Pearl Street
Major renovation of two multi-unit residential buildings:
72 Pearl Street
82 - 86 Pearl Street
Minimum to moderate rehabilitation of four multi-unit residential buildings:
52 Pearl Street
58 - 62 Pearl Street
127 Spring Street
131 - 135 Spring Street
Total: 109 apartments
Construction of four parking lots for 109 cars
Completion of construction of public park by City
- PHASE THREE: Commencing Summer, 1978
Construction of 12 - 22 townhouses along the south side of Pearl Street
- BUILDING ARCHITECT: Carl J. Warfield, Springfield
- LANDSCAPE ARCHITECT: Scape Unlimited, Inc., Springfield
- GENERAL CONTRACTORS: E. A. Gralia, Construction Company, Inc., East Longmeadow
Home City Development Corporation, Springfield
- LEASING AGENT: Home City Development Corporation, Springfield
- ARMOURY CORPORATION OFFICERS: Lawrence D. Beane, President
John McP. Collins, Vice President
William A. James, Treasurer
Stephen A. Shatz, Clerk

ARMOURY COMMONS . . . 3
FACT SHEET

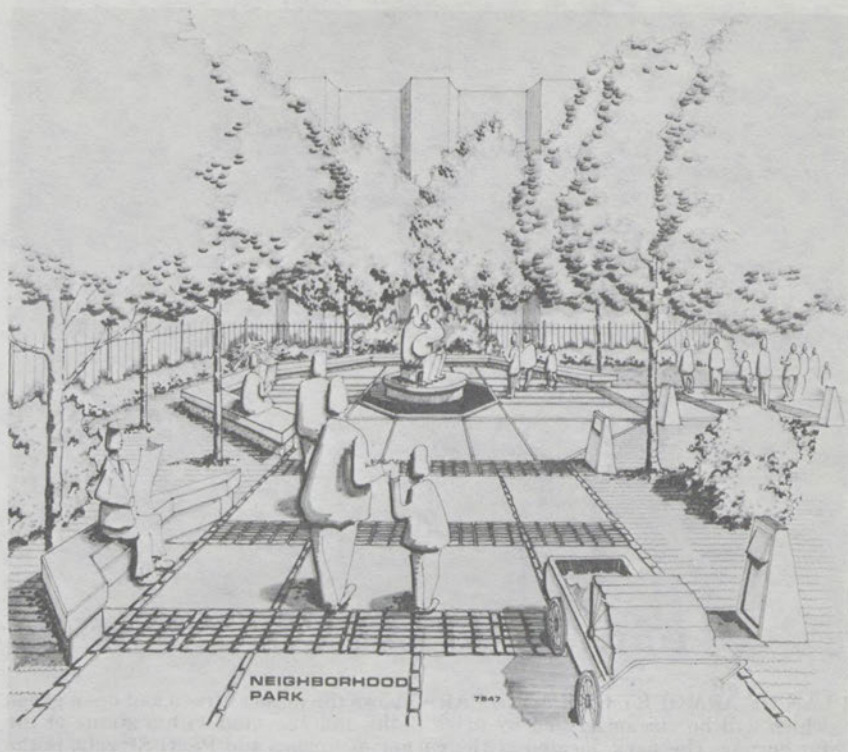
DIRECTORS: John McP. Collins, President, Springfield
 Institution for Savings
 William A. James, Senior Vice President, Springfield
 Institution for Savings
 Lawrence D. Beane, Vice President, Springfield
 Institution for Savings
 David W. Bearce, Executive Director, Better Homes
 for Springfield
 Vincent G. Martin, Executive Vice President, Milton
 Bradley Corporation



ARMOURY COMMONS—a new neighborhood in downtown Springfield will encompass four blocks in the Spring, Pearl and Salem Streets area. Dominating the model is the abundant landscaping along the streets and the public park that will be created at the center of the new neighborhood. Fourteen buildings will be rehabilitated beginning next month and will provide multi-unit housing for more than 500 residents. The neighborhood will recreate its 19th century environment by maintaining building exteriors and adding brick sidewalks and old-fashioned street lanterns.



FOUR-BLOCK SITE OF THE ARMOURY COMMONS NEIGHBORHOOD— Architect's rendering shows the 14 buildings that will be rehabilitated during the course of the next two years forming the Armoury Commons neighborhood. Spring Street is the main horizontal street and the two vertical streets are (left to right) Pearl Street and Salem Street. At the intersection of Pearl and Spring will be a public park.



TREES, STATUES, OPEN GREEN AND BRICK PATHS will be featured in the neighborhood park at the center of the Armoury Commons neighborhood. The public park, which is almost one acre, will be located at the corner of Spring and Pearl Streets.



INTERIOR OF A TYPICAL APARTMENT—in the Armoury Commons neighborhood. High ceilings, large rooms, bay windows and working fireplaces are featured in this contemporary setting. A total of 245 rental apartments will be provided in the 14 rehabilitated buildings in Springfield's downtown Pearl and Spring Street area. The drawing is of a two-bedroom unit which will rent for \$225 to \$290, depending on size.

ARMOURY COMMONS -- HISTORICAL HIGHLIGHTS

Among the residents of the Spring and Pearl Streets area during the 1860's were a gambler, a tin dealer and provisions retailer. Messrs. Dalton, Galpin, and Currier respectively, lived along Spring Street, which was named for the "numerous springs that oozed out from the foot of the first slope from the plain above."¹

Traces of rural life were still evident during the mid-19th century with Sackett's stable on School Street. Down near Worthington Street there was a picnic grove called Nettleton's Pond. Worthington Street was named after Colonel John Worthington and later bought by Charles Stearns of Stearns Square.

The quaint setting soon gave way to the construction of blocks of apartment buildings. The first structures were interestingly called The Elindo, The Majestic, The Emerald and The Bay State. The maples, black cherry and apple trees that lined the streets in time became scarce, tenants moved in and others moved out, as the technological forces of the 20th century seeped into life of the downtown neighborhood.

¹ "The Streets of Springfield", by James Henry Clark, Volume II, 1947

Mrs. SPELLMAN. And when you submit that, would you also submit to us a detailed statement on how one gets good editorials? [Laughter.]

Mr. JAMES. There is no such procedure that we are aware of.

Mrs. SPELLMAN. Beside owning the newspaper. [Laughter.]

Mr. JAMES. Well, Mr. Rothschild says, by doing good works.

Mrs. SPELLMAN. Well, maybe that is what we have to learn up here, to start doing some good works.

Thank you. That is very interesting.

Mr. JAMES. Yes. We are very excited about it. In fact, we detailed an eager young vice president to about 2 years of detached service to followup on this project.

Mrs. SPELLMAN. For Mr. Williamson: I wonder if you could tell the committee what percentage of loans originated by thrift institutions over 80 percent of value carry private mortgage insurance. And to what extent are private mortgage insurance companies engaged in the insuring of multifamily mortgages?

Mr. WILLIAMSON. Well, I will answer the last question first.

Four mortgage insurance companies have sister companies that are engaged in the insurance of multifamily housing mortgages. The experience has not been very good. In fact, the only mortgage insurance companies that have had to draw down on their contingency reserve have been those engaged in insuring multifamily mortgages. They insured the top 20 percent of 80-percent mortgages. I believe that only one of the four companies is actively engaged with multifamily mortgages.

By State law the companies—I am talking about the regular mortgage insurers—cannot have more than 10 percent insurance in force on anything other than a one-to-four family dwelling. So these are different companies with different reserves.

Now, with respect to the percentage of S. & L. loans that would carry our insurance, I think somewhere in the Federal Home Loan Bank Board's statistics in the Journal there is the figure of \$55 billion mortgages originated in 1975. Mortgages originated by S. & L.'s at about 20 percent are between 80 and 90 percent of value and about 10 percent over 90. That's about 30 percent. So about \$18 billion of S. & L. loans originated in 1975 were over 80 percent of value.

Now, we insured that year about \$10 billion, and 70 percent or 73 percent of these were from S. & L.'s. That would be about \$7 billion. So there is a substantial percentage of loans, certainly more than half originated by S. & L.'s, over 80 percent that do not carry our insurance.

Mrs. SPELLMAN. While you are talking about statistics, about what proportion of the PMI-issued insured homes are newly constructed?

Mr. WILLIAMSON. About one-third.

Mrs. SPELLMAN. Mr. Rothschild, could you describe for the record your industry's relationship to HUD and to FHA. We are especially interested in the extent HUD has effective regulatory authority over your transactions.

There are suggestions within the Congress that this regulatory authority ought to be strengthened.

Mr. ROTHSCHILD. Well, Madam Chairman, many mortgage bankers are privately owned, independent companies like mine. We are re-

quired to have a basic capital structure suitable to HUD. The minimal capital structure is \$100,000 of acceptable assets.

HUD has the right to examine the books on each mortgage banker, to examine them for compliance with rules and regulations and for the suitability of their capital structure.

In addition to that, the industry has an informal but very strong monitoring system of its investors. Those to whom we sell loans. The savings and loans, the mutual savings banks, and the insurance companies have the right to—and usually exercise the right to—audit their mortgage bankers' operations.

That system, as I say, is informal but very strong, because the failure to meet the standard of the ultimate lender can result in that ultimate lender stopping the business that he does with the mortgage banker.

In addition, mortgage bankers borrow heavily from commercial banks in relationship to their capital structure, and the commercial banks exercise a very strong supervisory role over their customer by supervising their portfolio.

We all operate under the regulations of HUD, both for servicing and origination. HUD has the authority to require compliance with those regulations and if one fails to meet their standard, HUD is authorized to put that company out of the program.

We think that FHA ought to be funded sufficiently to do whatever kind of internal audit it deems necessary, and it ought to do that internally with its funds. Our position is that FHA ought to do that so that there are not misuses of FHA insurance programs that hurt everybody.

Mrs. SPELLMAN. What are some of the criteria that FHA requires of mortgage lenders that private capital does not call for?

Mr. ROTHSCILD. The primary requirement is that of the \$100,000 of acceptable assets. In addition, FHA analyzes balance sheets to see that officers, directors, or owners—have not put money into the mortgage banking company and then borrowed it back out so that there is essentially no capital.

Additionally, FHA applies standards of past performance to the owners and operators. If one forms a new company, one is required to submit to FHA a statement of experience of the officers and managers of that company, and FHA has the authority to withhold the approval as an FHA-approved mortgagee.

Mrs. SPELLMAN. I wonder if staff has any questions you would like to have asked for the record. I am told that we have covered just about all the ground that they need to have into the record, so if there are any other statements you would care to make, we would be glad to hear them.

Mr. ROTHSCILD. I would like to say something about the role of the FHA in lending in existing housing in communities by calling on my experience and our experience in Minnesota. Both Minneapolis and St. Paul have code enforcement laws. The FHA in Minnesota, upon getting an application, requires in advance the report of the condition of the house in Minneapolis and St. Paul.

In Minneapolis that report of condition is done by independent engineers licensed by the community. In St. Paul it is done by the city

housing department. Those reports go to FHA and the FHA appraisal process takes into account the needs as described by the community and makes them a part of the requirement for insurance.

Thus, to have the FHA-insured loan, the items required must be completed and the inspection system of the FHA assures that that is done. What that points out is that there is an appropriate relationship between FHA lending and community code enforcement and housing standard enforcement that permits a broadening of the existing housing market and helps prevent deterioration of communities.

FHA offices in our community are accustomed to using that system and use it very well. And many customers of existing housing look for FHA or VA approved house in order to get that benefit, and the benefits I have described go with VA lending.

It shows, I think, the ability of the FHA to have a marked impact on existing housing and on the preservation as well as the rehabilitation of neighborhoods.

Mrs. SPELLMAN. Very good. Gentlemen, I thank you, Mr. Rothschild, Mr. James, Mr. Nevis, Mr. Williamson. We appreciate your having been here.

There will be other members who would like to ask questions for the record, and we would like to be able to submit those to you in writing and ask if you would respond in that way.

Thank you.

There is one question I would like to ask now. There have been a number of references in your testimony to an issue this subcommittee must face in the near future; namely, what should the future role of the FHA be? I would appreciate it if you could submit your organization's views on this issue.

[The following response was received for inclusion in the record in regards to Congresswoman Spellman's question concerning the future role of the FHA :]

RESPONSE RECEIVED FROM MR. JAMES

Our association believes that FHA should be reorganized or reconstituted as a separately identifiable entity within HUD. This quasi-independence should, of course, be coupled with a streamlined bureaucracy and efficient program administration. The mortgage insurance program to be operated by FHA should be comprised of two major components.

First, FHA should operate a strong program of basic mortgage insurance for economically sound loans, irrespective of location and with only minimum constraints as to loan ceilings. This facet of FHA operations would thus insure that FHA could continue its vital role in facilitating flows of mortgage credit and in the operation of national secondary mortgage markets.

Second, FHA should have a major role in the formulation of a partnership of the private and the public sectors with the goal of revitalizing and rehabilitating mature communities. FHA's efforts in this area should include an expanded urban insurance or coinsurance program. FHA could thus provide the assistance and impetus necessary to encourage private lenders to make safe and sound loans on older properties in marginal neighborhoods.

In conclusion, the National Association of Mutual Savings Banks is, of course, ready to cooperate to the extent possible with the subcommittee in its deliberations in this very important area.

Mrs. SPELLMAN. Mr. Holmgren, of the National Committee Against Discrimination in Housing, will be recognized.

**STATEMENT OF EDWARD L. HOLMGREN, EXECUTIVE DIRECTOR,
NATIONAL COMMITTEE AGAINST DISCRIMINATION IN HOUSING,
WASHINGTON, D.C.**

MR. HOLMGREN. Madam Chairman, I am Edward L. Holmgren, the executive director of the National Committee Against Discrimination in Housing (NCDH).

We are a nonprofit voluntary association headquarters here in Washington.

I am pleased to appear here at the subcommittee's invitation to testify on NCDH's experiences and observations in its efforts to expand equal opportunity in housing through programs authorized under the Housing and Community Development Act of 1974.

We begin by saying that equal opportunity in housing has not done well under the Housing and Community Development Act as it has been administered by HUD.

We are hopeful the new administration will reverse this situation and move toward the statutory goals identified by the Congress when this legislation was originally enacted. We have every reason to believe that Secretary Harris intends to do just this. However, he is going to benefit from whatever support the Congress, and especially this subcommittee, can render. For, I believe, she faces a formidable task.

Not only has she inherited a Department conditioned for the past 8 years by the philosophy of benign neglect, but she must deal with thousands of local governments that have been educated by HUD during the past 2 years to read the 1974 act as a license to take the Federal grants the act makes available while complying only marginally or submarginally to HUD's equal opportunity regulations, which represent, at most, a minimal interpretation of statutory requirements for equal opportunity.

Though much can be accomplished by redrafting of HUD's regulations for that act, the enactment of clarifying language in the statute itself would establish beyond the shadow of a doubt that it is the commitment of this Congress that this legislation is to serve primarily the interests of the disadvantaged, whether so situated by reason of income, race, or sex, or any combination of these causes.

My testimony today, therefore, is directed toward both of your subcommittee's roles, those of oversight and amendatory enactment.

The burden of my testimony will tend also to point out the need of congressional review of the basic concepts that underlie the 1974 act. Primarily these underlying concepts are revenue-sharing unmonitored local discretion in use of community development funds, and an almost sole reliance upon housing and rent subsidies to meet the needs of lower income housing consumer.

Because such basic restructuring of the act might not be feasible for timely enactment in this session of Congress, it is our recommendation that the subcommittee take quick action to remove obstacles to the full utilization of the present act. It should, however, simultaneously initiate a more deliberate study designed to probe alternative approaches to achieving the Federal objectives in housing and community development, especially in providing equal opportunity to live in safe, sanitary, and decent housing in communities and neighborhoods freely

chosen by low- and moderate-income homeseekers without constraints by reason of race.

NCDH's efforts to open up the suburbs and all the neighborhoods of central cities to assist housing should not be misinterpreted as an unconcern for the quality of life in inner cities. We have long been, and remain, committed to the revitalization of our cities and to the renovation of inner city neighborhoods with special concern for improved housing and environment in the areas of minority concentration.

Pursuit of this goal caused us to quickly recognize that the renovation of the inner city required access to credit without discrimination based on race of the applicant or the location of the property. Our activities to combat discrimination in credit have caused us to file the first challenge to redlining heard in a Federal court suit under title VIII (*Lanfinan v. Oakley Building and Loan, et al.*, 404 F. Supp. 791 (SD. Ohio 1975)), and this has been followed by similar cases.

Together with other civil rights groups, NCDH has sued the four Federal fiscal regulatory agencies (Federal Home Bank Board, Federal Reserve Board, Comptroller of the Currency and Federal Deposit Insurance Corp.) for failure to enforce title VIII requirements; those are the civil rights requirements under the 1968 Civil Rights Act in the credit operations of financial institutions within their regulatory jurisdictions.

Because of our demonstrated concerns for the improvement of older neighborhoods, we welcome the recently stated commitment of HUD to place greater emphasis on such neighborhoods. Regretably the allocation of funds under the statutory formula of the Housing and Community Development Act resulted in a severe slippage of neighborhood renovation in most central cities because the Act's allocation formula the amount of Federal assistance to older cities below that received under previous categorical grant programs.

The administration's proposed \$400 million appropriation for supplemental funding of innovative programs in certain central cities is a promising remedial step to restore to some cities a greater capability for renovation.

However, I wish to point out that equal opportunity in housing cannot be divided into an "older neighborhood solution" and an "open-the-suburbs solution." We are dealing with an integral problem, and we require an integral solution. The key is freedom of choice, real choice in places to live for those who require housing assistance.

The United States has moved a long way down the road toward what the Kerner Commission called two societies, separate and unequal. We continue to move down that road since this was enunciated by the Commission in 1968.

It is not enough to tell minority Americans that Federal assistance will preserve and improve the neighborhoods where they are now concentrated. Congress certainly intended more than that when it declared, "It is the policy of the United States to provide within constitutional limitations for fair housing throughout the United States." Congress did not say, "throughout the older neighborhoods of the United States". It said simply, "throughout the United States".

Just as city and suburb cannot be viewed within separate compartments when designing programs for equal opportunity in housing, so

cannot housing be compartmentalized without relation to employment opportunities, educational opportunities, recreation, open space, and transportation.

Minority households have a right to make their own tradeoffs of the various options that compose a chosen lifestyle. Those that choose to live in the inner city have a right to public facilities and services that are adequate to meet the high standards needed to assure quality community life.

However, those minority households which opt for housing away from the concentrations of their race must be provided with ample choices throughout metropolitan areas, and there is sufficient language in the 1974 Act to believe that the provision of such metropolitan choices by recipients of block grant funds is required by law. Certainly this is what the Supreme Court recently indicated in deciding the *Gautreaux* case.

Our own board, meeting in October 1974, called attention to a statutory commitment in the 1974 act which we identified as a new high in recognition of a basic social issue in housing: viz

The reduction of the isolation of income groups within communities and geographic areas and the promotion of an increase in the diversity and vitality of neighborhoods through the spatial deconcentration of housing opportunities for persons of lower income and the revitalization of deteriorating or deteriorated neighborhoods to attract persons of higher income.

Though Congress said it in a long and complex sentence, I think it says clearly what the Congress had in mind in enacting that legislation.

Having noted these encouraging objectives of the act, our board statement voiced alarm over the placement of decisionmaking authority over community development programs in the hands of local officials with only minimal statutory restraint.

Prior experience with HUD, especially since the beginning of 1973, had given us little cause for confidence in HUD's intentions and/or competence in enforcement of Federal civil rights laws affecting community development or housing.

Our board's prophetic observation two years ago is still valid: "The battle for an inclusive versus a segregated society is embodied in the implementation of this legislation; therefore, HUD's enforcement role, especially its determination of what constitutes local housing assistance plans, represents a crossroads that will determine racial and economic patterns of residence for decades to come."

Experience with HUD in the administration of the act fully confirmed, I think, our worst fears. I repeat my opening statement: Equal opportunity in housing has not done well under the 1974 act as administered by HUD. There has been a singular absence in HUD's administration of the act of any evidence of intent to administer its programs and activities relating to housing and urban development in a manner affirmatively to further the purposes of title VIII as required by the language of that statute.

HUD itself has documented the fact that the failure to enforce equal opportunity regulations constitutes the single highest number of deficiencies recorded by HUD in self-audits of its block grant program for the third and fourth quarters of 1976.

Since HUD reports that the total number of deficiencies in its equal opportunity enforcement was up sharply in the fourth quarter, there is little basis for hope in any gradual improvement of performance.

Though HUD refers to the 377 findings of local nonperformance or noncompliance out of a total of over 1,700 findings as mostly procedural, which it defines as the absence of records on equal opportunity actions and the lack of required affirmative action plans, HUD has confined itself almost entirely to warnings to recipients.

These findings on equal opportunity deficiencies are cited above because there is still a lack of clarity on the nature and extent of non-compliance with the equal opportunity provisions in the act and other Federal statutes.

Your subcommittee's current staff report on the community development block grant program, which was based on field surveys, noted in the brief section devoted to equal opportunity that it was not able to uncover—and I'm quoting: "significant patterns of discrimination", because it surmised the act grants local officials "maximum flexibility with respect to the timing and manner in which they carry out community development activities, it may be more difficult to determine when, in fact, any particular program action is discriminatory."

Your staff's failure to spot significant discrimination stems, in my opinion, from the widespread tendency to see equal opportunity as a special restraint, functioning merely as a taboo rather than as a test of the entire thrust and purpose of the local program.

Equal opportunity criteria runs through every aspect of a program, and it should not be viewed as "special program requirements."

Our research has found widespread noncompliance when equal opportunity is tested throughout substantive programing, including location of community development facilities and services with reference to residential concentrations of minority race and also location of housing units benefiting from rehabilitation with community development funds with reference to racial residential concentrations.

Our conclusions regarding violations of the equal opportunity requirements pertaining to community development block grants are reflected in greater or lesser degree in the studies and surveys of many others.

The examination of applications and performance reports with Census and other data in hand often reveal equal opportunity violations under such subjects as identification of needs for community development as compared to available demographic and housing data for the applicants' jurisdiction; contrast between identified needs and proposed community development activities; failure to plan eligible activities within the context of local comprehensive plan or within metropolitan regional plans; failure to adequately maintain previous local community development efforts; absence or misuse of citizen participation in preparation and approval of application; housing assistance plans; identification of housing need; failure to plan housing in conformance with identified need; and many, many more.

There are many local situations in which noncompliance is so skillfully buried that examinations of applications and performance reports fail to reveal them. This points to the need for onsite auditing by HUD, especially in those communities where block grant activities have stimulated citizen protest.

Spokespersons of local minority communities are usually the best source of information on where to look for noncompliance in equal opportunity. All of the cases handled by our legal staff, whether by filing of administrative complaints with the Secretary of HUD, or litigation in Federal courts, originate with local citizen complaints.

A rather typical situation is illustrated by the recently settled class action suit against HUD in the city of Davenport, Iowa filed by NCDH on behalf of the local citizens group, a suit known to our attorneys as the *Tennis Court* case. It was so named because Davenport's original application sought to use block grant funds to build tennis courts as an "urgent need," because the National Lawn Tennis Association had found the city deficient in tennis courts on a per capita basis.

The plaintiffs charged HUD with illegally awarding block grants to Davenport on the basis of an application that failed to give maximum feasible priority to activities which would benefit low-and moderate-income families and aid in the prevention or elimination of slums and blight, and several other deficiencies. The court's consent order was based on the city of Davenport's agreement to revise its application and conduct community developments in a manner sufficiently in compliance with regulations to satisfy the plaintiffs' charges.

Otherwise denying the material allegations set forth in the complaint, the city made two admissions that are significant for an understanding how violations of equal opportunity take place in local programing of block grants, even in cities not notorious for bad race relations.

The first admission was that HUD approved the city's second-year plan without requiring the city to take additional steps to meet the housing assistance needs of the low-income families, despite complaints to HUD about inadequacies and inequities. The second admission was that the city had excluded Census Tract 107, containing the city's highest percentage of minority residents, from benefits under the block grant program.

Despite the complaints by local groups to city hall and the HUD area office, beginning with the processing of Davenport's first-year application, nothing was done by HUD to correct these violations until action was taken in Federal court.

Repeated experiences of this kind cause us to believe that Davenport is not unique in its noncompliance with statutory equal opportunity requirements, but is more likely to be typical of communities throughout the country. Requiring Davenport to comply with the law has not caused it to drop the block grant program a rationalization often used to explain nonenforcement. Davenport has agreed to a new, imaginative program of community development based on affirmative action to improve the quality of life for its low- and moderate-income residents, with specific provisions for those in Census Tract 107.

It should obviously not be necessary for the intended beneficiaries of Federal legislation to secure those benefits through burdensome and costly litigation, after such court cases as that in Hartford, the *Gautreaux* case and *Davenport*. Yet only last week our attorneys filed another suit against HUD to secure compliance with the equal op-

portunity provisions of the 1974 act, this time in the Detroit, Mich. area. The plaintiffs are the Coalition for Block Grant Compliance, the NAACP Chapter in Detroit, the Michigan Committee on Law and Housing and a number of individuals affected by the failure of Livonia, a suburb of Detroit, to use the block grant of \$590,000 in a lawful manner, specifically its failure to plan for new assisted housing in a community with very few vacancies.

The suit was filed only after all other efforts over a period of 2 years and failed. Both HUD's area and regional offices refused to approve Livonia's obviously deficient second-year application, but it was approved in the Washington Office of HUD by the then Assistant Secretary for Community Planning and Development. That was last August.

What are the necessary remedies to make the 1974 act serve congressional intent specifically and Federal urban and equal opportunity policies generally? While it is obvious that the miscarriage of congressional intent in the administration of the 1974 act is less due to misreading of ambiguous language than to willful misinterpretation by an executive department bent upon pursuing its own objectives, as these were shaped its own philosophies, we recommend clarifying ambiguous language and securing from HUD more faithful execution of the act.

I have read with satisfaction the testimony of Secretary Harris before your subcommittee in recent days, especially her commitment of HUD to a policy of directing communities to give low- and moderate-income citizens the highest priority in block grant programming; her expectation that communities will accept a fair share of low- and moderate-income housing and vigorously promote their housing; her use of solutions designed specifically for minorities as a criteria in judging the performance of cities under the action grant program; her goal of partnership between HUD and local communities aimed at obtaining stable communities that are racially and economically integrated.

And I think that is a very important statement that Secretary Harris has made in this regard, and should put us well on the road, hopefully, for its achievement. We have every reason to believe that the Secretary will make it clear at HUD that she wants her subordinates to stop playing games with the block grant program, and that this will be reflected in the rewriting of critical parts of HUD's regulations.

Several witnesses who appeared before your subcommittee last week, Madame Chairman—persons for whose knowledge of the subject matter and commitment to equal opportunity we have the highest regard—who argued that such changes in the regulations would suffice to remedy the miscarriages that are now occurring.

Unfortunately, we respectfully differ with some of this advice. A statute expresses the will of Congress; it is the law. Regulations have the function of providing an administrative framework and procedures for carrying out the law, and must be a reasonable interpretation of statutory language. If the statute is unclear or ambivalent, regulatory interpretations are always subject to challenge in the courts.

NCDH approves the regulatory changes recommended by the Working Group for Community Development which testified here last week, but strongly urges your subcommittee to draft clarifying and supportive language where indicated as amendments to the 1974 act.

We wish to urge amendmentary clarifications, especially with regard to affirmative programing for racial minorities by local recipients of community development grants, and assisted housing. The 1974 act identifies as one of the critical urban problems to be addressed by the act, "the concentration of persons of lower income in central cities." The act names as a "specific objective," the "special deconcentration of housing opportunities for persons of lower income."

The act requires that community development plans, including the housing assistance plan (HAP), be developed, "in accordance with areawide development planning." The act further requires that the HAP's make provisions for persons "expected to reside in the community." And the act provides that recipients of 701 planning assistance include a "housing element" in their plans, which after August 1977 shall be for all intents and purposes a metropolitan housing allocation plan.

Beginning sometime in the spring of 1976, under the dual spur of the *Hartford* and *Gautreaux* cases, HUD began inching toward the implementation of the above quoted clear statutory directives. We anticipate accelerated progress in this direction under the new administration.

However, our experience with local programing under this act, and under previous Federal programs, causes us to fear that fairly widespread compliance with these deconcentration and metropolitan housing regional directives will take place without including persons of minority race, or, at most, few such persons, among those enabled to deconcentrate themselves and by taking advantage of housing opportunities in communities previously without assisted housing. The act specifies persons by income designation, and requires affirmative programing for their benefit. The act also identifies and requires affirmative programing for large families, for the elderly, for the handicapped, for the displaced or to be displaced, and for persons expected to reside in the community.

However, the act does not specifically name persons of minority race as beneficiaries for whom local recipient governments are to program affirmatively. It is obvious that racial minorities form a major proportion of those identified by the act as the "concentration of persons of lower income in central cities." The blacks' percentage of population in central cities increased from 16.4 percent in 1960 to 20.5 percent in 1970.

In cities of 1 million persons or more, blacks in 1970 were 25.2 percent. Some 26 cities each contain over 100,000 black persons, representing 43 percent of all blacks in the United States.

While it is obvious that racial minorities compose most of the lower income concentration in central cities, overwhelmingly for families with children, it is not at all obvious that the deconcentration of housing opportunities will benefit minorities, especially not in proportion to their numbers among the intended beneficiaries.

We propose therefore that the words "racial minorities" be added to section 104(a)(4)(A) which specifies which groups are to be planned for in a housing assistance plan, following the words "including elderly and handicapped persons." Such an amendment would require the design of a housing assistance plan to include affirmative programing of housing occupancy goals for racial minorities in proportion to objective indices based on the demographic profile of the community and the metropolitan area of which it is a part.

The present HAP regulations require that the determination of housing need be based on identifiable groups, including minorities. It does not, however, require identification of minorities for the housing plan itself. It is strange that this has not been done.

We require no less than this of private industry that builds housing with Federal assistance, including mortgage insurance. This HUD requirement is the previously mentioned affirmative fair housing marketing plan. Each private or corporate applicant for housing assistance under programs administered by HUD is required to carry out an affirmative marketing program to attract buyers or tenants of targeted minority and nonminority groups in that segment of the housing market being built for.

The purpose of this program is to assure that any group of persons normally not likely to apply for the housing without special outreach efforts know about the housing, feel welcome to apply and have the opportunity to buy or rent. The plan must set occupancy goals by racial/ethnic group for which the achievement of the plan is designed. Periodic reports on occupancy by race and ethnicity are required to be submitted to HUD area offices to permit monitoring of progress.

Failure to carry out the affirmative marketing plan can be cause for HUD's refusal to grant further assistance in response to applications for additional assisted and/or insured projects.

The authority for affirmative marketing regulations stems from title VI and title VIII, as interpreted by the Federal courts in *Shannon v. HUD* (3d Cir. 1970). Is, therefore, private enterprise to be subject to this fair housing outreach requirement while public agencies are to be immune? This hardly seems reasonable or rational.

The proposed amendment would require that HAP's include an affirmative action plan for the anticipated number of minority persons, along with proposals for the elderly, large families, the handicapped, and so forth. It should be noted that the highly successful Dayton area housing allocation plan, which placed thousands of units of subsidized housing in suburbs between 1970 and 1974, resulted in an exceedingly low percentage of minority occupancy. This is now being remedied by an areawide affirmative marketing plan in the Dayton area, designed to inform and attract minority homeseekers to suburban housing.

The name of the game, of course, is sufficient annual volume of additional housing units within the means of moderate-income persons, both new and existing, both rental and sales.

Our board of directors, in its statement on the new act previously quoted, took a dim view of the act's provisions for housing volume within the means of the needy:

Fair housing advocates must now rely almost entirely upon a single form of housing subsidy, essentially a housing allowance as provided for in section 8 of the 1974 act. It is uncertain whether this new and untried approach will produce volume construction or not. For this reason it seems the administration is indulging in rhetoric when it quotes production goals of 300,000 to 400,000 units for the 1975 fiscal year.

The final version of section 8 depends, as did sections 235 and 236, primarily upon private developers and will suffer any real or assumed inherent limitations that such dependence may have.

During the 2½ years since that statement was made, experience with section 8 has fully confirmed our judgment. Nor were we uniquely

prescient, since at that time the National Association of Homebuilders, the National Association of Housing and Redevelopment Officials and many others with practical experience in housing said about the same thing.

HUD staked all on this "new and untried approach," and stubbornly clung to it out of doctrinaire, philosophical commitment to a theory on what should constitute the Federal role in housing in a free enterprise society. It has only been due to congressional mandate that HUD has been forced in the past year to turn to other assistance programs to get the needed housing built.

Meanwhile, the section 8 existing housing program has had limited successes confined to occasional areas with high vacancy rates. This approach to housing low-income families, properly dubbed by one observer as "give the poor a few bucks and tell them to get lost," has failed miserably in performing on the one advantage it was alleged to have; that is the ability of low-income minority homeseekers to go out in the market and find housing beyond the ghettos * * * "finders-keepers," as HUD somewhat callously called it.

HUD's own studies revealed that the existing housing which minority families with section 8 certificates have found and kept was invariably either within the ghetto or upon its border.

We strongly concur in the recommendation previously made to your subcommittee by other witnesses that the proportions of existing to new section 8 units allocated to communities be based on vacancy rates within those ranges of unit sizes and rentals likely to be occupied by eligible families.

Above all, your subcommittee should design and authorize funds for a reasonably balanced selection of housing programs to permit local adaptations of assisted housing type mixes to prevailing local conditions. The previous administration, which sought to appear as the self-proclaimed champions of local options, locked all local housing planning into a single iron mold, named section 8.

A moment's thought, even if not experience, should have sufficed to make it obvious that the same kit of housing programs could not work in both Manhattan and Americus, Ga.; in Los Angeles and Harlan, Ky.; and other diverse parts of the country.

We favor the continuation of section 8, make no mistake about that. It has its proper uses in overall local programs. But we need a reallocation of appropriations to fund all of the other programs on the books: section 235, section 236, public housing, rehabilitation, home-steading, and many others, as well as perhaps programs yet to be innovated.

Finally, and in summary, permit me to reiterate that fair housing means freedom of choice as to neighborhood and community, regardless of race or income. Making housing available throughout metropolitan areas without regard to income requires a sufficiently large and workable Federal program of assisted housing. Making housing available throughout metropolitan areas without regard to race requires vigorous enforcement of title VI and title VIII through affirmative programs made mandatory for all local recipients of Federal funding.

Thank you, Madam Chairman.

[The prepared statement of Mr. Holmgren, on behalf of the National Committee Against Discrimination in Housing, follows:]

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Testimony of Edward L. Holmgren
Executive Director
National Committee Against Discrimination in Housing
Washington, D.C.

Before the

Housing and Community Development
Subcommittee of the House Committee
on
Banking, Finance and Urban Affairs

March 7, 1977

I am Edward L. Holmgren, Executive Director of the National Committee Against Discrimination in Housing, a non-profit voluntary association headquartered here in Washington. Robert C. Weaver serves NCDH as President and Harold C. Fleming as Board Chairman.

I am pleased to appear here at the Subcommittee's invitation and testify on the experiences and observations of NCDH in its efforts to expand equal opportunity in housing through programs authorized under the Housing and Community Development Act of 1974.

Let me begin by saying that equal opportunity in housing has not done well under the Housing and Community Development Act of 1974, as administered by HUD. Hopefully, the new Administration will reverse this situation and move toward the statutory goals identified by Congress when this legislation was enacted. We have every reason to believe that Secretary Patricia Harris intends to do just this.

However, she will benefit from whatever support the Congress, and especially this Subcommittee, can render, for she faces a formidable task. Not only has she inherited a Department

conditioned for the past eight years by the philosophy of "benign neglect", but she must deal with thousands of local governments that have been educated by HUD during the past two years to read the 1974 Act as license to take the Federal grants it makes available, while complying only marginally or sub-marginally with HUD's equal opportunity regulations, which in themselves constitute a minimal interpretation of statutory requirements for equal opportunity.

Though much can be accomplished by redrafting HUD's Regulations for the 1974 Act, the enactment of clarifying language in the statute would remove beyond a shadow of a doubt the commitment of the Congress that this legislation is to serve primarily the interests of the disadvantaged -- whether so situated by reason of income, race or sex, or any combination of these causes. My testimony is directed, therefore, to both of your Subcommittee's roles -- oversight and amendatory.

The burden of my testimony will also point to the need of Congressional review of the basic concepts that underlie the 1974 Act, primarily, revenue sharing, unmonitored local discretion in use of CD funds, and almost sole reliance for housing supply upon rent subsidies to housing consumers. Because such basic restructuring of the 1974 Act might not be feasible for timely enactment in this session of Congress, it is our recommendation that your Subcommittee take quick action to remove obstacles to the fullest utilization of the present Act, while initiating a more deliberate study designed to probe alternate approaches to achieving Federal objectives in housing and community development, especially in

providing equal opportunity to live in safe, sanitary and decent housing in communities and neighborhoods freely chosen by low and moderate income homeseekers without constraint by reason of race.

The National Committee Against Discrimination in Housing (NCDH) has been involved in the past two and a half years in an intensive effort to secure to the fullest extent the housing and community benefits for low and moderate income persons, especially those of minority race, explicitly and implicitly provided by the 1974 Act. NCDH has sought this objective by litigating in the Federal Courts, by administrative complaints to HUD, by formal training of civil rights monitors, by publication of citizen guides and handbooks, by organization of local coalitions of citizen organizations, and by holding regional conferences of public officials and civil rights advocates for purposes of improved local performance in community development and housing assistance programs. Our experience and the point of view they have helped shape can serve to illustrate the problems that surfaced in the administration of the 1974 Act.

The concentration of NCDH effort on the opportunities, and the attendant problems, generated by the Housing and Community Development Act of 1974 was a logical extension of NCDH programs on behalf of fair housing, beginning with the founding of our organization in 1950. After 18 years of programs to create a climate of public opinion favorable to fair housing, mainly through public information and legal advocacy, our efforts were rewarded with landmark advances in both legislation and litigation in 1968, viz. the passage of Title VIII, the Federal

Fair Housing Act, and the decision of the U.S. Supreme Court in Jones v. Mayer, upholding the equality of racial minorities in buying or renting property as guaranteed by the Civil Rights Act of 1866.

Fair housing was now the law of the land, beyond any peradventure or misunderstanding. NCDH, however, had learned from other instances that securing the legal right of access to housing was not quite the same as securing the housing itself. We were, therefore, overjoyed by the passage in that same eventful year of the Housing Act of 1968, with its ten year goal of 26 million units, 6 million for economically disadvantaged households, or an annual average of over 2 1/2 million starts with 600,000 of the units subsidized. These projections and the variety of housing programs contained in the Act -- mortgage interest subsidies, rent supplements, homeownership for the poor, public housing -- gave promise of a supply of housing sufficient to give low and moderate income minority homeseekers ample opportunity to find decent housing in the community of their choice under the provisions of the Federal Fair Housing Law, if adequately enforced. Since 1968, NCDH has devoted itself largely to monitoring the Federal government's compliance with Title VIII, especially the obligation it imposed upon the Secretary of HUD to require that all Federal executive departments and agencies administer their programs and activities relating to housing and urban development in a manner affirmatively to further the fair housing objectives of Title VIII.

If a person's access to decent housing was limited by income to housing assisted by Federal programs, such a person's choice of community or neighborhood of residence was dependent on the distribution of assisted housing units throughout metropolitan

areas, in contrast to the traditional practice of concentrating such housing in the poorest sections of central cities, almost always racial ghettos. NCDH and other civil rights advocates argued that housing for low income persons could not meet the test of fair housing if only available in racially segregated areas, a point of view since upheld by the U.S. Supreme Court in their recent Gautreaux decision. Our early efforts to establish that Title VI and Title VIII enforcement required distribution of assisted housing throughout cities and metropolitan areas received support from the Federal Courts in Shannon v. HUD (3rd Cir. 1970), which caused HUD to formulate Regulations covering site selection for assisted housing and affirmative marketing of assisted housing as measures to facilitate broad freedom of choice in place to live.

Our concern for equal opportunity for minorities to live in a location of their choice was sharpened by our growing awareness that access to housing in outlying growth areas, where jobs were increasing at a much faster rate than in the inner city, was often a prerequisite for minority persons being able to take advantage of improved employment opportunities. A major NCDH study of the jobs and housing linkage, funded by Carnegie in 1969-72, provided extensive documentation on where jobs were growing and the housing constraints imposed on minorities within the vicinity of these areas of employment growth. NCDH also became increasingly aware of the extent to which the unavailability of housing for minorities, especially households of low or moderate income, in outlying areas infringed upon their ability to send their children to schools that were less crowded,

better equipped and, usually, offered higher quality education. Additionally, ability to choose location of housing affected the availability of such other public goods as recreation, open space, clean air and safer streets.

Our efforts to open the suburbs and all neighborhoods of central cities to assisted housing should not be misinterpreted as an unconcern for the quality of life in the inner city. NCDH is committed to the revitalization of our cities and to the renovation of inner-city neighborhoods, with a special concern for improved housing and environment in areas of minority concentration. We quickly recognized that the renovation of the inner city required access to credit without discrimination based on the race of the applicant or the location of the property. NCDH activities to combat discrimination in credit caused it to file the first challenge to redlining heard in a Federal Court,* followed by similar cases. Together with other civil rights groups, NCDH sued the four Federal fiscal regulatory agencies** for failure to enforce Title VIII requirements in the credit operations of financial institutions within their regulatory jurisdictions.

Because of our demonstrated concerns for the improvement of older neighborhoods, NCDH welcomes the recently stated commitment of HUD to place greater emphasis on old neighborhoods. Regrettably, the allocation of funds under the statutory formula of the Housing

* Laufman v. Oakley Building & Loan, et al, 404 F. Supp. 791 (S.D. Ohio 1975).

** Federal Home Bank Board, Federal Reserve Board, Comptroller of the Currency, and Federal Deposit Insurance Corporation.

and Community Development Act of 1974 resulted in a slippage of neighborhood renovation in most central cities by reducing the amount of Federal assistance below that received under previous categorical grant programs. The Administration's proposed \$400 million appropriation for supplemental funding of innovative programs in certain central cities is a promising remedial step to restore to cities a greater capability for renovation.

NCDH, however, wishes to impress upon your Subcommittee that equal opportunity in housing cannot be divided into an "older neighborhood" solution and an "open the suburbs" solution. We are dealing with an integral problem and we require an integral solution. The key is freedom of choice -- real choice -- in place to live for those who require housing assistance. The United States has moved a long way down the road toward what the Kerner Commission called "two societies -- separate and unequal". We have continued to move down that road since this was enunciated by the Commission in 1968. It is not enough to tell Americans of minority race that we will preserve and improve the neighborhoods where they are now concentrated. Congress certainly intended more than that when it declared "It is the policy of the United States to provide, within constitutional limitations, for fair housing throughout the United States." (Title VIII of the Civil Rights Act of 1968). Congress did not say "throughout the older neighborhoods of the United States"; it said simply "throughout the United States."

Just as city and suburb cannot be viewed within separate compartments when designing programs for equal opportunity in housing,

so cannot housing be compartmentalized without relation to employment opportunities, educational opportunities, recreation, open space and transportation. Minority households have a right to make their own trade-offs of the various options that compose a chosen life-style. Those that choose to live in the inner city have a right to public facilities and services that are adequate to meet the high standards needed to assure quality community life. However, those minority households which opt for housing away from concentrations of their race must be provided with ample choices throughout metropolitan areas. There is sufficient language in the 1974 Act to believe that such metropolitan choices are required by law. Certainly this is what the Supreme Court said in Gautreaux.

Our Board of Directors meeting in October 1974 called attention to a statutory commitment which we identified as "a new high in recognition of a basic social issue in housing", viz.

The reduction of the isolation of income groups within communities and geographic areas and the promotion of an increase in the diversity and vitality of neighborhoods through the spatial deconcentration of housing opportunities for persons of lower income and the revitalization of deteriorating or deteriorated neighborhoods to attract persons of higher income.

Having noted these encouraging objectives of the Act, the Board voiced its alarm over the placement of decision making authority over community development programs in the hands of local officials with minimal statutory restraint. Prior experience with HUD, especially since the beginning of 1973, had given NCDH little cause for confidence in HUD's intentions and/or

competence in enforcement of Federal civil rights laws affecting community development or housing. Our Board's prophetic observation two years ago is still valid:

"The battle for an inclusive verses a segregated society is embodied in the implementation of this legislation; therefore HUD's enforcement role, especially its determination of what constitutes local Housing Assistance Plans, represents a crossroads that will determine racial and economic patterns of residence for decades to come. "

The Board, expecting the worst, ordered NCDH's staff to monitor HUD's practices "to insure that its regulations conform to the equal opportunity aspects of the law, and that its power to approve or disapprove block grants is not abused. Suits to challenge HUD's administration of the new Act should be explored."

Experience with HUD in administration of the Act fully confirmed the Board's worst fears. I repeat my opening statement: equal opportunity in housing has not done well under the 1974 Act as administered by HUD. There has been a singular absence in HUD's administration of the Act of any evidence of intent or effort to administer its programs and activities relating to housing and urban development in a manner affirmatively to further the purposes of Title VIII as required by the language of that statute.

HUD itself has documented the fact that failure to enforce equal opportunity regulations constitute the single highest number of deficiencies recorded by HUD in self audits of its block grant program for the 3rd and 4th quarter of 1976 (the only two

quarters audited thus far).

Since HUD reports that the total number of deficiencies in its equal opportunity enforcement was up sharply in the 4th quarter, there is little basis for hope in gradual improvement of performance. Though HUD refers to the 377 findings of local non-performance or noncompliance (out of a total of 1,721 findings reported in the 4th quarter) as mostly procedural, which it defines as the absence of records on equal opportunity actions and the lack of required affirmative action plans, HUD confined itself almost entirely to warnings to recipients.

These findings on Equal Opportunity deficiencies are cited above, because there is still unclarity on the nature and extent of noncompliance with equal opportunity provisions in the 1974 Act and other Federal statutes. Your Subcommittee's current (Feb. 1977) staff report on the Community Development Block Grant Program, based on field surveys, noted in its one page devoted to equal opportunity that it was not able to uncover "significant patterns of discrimination. . . ." because, it surmised, the Act grants local officials "maximum flexibility with respect to the timing and manner in which they carry out community development activities, it may be more difficult to determine when, in fact, any particular program action is discriminatory."

Your staff's failure to spot significant discrimination stems, in my opinion, from the widespread tendency to see equal opportunity as a special restraint, functioning merely as a taboo, rather than a test of the entire thrust and purpose of the local program. Equal opportunity criteria runs through every aspect

of a program; it should not be viewed as "Special Program Requirements".

When equal opportunity is tested throughout substantive programming, including location of community development facilities and services with reference to residential concentrations of minority race and also location of housing units benefitting from rehabilitation with CD funds with reference to racial residential concentrations NCDH researchers find evidence of widespread noncompliance. NCDH's conclusions regarding violations in equal opportunity requirements pertaining to community development block grants are reflected in greater or lesser degree in the studies and surveys of others, viz. The Potomac Institute, The Michigan Advisory Committee to the U.S. Commission on Civil Rights, the NAACP, the Southern Regional Council, the Federal General Accounting Office, the National Urban League and the Housing Task Force of the Leadership Conference on Civil Rights. (For a review of critical comments on HUD administration of the 1974 Act see HUD's Administration of the Block Grant Programs: Some Critical Judgments. Address by Edward L. Holmgren to NCDH Regional Conference in Minneapolis, September 23, 1976., NCDH Info Series, #9.)

Examination of applications and performance reports with census and other data in hand often reveal equal opportunity violations under such subjects as identification of needs for community development as compared to available demographic and housing data for the applicants' jurisdiction; contrast between identified needs and proposed CD activities; failure to plan eligible activities within context of local comprehensive plan or

within metropolitan regional plan; failure to adequately maintain previous local CD efforts; absence or misuse of citizen participation in preparation and approval of application; HAP's identification of housing need; failure to plan housing in conformance with identified need; proposal of housing without measures to facilitate its construction under zoning, environmental, sewerage, building code or other local regulatory constraints; sites for proposed housing in conflict with HUD's site selection regulations; discriminatory relocation plans; unwarranted failure to implement the HAP in whole or in part; etc.

There are many local situations in which noncompliance is so skillfully buried that examinations of applications and performance reports fail to reveal them. This points to the need for on-site auditing by HUD, especially in those communities where block grant activities have stimulated citizen protests. Spokespersons of local minority communities are usually the best source of information on where to look for noncompliance in equal opportunity. All of the cases handled by our legal staff, whether by filing of administrative complaints with the Secretary of HUD or suit in Federal courts, originate with local citizen complaints.

A rather typical situation is illustrated by the recently settled class action suit against HUD and the City of Davenport filed by NCDH on behalf of a local citizens group, a suit known to our attorneys as the "tennis court case". It was so named because Davenport's original application sought to construct

tennis courts as an "urgent need"; the National Lawn Tennis Association had found the city deficient in tennis courts on a per capita basis. The plaintiffs charged HUD with illegally awarding block grants to Davenport on the basis of an application that

fails to give maximum feasible priority to activities which benefit low and moderate income families and aid in the prevention or elimination of slums and blight, fails to include a Housing Assistance Plan which sets goals for the sizes and types of housing projects and assistance needed by low income renter families and minority families in the City of Davenport, excludes minorities from participating in benefits under the block grant program, fails to provide for affirmative action to overcome the effects of racially discriminatory patterns and practices in the City of Davenport, fails to provide for adequate citizen participation in the development of the block grant application, and substantially reduces the amount of local financial support for community development activities below the level of local support planned prior to the availability of block grant funds. (Central and Western Neighborhood Development Corporation, et al., v. Carla Hills, et al. Civil Action No. 76-67-D (S.D. Iowa, 1977))

The court's consent order was based on the City of Davenport's agreement to revise its application and conduct community development in a manner sufficiently in compliance with Regulations to satisfy the plaintiffs' charges. Otherwise denying the material allegations set forth in the Complaint, the City made two admissions that are significant for an understanding of how violations of equal opportunity take place in local programming of block grants, even in cities not notorious for bad race relations. The first admission was that HUD approved the City's second year plan without requiring the City to take additional steps to meet the housing assistance needs of lower income families. The second admission was that the City had excluded census tract 107, containing the City's

highest percentage of minority residents, from benefits under the block grant program.

Despite complaints by local groups to City Hall and the HUD area office, beginning with the processing of Davenport's first year application, nothing was done by HUD to correct these violations until action was taken in Federal Court. Repeated experiences of this kind cause us to believe that Davenport is not unique in its noncompliance with lawful equal opportunity requirements, but more likely to be typical of communities. Requiring Davenport to comply with the law has not caused it to drop the block grant program. It has agreed to a new, imaginative program of community development based on affirmative action to improve the quality of life for its low and moderate income residents with specific provisions for those in census tract 107.

It should obviously not be necessary for the intended beneficiaries of Federal legislation to secure those benefits through burdensome and costly litigation, after such court cases as Hartford, Gautreaux and Davenport. Yet only last week, NCDH attorneys filed another suit against HUD to secure compliance with the equal opportunity provisions of the 1974 Act, this time in the Detroit, Mich area. The plaintiffs are the Coalition for Block Grant Compliance, NAACP's Detroit branch, Michigan Committee on Law and Housing and a number of individuals affected by the failure of Livonia, a suburb of Detroit, to use its block grant of \$590,000 in a lawful manner, specifically its failure to plan for new assisted housing in a community with few vacancies. The suit was

filed after all other efforts over a period of two years had failed. When both HUD's Area and Regional Offices refused to approve Livonia's obviously deficient second year application, it was approved in Washington by the then Assistant Secretary for Community Planning and Development, David O. Meeker, Jr.

What are the necessary remedies to make the 1974 Act serve Congressional intent, specifically, and Federal urban and equal opportunity policies, generally?

It is obvious that the miscarriage of Congressional intent in the administration of the 1974 Act is less due to misreading of ambiguous language than to willful misinterpretation by an executive department bent upon pursuing its own objectives as these were shaped by its own philosophy. I have read with satisfaction the testimony of Secretary Harris before your Subcommittee in recent days, especially her commitment of HUD to a policy of directing communities to give low and moderate income citizens the "highest priority" in block grant programming, her expectation that communities will "accept a fair share of low and moderate income housing and vigorously promote fair housing", her use of solutions designed specifically for minorities as a criteria in judging the performance of cities under the "Action Grant" program, and her goal of partnership between HUD and local communities "aimed at attaining stable communities that are racially and economically integrated."

We have every reason to believe that the Secretary will make it clear at HUD that she wants her subordinates to stop playing games with the block grant program and that this will be reflected in rewriting the critical parts of HUD's regulations.

A number of witnesses who appeared before your Subcommittee last week, persons for whose knowledge of the subject matter and commitment to equal opportunity we have the highest regard, argued that such changes in the regulations would suffice to remedy the miscarriages now occurring.

We respectfully differ with this advice. A statute expresses the will of Congress -- it is the law. Regulations have the function of providing an administrative framework and procedures for carrying out the law and must be a reasonable interpretation of statutory language. If the statute is unclear or ambivalent, regulatory interpretations are always subject to challenge in the courts. NCDH approves the regulatory changes recommended by the Working Group for Community Development Reform (Andrew H. Mott, Mary E. Brooks, Herbert M. Franklin et al) but strongly urges your Subcommittee to draft clarifying and supportive language where indicated as amendments to the 1974 Act.

We wish to urge amendatory clarifications especially with regard to affirmative programming for racial minorities by local recipients of community development grants and assisted housing. The 1974 Act identifies as one of the critical urban problems to be addressed by the Act "the concentration of persons of lower income in central cities". The Act names as a "specific objective" the "spatial deconcentration of housing opportunities for persons of lower income. . . ." The Act requires that community development plans, including the Housing Assistance Plan, be developed "in accordance with area-wide development planning. . . ." The Act requires that HAPs make provisions for persons "expected to reside in the community. . . ." The Act provides that recipients

of 701 Planning Assistance include a "housing element" in their plans, which, after August 1977, shall be, for all intents and purposes, a metropolitan housing allocation plan.

Beginning sometime in the Spring of 1975, under the dual spur of the Hartford and Gautreaux cases, HUD began inching toward the implementation of these clear statutory directives. We anticipate accelerated progress under the new Administration. However, our experience with local programming under this Act and under previous Federal programs causes us to foresee widespread compliance with these "deconcentration" and "metropolitan regional housing allocation" directives without including persons of minority race -- or, at most few such persons -- among those enabled to "deconcentrate" themselves and take advantage of housing opportunities in communities previously without assisted housing.

The Act speaks of persons by income designation, and requires affirmative programming for their benefit. The Act always identifies and requires affirmative programming for large families, for the elderly, for the handicapped, for the displaced or to be displaced, and for persons expected to reside in the community. However, the Act does not specifically name persons of minority race as beneficiaries for whom recipients are to program affirmatively.

It is obvious that racial minorities form a major proportion of those identified by the Act as the "concentration of persons of lower income in central cities". The blacks' percentage of population in central cities increased from 16.4% in 1960 to 20.5% in 1970. In cities of one million or more, the black's percentage in 1970 was 25.2%. Some 26 cities each contain

over 100,000 black persons, representing 43% of all blacks in the United States. While it is obvious that racial minorities compose most of the lower income concentration in central cities, it is not at all obvious that the deconcentration of housing opportunities will benefit minorities -- certainly not in proportion to their numbers among the intended beneficiaries.

We propose, therefore, that the words "racial minorities" be added to Sec. 104(a)(4)(A) (which specifies which groups are to be planned for in a HAP) following the words "including elderly and handicapped persons".

Such an amendment would require the design of a HAP to include affirmative programming of housing for racial minorities in proportion to objective indices based on the demographic profile of the community and the metropolitan area of which it is a part. The present HAP regulations require that the determination of housing "need" be based on identifiable groups including minorities. It does not, however, require identification of minorities for the housing plan itself.

It is strange that this has not been done. We require no less than this of private industry that builds housing with federal assistance (including mortgage insurance). This requirement is the previously mentioned Affirmative Fair Housing Marketing Plan. Each private or corporate applicant for housing assistance under programs administered by HUD is required to carry out an affirmative marketing program to attract buyers or tenants of all minority and non-minority groups to the housing. The purpose of this program is to assure that any group(s) of persons

normally not likely to apply for the housing without special outreach efforts (because of existing neighborhood racial or ethnic patterns, price, and/or other factors) know about the housing, feel welcome to apply and have the opportunity to buy or rent. The plan must set occupancy goals by racial/ethnic group for the achievement of which the plan is designed. Periodic reports on occupancy by race and ethnicity are required to be submitted to HUD Area Offices to permit monitoring of progress. Failure to carry out the Affirmative Marketing Plan can be cause for HUD refusal to grant assistance in response to applications for additional assisted and/or insured projects.

The authority for Affirmative Marketing Regulations stems from Titles VI and VIII as interpreted by the Federal Courts in Shannon v. HUD, (Cited on page 5). Is private enterprise to be subject to this fair housing requirement, while public agencies and local governments are to be immune? This hardly seems reasonable -- or even rational.

The proposed amendment would require that HAPs include an affirmative plan for an anticipated number of minority persons, along with proposals for the elderly, large families, etc. It should be noted that the highly successful Dayton area housing allocation plan, which placed thousands of units of subsidized housing in the suburbs between 1970 and 1974, resulted in an exceedingly low percentage of minority occupants. This is now being remedied by an area-wide affirmative marketing plan.

The name of the game, of course, is a sufficient annual volume of additional housing units within the means of low

and moderate income persons -- both new and existing, both rental and sale.

NCDH's Board in its October 1974 statement on the new Act, previously quoted, took a dim view of the Act's provisions for housing volume within the means of the needy:

Fair housing advocates must now rely almost entirely upon a single form of housing subsidy, essentially a housing allowance as provided for in Section 8 of the 1974 act. It is uncertain whether this new and untried approach will produce volume construction or not. For this reason it seems the Administration is indulging in rhetoric when it quotes production goals of 300,000 to 400,000 units for the 1975 fiscal year. The final version of Section 8 depends, as did Sections 235 and 236, primarily upon private developers, and will suffer any real or assumed inherent limitations that such dependence may have.

During the two-and-a-half years since the above was written, experience with Section 8 has fully confirmed the judgment of our Board, shared at that time by the National Association of Home Builders, the National Association of Housing and Redevelopment Officials and many others with practical experience in housing. HUD staked all on this "new and untried approach" and stubbornly clung to it out of doctrinaire philosophical commitment to a theory on what should constitute the Federal role in housing in a free enterprise society. It has only been due to Congressional mandate that HUD has been forced to turn to other assistance programs to get housing built.

Meanwhile, the Section 8 existing housing program has had limited successes confined to occasional areas with high vacancy rates. This approach to housing low income families -- properly dubbed by one observer as "give the poor a few bucks

and tell them to get lost"-- has failed miserly in performing on the one advantage it was alleged to have; viz. the ability of low income minority homeseekers to go out in the market and find housing beyond the ghetto -- "finders keepers" as HUD somewhat callously called it. HUD's own studies reveal that the existing housing which minority families with Section 8 certificates found and kept was invariably either within the ghetto or upon its border. We strongly concur in the recommendation previously made to your Subcommittee by other witnesses that the proportions of existing to new Section 8 units allocated to communities be based on vacancy rates within those ranges of unit sizes and rentals likely to be occupied by eligible families.

Above all, your Subcommittee should design and (authorize funds) for a reasonably balanced selection of housing programs to permit local adaptations of assisted housing type mixes to prevailing local conditions. The previous Administration, which sought to appear as the selfproclaimed champions of local options, locked all local housing planning into a single iron mold named Section 8. A moment's thought, even if not experience, should have sufficed to make it obvious that the same kit of housing programs could not work in both Manhattan and Americus, Georgia; in Los Angeles and Harlan, Kentucky; in Chicago and Boise, Idaho. We favor the continuation of Section 8. It has its proper uses in overall local programs. But we need reallocation of appropriations to fund all other programs

on the books: 235, 236; public housing, rehabilitation, homesteading, etc., as well as programs yet to be innovated.

In summary, permit me to reiterate that fair housing means freedom of choice as to neighborhood and community, regardless of race or income. Making housing available throughout metropolitan areas without regard to income, requires a sufficiently large and workable Federal program of assisted housing. Making housing available throughout metropolitan areas without regard to race, requires vigorous enforcement of Titles VI and VIII through affirmative programs made mandatory for all local recipients of Federal funding.

Mrs. SPELLMAN. Thank you very much.

I would like, since we were just discussing the finderskeepers program, to zero in on that. The whole idea of that makes very good sense to enable families to move out of the ghetto areas and into other communities.

We find it in my jurisdiction frustrating, because certificates are made available and then once they have found these apartments, the owners are not about to rent the apartments to them.

I would like to ask you to elaborate and expand a little bit on your recommendation here on page 21, where you say we strongly concur in the recommendation, and so forth. Should this allocation requirement be a part of the local housing assistance plan? What were you really attempting to say here?

Mr. HOLMGREN. Yes; it should be. The allocation should be part of the local housing assistance plan.

Mrs. SPELLMAN. Do you have any thoughts on owners of apartments, how they might be required to rent a given percentage of their apartments for low income?

Mr. HOLMGREN. At this point of course, the participation by the owners of housing in the section 8 program is entirely voluntary; and the only incentive for them to do so of course is that they have a contract with the Federal Government in effect which will insure the payment of their rent, or at least the difference of the rent between what the family can afford to pay and what the market rate is.

And of course clearly this is one of the biggest limitations and weaknesses on the program, because it, in effect, is asking the private landlord to obligate himself to the acceptance of the families receiving housing assistance for a particular period of time. But I think that the incentive is there for an insured income for this rent which he wouldn't otherwise be getting.

Now, how to require a given percentage of units in a development is another matter. And I think that in some instances, this is being done when programs are being gotten underway. Of course, in the past with some of the market rate projects that were insured by FHA, there was an attempt to get supplemental rent income tenants into some of these market rate projects.

But there has been no experience that I know of where there has been a mandatory percentage of units allocated for this purpose that has been tried.

Mrs. SPELLMAN. Do you suppose further incentive is required?

Mr. HOLMGREN. I think so. If, for instance, a developer of FHA market rate housing, rental housing, let us say, is seeking financing for that project, and if that project can be insured, if he will be willing to make a certain percentage of it available for section 8 assistance, then I think that that kind of incentive, and carrot, if you will, could be offered and could insure the greater acceptance by developers of this kind of housing.

Mrs. SPELLMAN. That means we would have to start at the very roots of the development. But what about those that already exist? Have you any thoughts in those directions?

Mr. HOLMGREN. There are many programs and efforts on the part of existing projects undergoing refinancing or for other kinds of modernization programs and the like, which require some kind of

public interest, and public responsibility. I think that in those developments that seek refinancing, modernization or other Federal assistance, that it should also be written into such assistance contract that they be required to provide a certain percentage of those assisted units for low- and moderate-income use.

Mrs. SPELLMAN. Earlier in your talk you referred to the fact that it is awfully difficult to get people out of their own ghetto areas, and that not enough effort is being made to use the money for spacial decentralizing.

Now, I have been involved in working on this sort of thing on the local level, and I have been involved in writing the kind of thing that you have written here, too. And putting the two together doesn't always work. You go into some of these communities and you say, we want to sit down with you and plan, and work out a development of housing. And the first thing that happens is utter panic.

Nobody wants to leave that community; we can call it a ghetto; we can call it a segregated community; they call it home. They don't even want to leave the spot where they are living. Suppose we said, we want to attempt to build housing down the street. And they said, the answer is no. I don't want to go there. This is where my father lived, and this is where I live and I will stay on this spot. So it isn't always easy to achieve that.

Should HUD, because it has a limited number of dollars, expand its efforts in the direction of spacial decentralization, or shouldn't it give equal priority to providing housing in areas which are segregated areas?

Mr. HOLMGREN. I think this is a very critical issue. And as I tried to point out earlier in my testimony, Madam Chairman, it is not an "either/or" proposition. The question of providing the maximum number of options in the housing market to all people, everybody—white, black, rich, poor—really—should be the basic fundamental objective of the housing policy.

Within that context, there must also be an opportunity for the revitalization and the renewal of those older, deteriorating parts of our central cities. However, policy should be developed in striking of the balance between the inner city and outlying areas. I don't think there should be an emphasis or an "either/or" proposition in developing housing opportunities. In striking the balance I think one has to give sufficient weight to each of those programs so that the other one does not become subsumed or overtaken. And the only way this can be done, it seems to me, is by maximizing new construction in outlying areas while at the same time maximizing the opportunities for revitalization and rehabilitation in the central city.

Mrs. SPELLMAN. Let me make just one more comment.

On page 10 you indicated our staff's failure to spot significant discrimination. And I refer you to the staff report on community development block grant program on page 55, where they point out that—

While the staff in its field trips found no significant patterns of discrimination, it should be remembered that CDBG is a new program with no history of segregation such as is found in the low-rent public housing program. Because one of the objectives of the block grant is to provide local officials with maximum flexibility with respect to timing and manner in which they carry out community development activities, it may be more difficult to determine when in fact any particular program action is discriminatory.

The staff was mainly looking at the block grant, not housing, and they feel we should need to have some sophisticated HUD and Equal Opportunity staff with this complex new program to be able to zero in on actual discrimination.

Mr. HOLMGREN. I didn't mean that as a criticism of the staff or the staff report, Madam Chairman. I merely wanted to point up that I think it is complex, the whole issue, and that the spotting of this kind of thinking requires much more of HUD, especially in its review and in its compliance procedures to determine whether or not compliance is actually a fact.

Mrs. SPELLMAN. Thank you, Mr. Holmgren.

I will turn now to our colleague from the State of California.

Mr. ROUSSELOT. Thank you, Madam Chairperson.

Mr. HOLMGREN. I have had a chance to glance at your testimony, though I was not here for the entire statement.

I am fascinated by your suggestion of including in section 104(a) (4) (A)—the term "racial minorities" as part of a recommendation for, as you call it, "affirmative programing" of housing.

Now, wouldn't this really force local units that are in this program with the so-called fair-share housing concept—wouldn't it really force them into a quota system?

Mr. HOLMGREN. I don't think so, Congressman, any more than it would be doing the same thing for the groups that the act presently specifically names, the handicapped, elderly, and large families, and others.

Mr. ROUSSELOT. Well, you see, the main purpose of the program is to stimulate housing, primarily. There are many other aspects to it for lower income families. And the reason, I guess, that we included elderly and handicapped when the act was drafted was because, unlike racial groups, which are written through all other aspects of law—civil rights acts of all kinds, every place—they are already protected by law—whereas we did not feel that in the field of housing the elderly and handicapped were as well protected. That is why they were included.

In other words, what I am saying is that in all the civil rights acts that we have and all the executive orders that have been issued by the Presidents and Secretaries of HUD, we have all kinds of law to specify that you must be nondiscriminatory in the building and distribution of these kinds of programs. So what I am concerned about, as we have seen, for instance, in the field of education, is that if we took your advice, we are apt to have all kinds of suits sayings, "I have been discriminated against because I am not a racial minority."

Are you not concerned about that?

Mr. HOLMGREN. No, I am not, Congressman.

Mr. ROUSSELOT. Obviously, you are not.

Mr. HOLMGREN. The point is that other groups have been—that is, other persons and representatives of groups have been identified in the act as needing special consideration.

Mr. ROUSSELOT. You are talking about elderly and handicapped?

Mr. HOLMGREN. And large families and others.

Mr. ROUSSELOT. But you see, sometimes handicapped housing requires special kinds of construction—easy upramps so that elderly and

handicapped residents could have easy access to their apartments. I remember discussing this when we wrote the act. Special construction is also required in bathtubs, and extra hold-on rails are needed to accommodate the elderly and the handicapped. That is why we specified them.

I cannot understand why you are dissatisfied with what we have done in general law regarding civil rights and nondiscrimination.

Mr. HOLMGREN. One answer to that simply is that yes, we do have title VIII, which is the fair housing title of the 1968 Civil Rights Act, and presumably that is the umbrella under which housing rights for minorities are protected. But the experience under the Housing and Community Development Act, I think, demonstrates that too often the intended beneficiaries of the act, which are primarily persons of low and moderate income—

Mr. ROUSSELOT. Well, we understand it is supposed to be low and moderate income; no one is arguing that issue.

Mr. HOLMGREN. But often the intended beneficiaries include, of course, a substantial minority population.

Mr. ROUSSELOT. Well, you say in your statement that your recommendation would be that local units of government would arrive at the basis of how you would achieve better care for racial minorities based on a demographic profile of the community in a metropolitan area.

Mr. HOLMGREN. Right, because we do have segregated communities.

Mr. ROUSSELOT. I beg your pardon?

Mr. HOLMGREN. We do have segregated communities in our cities.

Mr. ROUSSELOT. Oh, we do?

Mr. HOLMGREN. Oh, yes, we do.

Mr. ROUSSELOT. This act is causing that?

Mr. HOLMGREN. No; and I am not suggesting that. But it is not alleviating it at this point, either. This act is not alleviating the segregation.

Mr. ROUSSELOT. Well, I don't recall a great deal of testimony that this act hasn't addressed that issue, because many people in low incomes are also minorities certainly in California, many Mexican-Americans, Spanish, Chicano minorities—very heavy in my area. So, in where these projects go in, it is automatically well advertised for them and they have a heavy input into the community organization—in my case it's usually the county of Los Angeles that has the heavy input into the marketing plan for these projects. I don't see all of this great evidence that you say exists, that the community development block grant program has avoided this issue or has been discriminatory against minority groups. Do you say that?

Mr. HOLMGREN. Yes.

Mr. ROUSSELOT. Can you prove that with statistics?

Mr. HOLMGREN. Well, I think, as a matter of record, there have been more than a few court cases involving the block grant program having racial implications.

Mr. ROUSSELOT. Give us a specific.

Mr. HOLMGREN. The *Hartford* case.

Mr. ROUSSELOT. Let's talk about the *Hartford* case. Which project?

Mr. HOLMGREN. This is Hartford, Conn., in which the city of Hartford brought suit against HUD and several suburban communities

on the administration of the block grant program because the suburban Hartford communities failed to take into account the expected-to-reside provisions of the act and make provision for housing assistance in those suburban communities. And the court, the Federal court in Hartford, found against HUD and the suburbs.

And a second case, of course, is the one which is not out of the block grant programs—a public housing case which goes back to 1966 when it was originally filed—the *Gautreux* case in Chicago. It was resolved by a Supreme Court decision last year which requires the city of Chicago and the suburban communities around it to begin finding and locating housing for the class of plaintiffs in the *Gautreux* case in areas both inside and outside of the city of Chicago.

Mr. ROUSSELOT. But they didn't say they all had to be outside the central city of Chicago.

Mr. HOLMGREN. And I am not, either.

Mr. ROUSSELOT. But you are mentioning the *Hartford* case. My understanding is, the crux of that case was that there was a memorandum written by the HUD people in Hartford or here—I don't know which—that's aid, to developers and builders—you do not have to complete the placement of the expected-to-reside people all in 1 year, because it was going to take them a little longer to search out and find where the expected-to-reside people were.

And also, as I recall, in the *Hartford* case you did not have huge numbers of minorities who were being denied housing, did you? Is that not true?

Mr. HOLMGREN. There weren't huge numbers, no. But the point is there were people, among whom were some minority people.

Mr. ROUSSELOT. Well, you see, I interpret that court case differently.

And have I misstated the crux of the case, that it was over a memorandum that came from HUD saying to the HUD people locally, be sure that the developers realize that it doesn't all have to be done in 1 year?

Mr. HOLMGREN. I think it does misstate it, if I may respectfully say so, Mr. Congressman, because that is only a part of the series of allegations that were made in the litigation itself, and that the memorandum—the housing assistance plan, for instance, did not even provide for any expected-to-reside in that year. It wasn't a matter of just this 1 year; it didn't provide for any in the first year.

Mr. ROUSSELOT. Well, my understanding was that the memorandums from HUD that went to the developers at the community level and the people who were involved was that they were trying to extend the time so that they could spend more time on the expected-to-reside; isn't that true?

Mr. HOLMGREN. That was part of it.

Mr. ROUSSELOT. Well, that shows, in my judgment, an attempt to expand the consideration of the expected-to-reside, but not to limit it.

Mr. HOLMGREN. There was no attempt to even have an adequate housing assistance plan to provide for anything other than local people in those suburban communities, and the burden was all, therefore, on the central city of Hartford in providing housing; ignoring the areawide implications and needs for housing.

Mr. ROUSSELOT. Well, we clearly have a difference of understanding.

And I, Madam Chairman, will ask for unanimous consent to submit in the record at this time additional information on that issue, because I think it is important.

And your perception is entirely different from mine. We will try to look at it.

Mrs. SPELLMAN. The documents may be considered.

[The following additional information was submitted by Congressman Rousselot for inclusion in the record:]

ABSTRACT OF CITY OF HARTFORD, ET AL. V. CARLA A. HILLS, ET AL., 408 F. SUPP. 889 (D. CONN. 1976)

The finding of the court in the Hartford case was based upon a challenge to a memorandum issued by HUD in May 1975, which excused communities from providing an Expected to Reside figure where figures were not available for the community from U.S. Census Bureau "Journey to Work" tables. In these cases, the memo permitted the community to pledge a data gathering effort to provide the accurate survey of housing needs and the "Realistic Goals" called for under the 1974 Act.

The Court stated:

"I conclude that HUD acted contrary to law when it approved these six grants, without requiring the towns to make any assessment whatsoever of the housing needs of low- and moderate-income persons who might be 'expected to reside' within their borders. When HUD offered the towns the third option presented by the May 21, 1975 Meeker memorandum, to submit no figure at all, and they all selected that option, they acted contrary to the clear implication of the State, that the HAP could not be waived by the Secretary.

The Court further noted however:

"The defendants correctly observed that HUD has not waived the entire HAP, but merely one of the elements that go into the community's assessment of its needs for lower-income housing."

Only in the case of East Hartford did the Court move beyond the finding that permitting a "zero" ETR constituted a waiver of a portion of the HAP, which was not permitted for any reason, even the absence of data, under the language of the statute. Since East Hartford submitted ETR numbers, the Court made a judgment as to whether or not the Secretary's approval of the Grant was based "on a consideration of the relevant factors and whether there has been a clear error of judgment."

The Court found an abuse of Secretarial discretion because HUD did not pursue available lists from a State Department of Transportation commuter study on similar information, after its own internal review severely questioned the validity of the town's data and methodology.

It is worth noting, for the record, that the plaintiff City of Hartford, at its request, was also permitted by HUD to submit a "zero" ETR in its fiscal year 1975 application because of the city's difficulties with available data.

Mr. ROUSSELOT. Well, in any regard, I would say, on the basis of reading your statement that I think that your suggestion would impose upon HUD a quota system which in turn would have to be re-imposed on the community development organization.

And I will tell you why.

We use to get into this employment, and I remember very clearly the NAACP coming to a phone company in California and saying, do you have 20 percent of your employees black? And they said, no, it's not 20 percent. And they said, well, we insist it be 20 percent. And they said, OK, submit that in writing to the phone company.

They then promptly fired 5 percent because they were over; they were at 25 percent.

Now, my point is, these are the kinds of problems you get into, I think, when you impose this kind of language when we already have broad-based law that insures nondiscrimination I believe this would

lead to quotas, and I am sorry that you feel quotas are necessary to achieve the goals that I think we all want, and that is that low-income housing under this program be nondiscriminatory. I do not believe that anyone wants it discriminatory, because we all realize that many minority groups in this country, especially in the urban areas, are the ones that are in this low-income bracket and that they are the ones that are in need of the housing. We realize that one of the main purposes of the program, the community development block grant program, is to see that they get the housing.

I think that the inclusion of your amendment would, in fact, create a quota system. And I am sorry that you recommended it, but I appreciate your bringing the issue to our attention.

Mr. HOLMGREN. Not to belabor the point, let me simply say, by comparison, that, as I indicated in my testimony, the present affirmative marketing plan required of developers of FHA housing and other assisted housing programs does just that—it requires that the applicant, the developer, identify those minorities who would not probably be looking for that housing because of its location, and to seek out by outreach means and make aware to this target group of people the opportunity that this housing exists. And what I am simply suggesting—

Mr. ROUSSELOT. Now, isn't the community that develops these programs required to do a certain amount of advertising and solicitation to make lower income people aware that this housing is available? Isn't that part of the act?

Mr. HOLMGREN. The solicitation?

Mr. ROUSSELOT. The advertising and knowledge that the projects are to be made available.

Mr. HOLMGREN. I am not aware that there is any requirement in the act itself.

Mr. ROUSSELOT. I think you will find that the rules and regulations show that in all of these projects.

Mr. HOLMGREN. There is a requirement that they advertise for the receipt of bids for the construction.

Mr. ROUSSELOT. No; I am not talking about construction; I am talking about the filling of the vacancies when this project comes onstream and the housing is provided.

Mr. HOLMGREN. I am sure it's well known in most communities, but I don't think there is any obligation on the part of the public agency that they advertise.

Mr. ROUSSELOT. Well, the part of your statement with which I have problems, aside from including the word "racial minorities" and believing that that is the same as handicapped or elderly—and I do not think it is the same because elderly and handicapped are required different kinds of construction that you do not have in other kinds of housing—is your statement that this racial minority would be "in proportion to objective indexes based on the demographic profile in the community and the metropolitan area of which it is part." That means you would have to start, in my judgment, establishing quotas, and I think that would be a mistake.

Mr. HOLMGREN. Well, are there quotas established for the handicapped and the elderly?

Mr. ROUSSELOT. Of course not.

What we did say—the reason that was included—I remember that debate in the subcommittee very clearly.

The reason those categories were singled out is because they require a special kind of construction—ramps, handlebars, accessible shower and toilet facilities. A guy in a wheelchair has a certain requirement in housing that other people don't have, and I think we all acknowledge that. We even talked about it with respect to transportation.

The phone companies, for instance, now provide an extra phone booth for people in a wheelchair, and it is a different kind of phone booth; the phone is lower. You know that as well as I do.

So I just think you have singled out groups of people that are already well considered by other portions of the law, and even more important than that, by rules, regulations, and Executive orders by the President and by the Secretaries of HUD. So that is my judgment, and obviously, my perception is different from yours.

Anyway, I will yield back the balance of my time.

Thank you for your testimony.

Mrs. SPELLMAN. Again, I might point out to you that there will be other members who would like to submit questions to you in writing, and we would appreciate your responding.

Mr. HOLMGREN. Fine.

Mrs. SPELLMAN. Again, I might point out to you that there will be here today.

The subcommittee will recess until 2 p.m. this afternoon.

[Whereupon, at 12 p.m., the subcommittee recessed for lunch.]

AFTERNOON SESSION

Mr. PATTERSON [presiding]. The Subcommittee on Housing and Community Development will reconvene at this time. On our afternoon schedule we have first of all Hon. Gary A. Myers, Member of Congress from Pennsylvania.

Good afternoon. It is good to have you here, and you may read your testimony or speak orally from it, whatever you prefer, and a record in its entirety will be entered into the record.

STATEMENT OF HON. GARY A. MYERS, REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. MYERS. Thank you very much, Mr. Chairman. I appreciate the opportunity to appear here today. I expect to go virtually through the testimony.

Mr. Chairman, I appreciate your subcommittee reviewing what I consider to be the inadequacies in the U.S. Department of Agriculture, section 502, rural housing loan program.

In the last 2 years, I have been inundated by problems from constituents in my district who have, in good faith, purchased a home under the section 502 program. These individuals, who come from low- to moderate-income families, purchased what they considered to be decent, safe, and sanitary housing of modest size, design, and cost. They felt that, since it was a program designed by the Federal Government,

their best interest would be served. Yet, the experiences of the last 2 years show that the opposite has been true.

I would like to cite a few results of this program which I feel were not intended by Congress and which have placed an unfair burden on the new home buyer.

First, the brochure which the U.S. Department of Agriculture puts out regarding this program states the following:

First, where may houses be located?

Houses will be located on desirable sites with an assured supply of safe drinking water and suitable arrangements for sewage disposal.

The streets, water, and waste disposal systems shall meet FmHA requirements.

Second, are plans reviewed and is construction inspected?

Yes. The Farmers Home Administration reviews the plans and inspects the construction as it progresses to help the borrower obtain sound and acceptable housing.

Third, size of dwelling being built or purchased.

The objective of the Farmers Home Administration is to provide decent, safe, and sanitary housing that is modest in size, design, and cost.

I would now like to inform the subcommittee that the examples I have cited are not being fully adhered to. Existing rules and regulations do not guarantee that the intent of Congress is being carried out.

For example, I have cases in my files for 18 constituents, although I understand that the total in my district is closer to 40 or 50, who are now experiencing the following types of major construction deficiencies: Raw sewage coming into the basement; walls cracking; garage door won't shut; cracked basement walls; no fireproofing in garage; faulty septic system; water in basement; high iron content in wells and dry wells; porches without footers; no screens on windows and windows installed improperly; faulty driveway and yard grading; neglect to furnish specifications to buyer; subsurface sewage; and improper consultation on interest credit loans.

Mr. Chairman, in each of these cases the new home buyer believes the responsibility for making the repairs belongs to the Farmers Home Administration, since all that he read or was told about the program led him to believe his interests would be protected by the Federal Government as in the examples I cited earlier.

Yet, much to the surprise of the home buyers, they have been told, in response to claims for repairs, that the responsibility belongs to the builder and, if the builder defaults in making the necessary corrections, the buyer is responsible. The buyer has the following options:

He can take the builder to court, an expensive procedure with no guarantee that he will get any restitution.

Two, he can apply for an additional low-interest loan from FmHA for the necessary repairs, an additional cost burden to an already over-budgeted low- to moderate-income home buyer.

Three, he can sell the house back to FmHA, an option which would result in a loss of cash already invested in the home or the loss of equity in the home. He will also lose any cost he incurred in moving, repairing the house at his own expense, and finding and moving to another suitable home.

Mr. Chairman, it is my strong belief that, if the Department of Agriculture is going to continue the home loan program, some needed changes are now in order. This is especially true since the goal of the program is to assure individuals a decent place to live with safe drinking water, suitable arrangements for sewage disposal, and a house which will be inspected by FmHA personnel to guarantee them a well-built, suitable home and, most importantly, one that can be fitted into the buyer's budget. As you can see from my testimony, FmHA is not now fulfilling this commitment in many cases.

I suggest to the subcommittee that the law should be changed to allow the Secretary of Agriculture power to fund repairs made necessary as the result of the Department's errors and/or oversight. Another possibility would be to require all builders of this type dwelling to lay aside money for a 1-year period to cover the cost of correcting any construction problems. However, this approach is less desirable since it would serve to penalize those agents and contractors who do not violate their contracts. If FmHA fulfills its responsibility, problems will not arise; if it does not, the program should provide a provision of corrective action against a contractor.

I also strongly suggest that the subcommittee make a current assessment of existing conditions in the program with the intent of providing retroactive correction for a reasonable period of time. It is my understanding, from discussing this situation with GAO personnel, that this procedure has already been established in the National Housing Act, sections 518(a) and 518 (b), for a similar HUD-related problem.

The provisions give either the VA Administrator or the Secretary of HUD the power to correct the defects, pay the claims of the homeowner arising from the defect, or buy the home from the owner. When either Agency buys back a home, the homeowner is reimbursed for his downpayment, for any principal or interest he has paid, for moving expenses, and for legal fees he has incurred, such as closing costs.

I would further argue that, unless these provisions are added to the FmHA rural housing loan program under section 502, we may have a greater eroding of the Federal Government's credibility in the housing market. The Agency may be taking back homes from qualified buyers only to have to turn around and repair the homes before the Agency can resell the home. Or the Agency may be selling the homes unrepaired at a reduced rate to reclaim its loss in the investment.

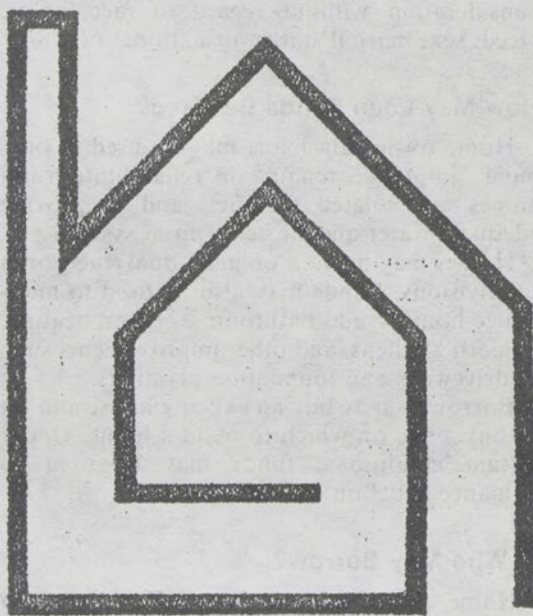
Regardless of who must make the needed repairs, the buyer or the Federal Agency, both seem to come out the loser. It would seem much wiser for us to insure that all homes being built with Federal dollars meet the highest standards of construction. We must also insure that we do not lose massive amounts of Federal dollars as a result of having to purchase back homes not properly inspected initially, and that we do not place an unfair burden on the new home buyer.

Mr. Chairman, this is the end of my prepared statement. I will participate and give any assistance I can.

[A copy of the brochure referred to by Congressman Myers follows:]

1965

HOME OWNERSHIP LOANS



FARMERS HOME
ADMINISTRATION

A RURAL CREDIT
AGENCY OF THE

U.S. DEPARTMENT
OF AGRICULTURE

PROGRAM AID 077

The Farmers Home Administration (FmHA) provides loans in rural areas to finance homes and building sites. Rural areas include open country and places with population of 10,000 or less that are rural in character and not closely associated with urban areas. Loans may be made in towns with populations between 10,000 and 20,000 that are outside of standard metropolitan statistical areas if the Secretary of Agriculture and the Secretary of Housing and Urban Development find there is a serious lack of mortgage credit.

Applications from eligible veterans are given preference. Veterans and nonveterans must meet the same requirements.

Each person who applies gets equal consideration without regard to race, color, creed, sex, marital status, or national origin.

How May Loan Funds Be Used?

Home ownership loans may be used to buy, build, improve, repair, or rehabilitate rural homes and related facilities, and to provide adequate water and waste disposal systems.

Homes may be built on individual tracts or in subdivisions. Funds may also be used to modernize homes; add bathrooms, central heating, modern kitchens, and other improvements such as driveways and foundation plantings.

Borrowers may buy an existing house and lot or buy a site on which to build a home. Under certain conditions, funds may be used to refinance debts on a home.

Who May Borrow?

Home ownership loans are offered to help families with low and moderate income. These families must:

1. *Be without decent, safe and sanitary housing.*
2. *Be unable to obtain a loan from private lenders on terms and conditions that they can reasonably be expected to meet.*

3. *Have sufficient income to pay house payments, insurance premiums and taxes and maintenance, other debts and necessary living expenses. Persons with inadequate repayment ability may obtain co-signers for the loan.*
4. *Possess the character, ability, and experience to meet loan obligations.*

Under some conditions, holders of long-term leases on farms or building sites may be eligible.

What Are the Terms?

Loans may be made for up to 100 percent of the FmHA appraised value of the site and the new home if construction inspections were made by FmHA, Veterans Administration, or Department of Housing and Urban Development. Homes over one year old and improvements to them also may be financed with 100 percent loans. The maximum repayment period is 33 years.

Is the Borrower Expected to Refinance the Loan?

Farmers Home Administration (FmHA) loans make it possible for families of low and moderate income to become owners of adequate homes. When the financial position of the family improves so that the loan can be refinanced through a commercial lender, the loan contract provides that this shall be done.

Who Determines Applicant Eligibility?

The Farmers Home Administration county supervisor usually determines the eligibility of applicants.

What About Size and Design of Homes?

Homes will be modest in size and cost but

adequate to meet family needs. New homes average about 1,100 square feet of living area. Cost varies in different areas of the country.

Who Furnishes Building Plans?

Applicants or builders are expected to supply detailed building plans, specifications, and cost estimates. These may be obtained from any reliable source. The Farmers Home Administration has a limited number of plans available.

Where May Houses Be Located?

Houses will be located on desirable sites with an assured supply of safe drinking water and suitable arrangements for sewage disposal. In subdivisions, the houses will be sited in an attractive manner to avoid straight line monotony and to accent and preserve the natural advantages of topography, trees, and shrubbery. The streets, water, and waste disposal systems shall meet FmHA requirements. Funds may be included in the loan to finance lawn seeding and landscaping measures that beautify the home and make it an attractive addition to the community.

Are Plans Reviewed and Is Construction Inspected?

Yes. The Farmers Home Administration reviews the plans and inspects the construction as it progresses.

When Can Construction Start?

When a borrower obtains a loan to build or improve his home, he must wait until the loan is closed before starting construction or incurring debts for material or labor.

What Security Is Required?

Each loan will be adequately secured to protect the Government's interest.

A loan of more than \$2,500, and any loan to be repaid in more than 10 years, will be secured by a mortgage on the building site or the farm and on other property as necessary to secure the loan.

Under certain conditions, small loans may be secured by a mortgage on real estate or other suitable security.

A loan of not more than \$2,500 scheduled for repayment within 10 years may be secured under certain conditions by a promissory note.

Are There Loan Fees and Other Charges?

The applicant pays for the legal services necessary to guarantee that he has a satisfactory title to the site, for credit reports, and other incidental loan closing costs. These expenses may be included in the loan.

Where Does One Apply?

Make application at the Farmers Home Administration county office serving the area in which the house or farm service buildings will be located.

Anyone unable to locate the local office may write to the Farmers Home Administration, U.S. Department of Agriculture, Washington, D.C. 20250.

How Do Home Ownership Loans Aid In Rural Development?

Home ownership loans are made in keeping with the Government's goal to provide decent homes in suitable environments for American families. Rural housing loans help create the kind of communities that encourage people to live in rural areas. They help check the flow of rural people to urban areas and encourage urban families to live in the countryside.

The program raises living standards, creates a healthy environment for family life, and make rural communities attractive locations for the development and expansion of industries.

Home ownership loans stimulate economic activity in rural communities by increasing sales of building materials and home furnishings and providing jobs for construction workers.

Is There Other Housing Credit?

The Farmers Home Administration also offers:

1. *Loans to build rental or cooperatively owned housing for the elderly and low- and moderate-income families.*
2. *Building site loans to local nonprofit organizations to buy, develop, and sell home sites on a nonprofit basis to applicants eligible for home ownership loan assistance.*
3. *Self-help housing loans to groups of low-income rural families who work together on the construction of their homes to reduce the cash cost. Public and private nonprofit organizations may obtain grants to provide technical assistance to such groups.*
4. *Loans to owner-occupants with low or moderate income to make minor repairs or home improvements.*

What Other Loans Does Farmers Home Administration Make?

The agency makes loans for buying, developing, and operating family farms, water development and soil conservation, rural water and waste disposal systems, developing small watershed projects, farm credit to reimburse for loss from natural disaster, and for development of rural business and industry.



Revised March 1975

Slightly Revised November 1970

Mr. PATTERSON. Thank you, Congressman Myers. The subcommittee is aware of the problem of shoddy Farmers Home Administration construction in many areas, and our staff in fact, has, as a part of its oversight of both HUD and Farmers Home Administration, participated in field hearings to try to ascertain some of these problems and solve those that we can and deal with the subject generally.

Do you feel that the main problem is in the area of new construction or existing housing?

Mr. MYERS. I believe most of our problems have been with the new housing, and most particularly the apparent oversights in inspection during the construction of the new housing.

Mr. PATTERSON. Well, that is helpful, because I think we have had good experience with the HUD programs in warranting of the construction for a period of time, and I think your testimony will be helpful in addressing it with regard to new construction.

Existing housing is another subject. It is very difficult, when you have an older home, to warrant everything in there when possibly one item is ready to break down and another may have a leaky basement or not, as the case may be.

Mr. MYERS. If I could respond just briefly to that, I think that is an accurate statement. I think the buyer enters into a contract for a new home with a much greater level of expectation of a successful contract and would not have the frustrations with an existing home if a failure should occur that he does with a new home.

Mr. PATTERSON. I think our subcommittee should be able to address the new housing problems that you refer to. I am not so optimistic about the 518(b) program on existing housing. We do appreciate your testimony today.

Mr. MYERS. I thank you for the opportunity.

Mr. PATTERSON. Oh, Mr. Grassley, did you have some questions?

Mr. GRASSLEY. Mr. Myers, I wanted to thank you for bringing this to our attention. I want to also urge you to write to the chairman of the Departmental Operations Subcommittee of the Agriculture Committee; I happen to be a member of that subcommittee, and this is of concern to them as well as this subcommittee. I appreciate your bringing this to our attention, and you have done a good job of keeping on top of things.

Mr. MYERS. We will forward a copy of our testimony and would gladly follow up with statistics that we have experienced in our district either for this subcommittee or for the other subcommittee.

Mr. GRASSLEY. Thank you.

Thank you, Mr. Chairman.

Mr. PATTERSON. Mr. Myers, we are going to be having Farmers Home Administration testifying here on Wednesday, for your information. You may wish to be here, and I assure you we will get to the questioning of the subject matter that you raised, and we thank you again for your testimony and bringing it before us and congratulate you for raising them and advise you that we think the problem extends not only in your district, but nationally as well. So, I think we will be addressing it.

Mr. MYERS. Thank you, Mr. Chairman.

Mr. PATTERSON. Our next testimony will be coming from Jeffrey Spragens, president of the FHC Services, Inc., if you would like to come forward.

Good afternoon, and welcome to the Subcommittee on Housing and Community Development. It is a pleasure to have you here this afternoon.

STATEMENT OF JEFFREY SPRAGENS, PRESIDENT, FCH SERVICES, INC., ACCOMPANIED BY HARRY HORROCKS

Mr. SPRAGENS. Thank you, I am accompanied by Mr. Horrocks who assists us in our legislative work.

Mr. Chairman, FCH Service, Inc., is a wholly-owned subsidiary of the Foundation for Cooperative Housing. We have been the largest sponsor for cooperative housing in the United States during the past 25 years. We have sponsored 70,000 units of cooperative housing that house almost a quarter of a million people. We currently manage 14,000 units of housing insured under the HUD programs—these house another 50,000 people.

Overseas we have helped develop about 40,000 units of housing, under the AID and U.N. program.

Today in the United States there are about 500,000 units of cooperative housing with almost 1.2 million people. The majority of these homes are located in urban areas, and they provide homeownership for people living in multifamily housing who would normally not have these advantages. Of the 500,000 units of co-op housing, 200,000 have been sponsored under the HUD programs. Most of the cooperatives serve low- and moderate-income families. These are the housing projects that we are particularly concerned about. This committee has jurisdiction over the laws which have allowed HUD insured cooperative housing to be built. In the past few years there has been a precipitous decline in the production of new housing under the HUD programs. We feel this decline has been a result of two major problems.

The first has been the general decline in multifamily housing production, but the second has been a deemphasizing by HUD of the cooperative program as well as many of its other programs.

Some 20 years ago Congress established a special assistant for cooperative housing to report directly to the FHA Commissioner. At one point the special assistant had a large staff, both legal and technical, to help with special problems in cooperative housing. The staff has been dismantled and through three or four HUD reorganizations, it has been spread throughout the whole department. This has made it very difficult to respond to the particular problems facing builders, sponsors, architects, and the consumers in cooperative housing.

Concerning our specific recommendations to the subcommittee, the Foundation for Cooperative Housing is a member of the National Housing Conference, and we have long worked closely with the conference. The conference is holding its annual convention yesterday and today in Washington, and has come forth with a set of legislative recommendations.

The conference President, Mr. Leon Weiner, will testify, I understand, tomorrow before your subcommittee, and we wholeheartedly endorse all the recommendations of the National Housing Conference.

Particularly, I would like to say that we support the administration's request for additional contract authority for the section 8 program and for supplemental authority for 1977. We think it is important to reach the goal of 400,000 units under section 8, and that the supplemental budget request is necessary to do this.

We, likewise, support Mrs. Harris' request that HUD be permitted to enter into 30-year section 8 contracts. We feel this would make a tremendous difference, especially, in allowing co-op housing to be built using conventional programs such as the savings and loan associations and other sources of conventional permanent financing.

We were distressed to see, however, that of the section 8 authority, 50,000 units of new construction had been transferred to the public housing program. We support the public housing program, but we feel it would have made more sense to transfer those 50,000 units from the existing public housing program where there are some 172,000 units set aside.

We think one of the reasons for this particular switch may be because of the way the section 8 budget authority is calculated. The budget authority is subject to a run-out for the time of the entire contract. We think this is not only inaccurate because the initial budget authority is for the maximum—it is virtually for the entire cost of debt service and operating cost of the project—but also we feel it's a formula that will very quickly stop the adequate appropriations for subsidized housing.

No other Federal program that I know of calculates for the full term of the program. A new battleship, for instance, doesn't take out of the budget the funds for the whole term of operating and replacements during the 30 years that the product is going to be in service.

So, therefore, we request and recommend that this subcommittee call upon the Budget Committee to come up with a more equitable calculation of the budget authority, one that evaluates fairly the program costs and considers the good that these programs provide for people who need housing.

We are happy to see that the GNMA special assistance program 23, that has provided hundreds of thousands of houses during these times of high interest rates, apparently will receive more money. The third congressional budget resolution provides budget authority for release of an additional \$5 billion.

However, we suggest that the program continue to be administered as it is and that the interest rate stay at 7½ percent. I believe that the prepared concept would be that the Secretary and the Department of Treasury could set the interest rate anywhere between that and the market rate of interest. In our experience, 7½ percent is historically high enough for middle-income people who will normally move into this type of housing because of the mortgage limits placed upon the eligible housing.

Our second point is that with the mortgage limits inherent in the program, we don't feel it is necessary to get into an income test. We think this would complicate the program, and I know there is significant discussion in this Senate that an incomes test be established so that the program reaches lower income families. We don't think this is necessary. We think with the mortgage limits of the program

and a 7½ percent interest rate that many middle-income families above 120 percent of the median should not be precluded from this housing.

We have several other items that I would like to call to the subcommittee's attention. We have asked that the Department of Housing and Urban Development—along with a lot of other public interest groups—reestablish a program that HUD put forth in the late 1960's called Operation Pushout. We have studied the budget that has been prepared by outgoing Secretary Hills and, taking one section alone, the section 236 program, HUD counts 23,000 units with pre-emption bona fide commitments. They recognize 16,000 units that are still in existence. HUD feels that maybe only 5,000 or 6,000 of these could get under construction this year.

Right now I am on page 17 of my testimony, and this, I think, is of particular interest—or should be—to the subcommittee. Our experience alone is that we have been working with 2,500, almost 2,600 units under this section 236 program. And I list them: 880 in Ohio, 825 in Michigan, 320 in Kansas, and 374 in Indiana. These are projects that are partially completed in that the land has been purchased and zoned and is ready for the remaining units under these programs that were originally conceived in the late 1960's and early 1970's but were cut short by the moratorium.

It is our understanding that these units were funded and that with Operation Pushout these units, and according to the National Housing Conference, actually 195,000 units under the public housing program, section 235 program, section 236 program, section 8 program, section 202 program, and Farmers Home program, could be produced in addition to what Secretary Hills suggested in her outgoing budget.

We would recommend that the subcommittee study this, and if they agree, encourage HUD to pursue an aggressive program under an Operation Pushout.

We would like to call the subcommittee's attention to a committee of former FHA officials, called the Committee to Revitalize FHA. These officials are retired professional level people who have come together on a voluntary basis to make their expertise—which numbers virtually hundreds of years, under the FHA programs—available both to Congress and to the administration to try to get FHA back into a posture which will effectively produce housing again. The mixture of public housing with the traditional FHA programs and the current system of regional and area offices has caused severe disruption in the administration of these programs.

We, by and large, feel that the congressional programs are good programs and that strong and vigorous administration will produce substantially more housing than we have seen in the past several years.

Finally, several cooperative provisions have been passed by Congress in past years. One is section 203(n) of the National Housing Act. Section 203(n) would provide badly needed financing for purchasers in existing cooperative housing. Cooperative housing in many cases has appreciated, like all other housing, and because of the blanket mortgage, there is no way for individuals to buy into it unless they put cash down. Congress recognized this problem and in last 1974 passed an amendment. HUD now tells me that they hope section 203(n)

will be activated within the next month. The new administration seems much more positive on moving forward, but I still would like to call to the attention of the subcommittee that this provision is still not active.

Section 246 was also passed by Congress in 1974, and this would allow HUD to dispose of a certain number of its HUD-owned multi-family properties to cooperative ownership. Experimentation and demonstration programs have demonstrated that this is a viable alternative for some of the HUD inventory. However, the regulations that can make section 246 operational have never been promulgated or published by HUD.

Finally, section 235 was reactivated by Secretary Hills. We hope that it will be a good program. Cooperative housing was always eligible under section 235. The new program, however, through just problems with HUD rewriting its regulations, is not eligible for cooperative housing because of the rewriting of section 235 regulations. HUD tells us they are going to correct this oversight. But, again, it has been many months, and it is still not an operational program.

Mr. Chairman, that concludes the highlights of my statement. If there are any questions that either you or other members of the committee would like to ask, I would certainly be happy to try to answer them.

Mr. PATTERSON. Thank you, Mr. Spragens. And without objection, we will enter the full written statement that you submitted into the record.

Mr. SPRAGENS. Thank you.

[The prepared statement of Mr. Spragens, on behalf of FCH Services, Inc., follows:]

1976

STATEMENT OF JEFFREY G. SPRAGENS
PRESIDENT OF FCH SERVICES, INC.
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY
DEVELOPMENT
OF THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
ON
HOUSING AND COMMUNITY DEVELOPMENT
AUTHORIZATIONS

March 7, 1977

INTRODUCTION

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am pleased to appear before you today to present the views of FCH Services, Inc. FCH Services, Inc. is a wholly-owned subsidiary of the Foundation for Cooperative Housing and is the largest sponsor and manager of cooperative housing in the United States.

I. COOPERATIVE HOUSING TODAY

Today, there are almost 500,000 cooperative housing units in the United States housing almost 1.2 million people. The majority are located in urban areas, and provide homeownership for citizens who could not otherwise possess such benefits. It has been demonstrated on many occasions that cooperative homeownership is not only of great benefit to the residents, but is of tremendous value to our cities and to the entire country.

Of the 500,000 cooperative units cited above, over 200,000 were built using HUD cooperative housing programs. These units are for low and moderate-income families and by and large have achieved an outstanding record. In fact, the Section 213 cooperative program is so successful that over \$30 million of mortgage insurance premiums have been returned to the cooperatives because of their low default rate.

FCH has sponsored over 70,000 units of cooperative housing, virtually all of them under the HUD programs. HUD's involvement was indispensable in achieving this production record. However, in the past few years, HUD has virtually dismantled the Office of the Special Assistant for Cooperative Housing and has scattered its functions throughout HUD. Because of this and because of the general slowdown of HUD's programs, all aspects of cooperative housing, both existing and planned housing, have suffered from HUD's lack of direction and policy.

FCH believes that the recent decline in cooperative housing is unnecessary.

II. FCH'S RECOMMENDATIONS

Therefore, we are setting forth the following recommendations:

I. THE RECOMMENDED CARTER-HARRIS HOUSING AND COMMUNITY DEVELOPMENT PROGRAM

"This country faces several housing crises; a depressed housing industry, broad sectors of the population unable to obtain decent housing, and a depression-like unemployment rate among construction workers. The solution to one of these crises is the solution to all of them. We must resume our efforts to fulfill our legislative promise of a decent home for all and, in so doing, move toward another basic need - a meaningful job for all."

(From "Jimmy Carter on Housing," summer, 1976)

To speed the accomplishment of President Carter's objectives in housing, summarized concisely in the closing paragraph of his campaign statement quoted above, the Foundation for Cooperative Housing and its operating subsidiary, FCH Services, Inc. (in combination "FCH") respectfully submit to the President, the Honorable Patricia Roberts Harris, and the Congress, the recommendations that follow. Our particular experience and expertise are in cooperative housing, as our name indicates, but we recognize that an effective cooperative program must be part of an overall program that addresses every major problem of community development.

Accordingly, FCH strongly endorses the recommendations of the National Housing Conference, Inc. submitted on December 29, 1976. We would emphasize the importance of the immediate steps, recommended under Part 1 of that memorandum, to be taken "within the first 100 days" of the Administration.

The essence of the NHC program is to activate existing programs which the Congress has already authorized and for many of which funds were appropriated but lay unused under the Ford

Administration. To get these programs back on the track, NHC identifies ten administrative changes which the Administration has the power to effect at once:

- a) "Establish direct line authority between the HUD Assistant Secretary for the Office of Housing-FHA Commissioner and HUD Field Offices."
- b) "Maximize utilization of existing funding. Current regulations and administrative actions have kept production substantially below existing funding levels." This recommendation deals with seven programs: Section 235, Section 236, GNMA Program 23 Tandem, Section 8, Public Housing, Farmers Home Administration and Section 202 (Elderly and Handicapped Housing).
- c) "Complete staffing with competent and sympathetic people for key HUD, OMB, VA and FmHA positions. Similarly, appoint such people to the Board of Directors of FNMA and Federal Home Loan Bank Board."
- d) "In general, revitalize HUD and FmHA by re-establishing a national commitment to meet housing needs and national goals of equal housing opportunity by providing HUD and FmHA with a staff adequate in numbers and quality of training to process rapidly and well the increased number of applications for new projects and accelerate the processing of requests for assistance for existing programs."
- e) "No precipitous reorganization of HUD is necessary, and it is not necessary to write new major programs immediately."
- f) "Establish a clear Presidential policy for Affirmative Action to make fair housing and equal opportunity programs more effective in achieving non-discrimination in all HUD programs."
- g) "Existing Housing. A number of steps can be taken immediately by administrative action which will facilitate the utilization of current appropriations." These recommendations deal with rehabilitation of existing housing, modernization of public housing, and maintenance of housing for low-income people.

- h) "Community development. The capacity of local governments to carry out employment-generating and development activities can be greatly increased by taking ... [certain] administrative steps ... These include use of the discretionary funds to enhance on-going local CD programs, and to maximize the funds to hold-harmless and entitlement communities; also use of the "Urgent needs funds" of CD to complete on-going programs."
- i) "Establish an inter-agency Federal task force of all departments and agencies which impact on housing to assure better coordination and delivery of Federal services and to expedite the resolution of differing policies and procedures."
- j) "Initiate effective measures to provide adequate and fair mortgage financing for areas that have had difficulty receiving adequate mortgage credit, such as inner-city neighborhoods, declining neighborhoods, and neighborhoods of minority concentration."

NHC further urges the Administration to initiate "an effective OPERATION PUSH-OUT which will produce within the calendar year 1977 starts on more than 200,000 units of housing which are already in the HUD pipeline in various states of processing." NHC goes on to state, "Such an operation has been successful in the past and with effective leadership pursuant to a presidential call, stating the urgency of maximizing well-processed housing production, OPERATION PUSH-OUT can again make a significant contribution to jobs in calendar year 1977."

NHC suggests that the Carter Administration should make certain immediate legislative requests. These are designed to make the housing programs more effective and to make timely requests for budget authority, authorizations and appropriations, looking to Fiscal 1978 and beyond. The recommendations are designed to restore effective action toward the national housing and community development goals laid out by the Congress and Executive Branch in 1968.

FCH recommends, in addition, that in the allocation of resources available within budgetary limits, priority be given to community development in the "inner city." The National League of Cities, the U.S. Conference of Mayors and others have detailed the emergent needs of the Nation's urban centers for Federal assistance in restoring blighted, often uninhabited areas, rehabilitating potentially usable housing, and halting the deterioration of still viable neighborhoods. As a participant in many inner-city programs over the past twenty-five years, FCH knows at first hand the vital importance to the Nation's social and economic well-being of realistically designed and financed programs of community development in urban centers.

II. THE ROLE OF COOPERATIVES IN THE CARTER-HARRIS HOUSING AND COMMUNITY DEVELOPMENT PROGRAM
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FCH recommends, for reasons detailed below, that housing cooperatives be assigned a major role in the Carter-Harris program.

A. THE ADVANTAGES OF COOPERATIVE HOUSING

1. For the Owner-Residents

Housing cooperatives provide many benefits to their owner-residents.

- a) Ownership. In contrast to renting, the owner-resident's (member's) stock and proprietary lease on a dwelling unit in the cooperative constitute a growing asset as the blanket mortgage is amortized. Members also participate in increased market value that may have accrued at the time he/she leaves the cooperative. The member's share of taxes and interest on the mortgage are deductible from taxable income.
- b) Reduced costs. Compared with the same quality of rental units, housing cooperatives afford their members substantial savings, resulting from non-profit operation, personal tax benefits, and lower maintenance costs. As against single-family housing or condominiums, savings come from blanket mortgage financing, bulk purchasing, and lower cost multifamily maintenance and management services. Transferability of ownership interests is easy and does not require expensive title and legal fees.
- c) Better maintenance. Since the entire cooperative, including the individual dwelling units as well as the common property, is owned jointly by all the residents, the members take an owner's responsibility and pride in maintaining all their property. Also, funds for proper maintenance, repairs and replacements are included in the monthly carrying charges.
- d) Stable communities. Housing cooperatives experience lower turnover of residents than do equivalent rentals. Joint ownership and control of the property raises the level of community morale, encourages self-policing, and reduces the sense of transiency that frequently infects rental developments. Sense of community keeps crime down in cooperatives situated in troubled areas.
- e) More amenities. Since cooperatives are designed to serve their owner-residents, community facilities, such as recreation and meeting rooms, playgrounds and the like, are usually better planned and maintained than in equivalent

rental housing. In addition, many established cooperatives budget for long-range improvements in community amenities. Volunteer committees are effective in organizing activities and overseeing maintenance. The spirit of home ownership also stimulates members to take an interest in property improvements within their individual homes.

f) Built-in opportunities for community leadership.

Every housing cooperative is organically a democratic "mini-government." Each member has a vote in electing the Board of Directors and in determining the basic policies of the community. This places direct responsibility for the welfare of the community on the residents, encourages active participation in community affairs, and affords opportunities for leadership. Housing cooperatives are training grounds for democratic leaders.

2. Advantages to the Community-at-Large

The communities in which housing cooperatives are situated share in many of these benefits. Housing cooperatives are focal points of stability. Their sound financial planning and operation make them reliable tax-payers. Their members' stake in the property protects against vandalism and neglect, and they help to maintain or improve surrounding property values. The good citizenship of their residents keeps down the costs of municipal services, police, fire and social services in particular. Their members frequently are active in civic affairs, extending to the community-at-large the knowledge they have gained in operating these smaller, democratic organizations.

Many members of housing cooperatives learn from their experiences in these democratic organizations that American government is not "they" but "us". This constitutes a very basic and organic contribution to the Nation.

3. Special Advantage for Inner-City Housing Production

For the new Administration, aiming to restore multifamily housing production quickly, cooperatives offer a very special

advantage: They are independent of the long-term equity market.

Recent experience has discouraged equity investment in multi-family projects, especially those for below-median income groups in the inner city, and it will take a long time before confidence is restored, even if tax shelters remain available and the threat of rent control ended. But in cooperatives, the equity is provided by the owner-residents' downpayments. Cooperatives are attractive to builders if existing HUD programs are revitalized and made workable. Experience has shown that housing cooperatives, when planned, organized and managed by technically competent and seasoned sponsors and professional management agents, afford HUD and local/state housing agencies the best means for urban renewal on redevelopment sites.

III. SPECIFIC RECOMMENDATIONS FOR ACTION ON COOPERATIVE HOUSING IN THE CARTER-HARRIS PROGRAM

The following actions could be carried out immediately by the Secretary without additional legislative authorization. In fact, Congress specifically authorized these programs, but in the prior Administration, HUD has not carried them out.

A. REVITALIZATION OF OFFICE OF
SPECIAL ASSISTANT FOR COOPERATIVE HOUSING

Long ago, Congress and the President recognized the need within HUD for special help for cooperative housing if it was to flourish. The Housing Amendments of 1955 created the statutory position of Special Assistant to the FHA Commissioner for Cooperative Housing. It provided:

" ... In the performance of, and with respect to, the functions, powers and duties vested in him by Section 213 of the National Housing Act, Section 221 (d) (3) of the National Housing Act, and Section 101 of the Housing and Urban Development Act of 1965 (insofar as the provisions of such sections relate to cooperative housing), the Secretary of Housing and Urban Development, notwithstanding the provisions of any other law, shall appoint a Special Assistant for Cooperative Housing, and provide the Special Assistant with adequate staff, whose sole responsibility will be to expedite operations under such sections and to eliminate obstacles to the full utilization of such sections under the direction and supervision of the Commissioner. The person so appointed shall be fully sympathetic with the purposes of such sections."

(Emphasis added)

For many years, the Special Assistant had a staff with capabilities and power to handle legal questions, and problems of production and management. The Special Assistant closely coordinated with FHA production and management officials in

Central Office and in the Field, and with FHA's general counsel on legal questions. The Special Assistant had authority to initiate and sign correspondence pertaining to cooperative housing. Thus, the Special Assistant helped to create such things as a uniform system of accounts for cooperative housing and other forms currently being used by cooperative loan management.

Cooperative housing flourished when the Office of Special Assistant was implemented and supported by HUD.

Unfortunately, in the last few years, the Office of the Special Assistant was virtually dismantled in spite of the statute, and cooperative housing has taken a steep decline. Congress recently took note of this fact, and the Housing Act Amendments of 1976 includes an amendment to the Special Assistant Statute which updates the duties of that office, and makes clear that the Special Assistant should report directly to the Assistant Secretary for Management and Production. The Senate debates in April, 1976, are particularly enlightening in stating the importance which Congress attaches to the updating and strengthening of the Special Assistant. We set forth below portions of the debate wherein Congress agreed upon the need for HUD to fulfill the requirements of existing law:

" ... By this amendment, Congress is making clear that the law requires an appointment of a Special Assistant with adequate staff with the sole responsibility of expediting operations under sections of the Housing Act dealing with cooperatives and to eliminate obstacles to the full utilization of such cooperative housing provisions.

The Committee feels that there is a need for a Special Assistant and an adequate staff as demonstrated by the fact that HUD has been unable to promulgate regulations to activate sections

246 and 203(n) of the National Housing Act, even though these sections became law almost 2 years ago. ...

Therefore, this amendment would also make clear that the Special Assistant should report not only to the FHA Commissioner who is responsible for cooperative production, but also to the Assistant Secretary for Housing Management, who is responsible for management for cooperative housing ..."

(Congressional Record - Senate, April 27, 1976 P. 6017)

During the latest HUD reorganization creating an Assistant Secretary for the Office of Housing, HUD did actually appoint a Special Assistant for Cooperative Housing. However, no other requirements of the statute were implemented. To follow the law, the new Administration should provide for the following changes:

- (a) The Office of Special Assistant for Cooperative Housing should be reconstituted so as to fulfill the statutory mandate and comply with the intent of Congress and the President. It is suggested that the Special Assistant should report directly to the Assistant Secretary for the Office of Housing -- Federal Housing Commissioner as required by law. The Special Assistant should be on an equal level to the other Offices or officials who report to the Assistant Secretary, so that cooperative housing can be fully implemented.
- (b) The Special Assistant should be authorized to deal directly with the Deputy Assistant Secretary for Assisted Programs (for Section 8 cooperatives) and with officials who should be implementing the Section 246 cooperative program for purchase of HUD-owned projects.
- (c) The Special Assistant should be specifically authorized to receive and make telephone calls and other direct communications with both the Area and Insuring Offices and the Regions; in this way, initial and final closings on cooperative housing can be expedited and problems solved long before they become major difficulties.
- (d) The Special Assistant should be authorized, as he was in the past, to initiate and sign correspondence dealing with the cooperative housing programs.

- (e) The Special Assistant should, as the statute requires, have an adequate staff whose sole responsibility is to see that the existing cooperative laws are fully utilized.
- (f) We understand that HUD Central Housing Management is currently organized so that many of the same functions are duplicated for each of the HUD regions. Therefore, personnel assigned to some regions who are familiar with housing cooperative complexities are better able to deal with operational problems, while other regions lack this expertise and experience. In this reorganization, Housing Management responsibilities for cooperative housing should be concentrated in one or more staff members who are thoroughly expert in cooperative housing management matters and this position should report directly to the Special Assistant for Cooperative Housing.
- (g) In the 20 or so Field Offices where the concentration of housing cooperatives warrants, the position of housing cooperative specialist should be recreated. The table of organization should state that the specialists would be charged exclusively (if the workload required) or primarily, with administering the cooperative housing program. The job description would make clear that such a job entails the extra requirements of meeting the Cooperative Boards of Directors and sponsors to assure the sound planning, construction and long-term operation of cooperative housing. This would not require additions to existing staffs, but merely a concentration of duties in one or more persons revolving exclusively around cooperative housing according to demand.

B. IMMEDIATE IMPLEMENTATION OF SECTION 203(n)

Section 203(n) became law in late 1974 and provides HUD insurance for mortgages financing the purchase of cooperative memberships in existing cooperative housing projects whose mortgages are insured by HUD. Congress specifically stated that this new program was to make cooperative ownership comparable to condominium ownership. Draft regulations for Section 203(n) were published in the summer of 1976, but the final regulations

have been stalled because of technical problems. If this program is not made operational in the immediate future, the Secretary should make clear that making this program operational is a top priority of HUD and provide the organizational support to implement this program.

C. IMMEDIATE IMPLEMENTATION OF SECTION 246

Section 246 became law in the fall of 1974 and draft regulations have never even been published for comment. Section 246 makes clear that HUD could dispose of HUD-owned multifamily property to non-profit cooperative ownership. The new Secretary should direct the Office of Property Disposition to implement this program immediately in order to give additional alternatives in dealing with the problems of HUD-acquired properties. The Congressional Reports stated that Congress anticipated that a significant number of HUD properties would be disposed of using the provisions of Section 246.

D. REACTIVATION OF COOPERATIVE
SPECIAL ASSISTANCE PROGRAM (GNMA PROGRAM SIX)

During the effective life of FNMA (now GNMA) Program 6, which started August 16, 1955, the total amount of mortgages purchased by FNMA/GNMA was \$365,000,000. This figure represents a total of 25,000 cooperative dwelling units. This special assistance program was dropped in 1964, because it was thought that the successful cooperatives no longer needed special financing. Presently, because of the discontinuation of the program,

and the subsequent rise in long-term interest rates, the Section 213 cooperative financing is badly hampered by unacceptable discounts. In addition, the money being repaid to GNMA in mortgage payments from these cooperative units is not used to finance new cooperative housing mortgages. This program should be reactivated at once so that the repayments would be an immediate source of financing for new cooperatives.

E. LONG TERM CONTINUATION OF TANDEM 23 PROGRAM

The Tandem 23 Program is absolutely vital for the production of non-assisted, new cooperative housing and Section 8 cooperative housing. Without this program, discounts and interest rates make it impossible to utilize the Section 213 and Section 221(d)(3) market rate programs. The Secretary should request the remaining \$2 billion authorized.

F. WORKABLE SECTION 8 PROGRAM FOR COOPERATIVES

The Section 8 program has produced little new construction of family units. Likewise, there have been virtually no new cooperative housing units produced receiving Section 8 assistance. The following administrative changes would make the Section 8 program capable of producing new cooperative housing:

- (i) Continued long-term availability of a suitable financing vehicle such as would be provided by the Tandem 23 program as described above:
- (ii) A change in the ranking and selection of Section 8 proposals which are discriminating against cooperative housing because:

(a) Priority is given to proposals which ask for 20% or less subsidy. Builders guarantee payments for up to two years on unsold units in cooperatives at Final Closing, and they are unwilling to make this guarantee unless all of the units are eligible to receive Section 8 assistance.

(b) HUD gives priority and ranking to those proposals with the lowest proposed contract rents. These lowest rates will not support large townhouse family units as required by cooperatives as distinguished from smaller, less costly walk-up and garden apartments. The Section 8 program should not penalize proposals designed to meet the needs of families.

(c) Section 8 site and neighborhood standards discriminate against cooperatives proposed for urban renewal areas. Urban renewal areas often have a particularly high minority concentration. Existing site and neighborhood standards for Section 8 preclude the possibility of using Section 8 assistance in such an environment.

(iii) Fair-market rents. Everyone has criticized the inadequacies of the fair-market rent limitations. But cooperative housing, which provides homeownership, has been especially hurt. Cooperative housing should be compared with other FHA-insured homeownership projects rather than with rental projects. This means that the market-rent comparability test should be eliminated as an underwriting criterion for cooperative homeownership. HUD's processing bias is so great against cooperatives that the instructions fail to include as comparables even the Section 213

cooperative programs. At a minimum, cooperatives should receive an adjustment allowance as is now done for elderly housing. The adjustment should be larger than the elderly housing adjustment to reflect the homeownership and amenity values.

(d) Finally, HUD should place special emphasis on cooperative participation in the Section 8 program. HUD instructions do not even mention cooperatives as eligible for Section 8 assistance. This should be remedied and cooperative housing encouraged.

G. IMMEDIATE ISSUANCE OF WORKABLE SECTION 236
COMMITMENTS ON ALL PREVIOUSLY FUNDED PROJECTS

According to the NHC Report, there are over 23,000 units of 236 projects with bona fide pre-January 1973 commitments including 16,000 that HUD still considers funded. A direct order from the Secretary pushing for starts would make it possible for at least 15,000 - 16,000 units to be started in 1977. There are many projects that cannot be started because costs have escalated since the project applications were filed years ago. HUD must have amendments to cost ceilings to reflect this and start all projects immediately. All restrictive rules issued since the moratorium on January 1973 designed to stifle the Section 236 program should be rescinded immediately.

FCH alone is sponsoring fourteen Section 236 projects with 2,559 units, and a total mortgage amount in excess of \$80 million, which have been terminated by local HUD offices on the strength of these restrictive, post-moratorium rules or have been subject

to unreasonable processing delays. These cooperatives and the number of units in each are:

<u>Name of Project</u>	<u>Location</u>	<u>No. of Units</u>
Agler Green - Sec. 6	Columbus, Ohio	98
Canterbury Mews	Canton Township, Mich.	100
Cedarbrook - Sec. 2	Vandalia, Ohio	200
Glenburn Village - Sec. 2	Dayton, Ohio	140
Kingsbrook	Clinton Turnpike, Mich.	375
Kirkridge	Van Buren Township, Mich.	250
Lincolnwood - Sec. 3	Kokomo, Indiana	150
New England Heights	Middletown, Ohio	132
Pine Tree	Lawrence, Kansas	120
Quail Valley	Lenexa, Kansas	200
Riverside, Sec. 2&3	Riverside, Mo.	160
Southwood, Sec. 2,3,&4	Indianapolis, Ind.	224
Warren Sherman, Sec. 1&2	Toledo, Ohio	310
Woodbridge Commons, Sec. 3	Lansing, Mich.	100
	Total	<u>2,559</u>

These cooperatives could be in production within the year. The sites have been readied, are properly zoned and have local approval and utilities. In many cases, building permits have been issued. In all instances, subsidy money had been set aside. Most cases are continuing sections of cooperatives that are operating with substantial waiting lists. Much of the land is "land-locked" and completion of the originally planned project would allow construction of needed community facilities. A single directive from the HUD Secretary would guarantee the production of these 2,600 units and \$80,000,000 mortgages. Studies by the AFL-CIO indicate that this would create in excess of 1,500 jobs and 6 million man hours of work.

H. IMMEDIATE IMPLEMENTATION OF SECTION 235 COOPERATIVE PROGRAM

Cooperatives have always been eligible under Section 235. When former Secretary Hills reactivated the 235 Program after

the moratorium, she specifically stated in her Press Release that cooperatives would continue to be eligible. However, the new regulations did not make cooperative housing eligible. FCH understands that the corrections to these regulations have been made and can be issued almost immediately. FCH urges Secretary Harris to release the amended regulations as soon as possible.

J. COOPERATIVE HOUSING RESEARCH UNDER HUD PROGRAM
FOR POLICY DEVELOPMENT AND RESEARCH

The lack of a strong, functioning Special Assistant for Cooperative Housing has resulted in a shortfall in research on cooperative housing matters. The Secretary is urged to suggest to the new Assistant Secretary for Policy Development and Research that this neglect be remedied immediately. There are a number of urgent research problems which should be included in the HUD PD&R program. These include:

1. Research program to determine how best to use cooperative housing for the disposition to residents of HUD-owned housing. Such disposition is urged on HUD by Section 246 of the National Housing Act, which was enacted in 1974. As stated earlier, it has never been implemented nor have regulations been issued. On a number of

occasions, HUD arranged to dispose of HUD-owned projects to the residents and when properly done, the results have been exemplary. However, in recent years, the Property Disposition Office of HUD has been reluctant to use its statutory powers to dispose of properties by negotiation, preferring to sell by competitive bid, even though it is easily demonstrated that HUD would get much better prices by negotiated sale to nonprofit cooperatives. Inasmuch as there is this difference of opinion within HUD, and HUD faces a mammoth task in disposition of HUD-owned multifamily projects, HUD should come up with demonstration programs and other research efforts to determine the optimum way of disposition of these projects.

2. HUD faces a problem with many nonprofit rental projects which are in economic difficulty. In order to achieve the goals set as quickly as possible, HUD should set up R&D programs to determine whether the conversion of projects to cooperative home ownership will not improve both the physical and financial aspects of the projects. In many cases the nonprofit sponsor is unwilling or unable to supply the financial and moral support which it originally undertook. However, the residents themselves, given the opportunity to achieve home ownership, as part of a well-thought-out plan to update the project physically, where necessary, can often achieve the same through a cooperative.

3. Cooperative housing can be extremely helpful in working out the problems of HUD-owned projects in areas subject to rent control. HUD has the authority to exempt projects from rent control but has been unwilling to do so, particularly in the New York area. Nevertheless, a HUD-sponsored program for converting rental housing to cooperative housing will be of great assistance to the inner-city, particularly in cities such as Washington, which has rent control. The inner-city residents of lower and moderate income have no feasible way to achieve home ownership except through cooperative housing. R&D functions of HUD should be setting up pilot programs to determine how best to improve the ownership mix in the inner city, upgrade the economic base of the inner city, and attract back from the suburbs those families which need and appreciate the benefits of home ownership.

Conclusion

The last four years of HUD administration have made a mockery of the housing laws. All of the restrictive regulations which have frustrated the completion of the above-cited units should be immediately rescinded. FCH knows from direct involvement in these projects that such an order would produce tens of thousands of units this fiscal year. President Carter has come to office with the mandate to reduce the unemployment rate that has badly crippled the building industry and to fulfill the law of the land which mandates a decent home and suitable living environment for all Americans. Secretary Harris has assumed the tremendous responsibility to see that this important goal of President Carter is accomplished.

Mr. PATTERSON. On page 4 of your testimony, (a) establish direct-line authority between the HUD Assistant Secretary for the Office of Housing-FHA Commissioner, and HUD field offices; this was one of your suggestions. Now, can you expand on this for the record, please, as to what you mean by that statement?

Mr. SPRAGENS. Yes.

We at the National Housing Conference talked a lot about this problem this past weekend. It seems that the traditional FHA programs that use FHA mortgage insurance suffered substantially when in late 1968 under a reorganization brought forth by Secretary Romney, the regional offices that ran all of the HUD programs except the FHA mortgage programs, were decentralized into some 80-plus area offices. It was the Secretary's hope that each city or geographical area of the country would be serviced by a closer-to-the-people, full-service HUD office, and this reorganization is in all areas of urban renewal, all types of HUD programs.

There was a complete reorganization in an effort to make everyone in that office an expert on all aspects of the HUD programs. So, consequently, colleagues of mine who were FHA closing attorneys then became public housing, urban renewal, model cities, open space, and other experts overnight. Well, of course, this did not happen, and has caused many difficulties. At the same time, different people in the area offices reported to different undersecretaries. For instance, the management people did not report to the FHA Commissioner; they reported to Assistant Secretary for Housing Management.

Now, this has been remedied somewhat in the reorganization of about 4 or 5 months ago, but it still is not clear that the Assistant Secretary for Housing can give a direct order out to a field office without going through the regional office, and it is still not clear that a regional person reports directly to that Assistant Secretary for Housing. The Secretary has direct-line authorities that bypass the Assistant Secretary.

On the public housing side of things, it has been an equal disaster. The experts that were in the regional offices that served public housing were taken and spread to these 88 offices. The entire process has been diluted, and the public housing people feel they cannot get the service they need to build public housing.

Now, if you put a moratorium on half or more of the programs, and if the programs suffer a 70-percent decline, as they have in the past 3 or 4 years, then that is one explanation why there hasn't been more of a hue and cry. But if we are ever to get back to the normal levels of HUD multifamily production, we feel that the current system must be changed. And I feel that I can say with some degree of certainty that almost everyone in this industry feels that way, that the Assistant Secretary for Housing-FHA Commissioner has to have a direct-line authority to the people that initiate the taking of applications, process the cases, and are responsible for meeting deadlines and issuing commitments.

And that is a long answer. I am sorry I went so long. But it is something we feel strongly about.

Mr. PATTERSON. We have heard similar complaints, and I think your lengthy explanation made it a lot more clear to the subcommittee.

Thank you.

On page 9, you speak of cooperatives, of "In cooperatives, the equity is provided by owner-residents' downpayments."

Would you expand upon that statement?

Mr. SPRAGENS. This section deals with something that HUD has asked us to help formulate. Normally, HUD-insured housing is built with a mortgage that, where the projects are nonprofit rentals or cooperatives, is 100 percent of the cost of the project; or for section 213 cooperatives, 98 percent of the total cost of the project; or a 90-percent mortgage for profit-motivated private investors.

It is our feeling that several things have taken away the real impetus for private investment in inner-city situations. One has been the bad experience that investors have had in inner cities. No. 2, has been the fact that rent control is much more likely to be present in a large metropolitan inner-city environment. No. 3, the tax shelter provisions that we have had in the last 5 or 6 years, are in great jeopardy. The Treasury Department, just before the last administration went out, prepared a very restrictive regulation that was not issued but, we understand, is being considered carefully.

So what we are saying is—in a cooperative project, the people that supply the difference between the mortgage and the cost of the project are not investors looking for a return on their money, but they are like a homeowner, just like you or I when we go out to buy a house. We put up the difference between the mortgage and the selling price.

So we know there is a demand in almost every city of the United States for better housing, if it is at the right price, in center city urban neighborhoods. And we feel that the co-op housing is a very good and attractive alternative to provide the additional money needed beyond the mortgage money supplied by HUD. And we have done almost 16,000 units in downtown Detroit, here in Washington, New York, almost every large city in the country, and people come and buy as much as they can get.

Mr. PATTERSON. Is this like one mortgage for the entire structure, and then each person bears an obligation in relation to the whole?

Mr. SPRAGENS. Yes. And, legally, a corporation owns the project, and the shares of stock are only sold to the people that buy and live in the project. And that share of stock gives you a right for a perpetual lease of 100 years to live in that unit, as long as you pay your monthly share of costs. But the mortgage itself is secured by the multifamily project, and a multifamily manager manages things for the people. And the tax deductibles, the interest and the real estate taxes, are calculated and attributed to each unit. And at the end of the year each member is told how much was attributed to his unit, and he is allowed to deduct it from his income tax.

Mr. PATTERSON. Does the owner have to be a resident?

Mr. SPRAGENS. Under the HUD programs, yes.

Mr. PATTERSON. And if the owner-resident sells, are there restrictions on the sale?

Mr. SPRAGENS. If the project is subsidized by section 236 or section 8, he has to sell it for a price that may be less than the market for the first 20 years. In other words, he is not allowed to speculate because of the 3 percent or 1 percent financing that the Government has provided. There is an artificial restriction on the buildup in equity.

This is like an LD or a profit-motivated project. You can't refinance it for 20 years. So if you build on a desirable site, in 5 years, say, well, gee, I can kick out all the low-income people and bring in moderate-income people and put a new mortgage on it and refinance, you can't do that.

Mr. PATTERSON. If it was appreciating greatly, the way things are nationally, certainly, in areas like this and like southern California, there is a restriction so that a person could not turn around and sell for \$20,000 equity on their part?

There is a restriction in terms of that equity increasing over the 20 years; is that correct?

Mr. SPRAGENS. If there is a subsidy; if there is no subsidy, it is \$20,000 or whatever the market will pay.

Mr. PATTERSON. How would you characterize the income levels of cooperative owners in inner-city areas?

Mr. SPRAGENS. They are at the absolute upper end of what is allowed under the mortgage limitations. In other words, our program has always mainly attracted the upward-mobility people. Our people stay longer than in rental housing because of the tax advantages, but, by and large, it is at the absolute upper limit.

We have a HUD mortgage credit test to meet that a rental tenant does not have to meet, so we have to go through an asset test and other tests. So that tends to force up the income.

Mr. PATTERSON. On page 13, the immediate implementation of section 203(n), could you expand on the reasons that this program is potentially so valuable?

Mr. SPRAGENS. Well, HUD believes that when they do implement it, it will not be available for the subsidized programs, at least initially. Its value is in that there are over 100,000 units of nonsubsidized cooperative housing, and these units are really being depressed in the marketplace because they have built up equities. And your example of \$20,000 is actually one that seems to be right about the average.

Projects just several blocks from here that were built in the 1960's with unsubsidized HUD mortgages now cost about \$20,000 to move into. And now, because of the way the law treats an ownership right in a cooperative, the purchaser really has to put up cash or take a 3-year loan that isn't as competitive as a loan to buy a car.

Mr. PATTERSON. They can't get any kind of a secured loan or second mortgage?

Mr. SPRAGENS. No. If section 203(n) were attached to it, all of the local financing institutions would be eligible, then, to make real-estate-type loans. And because regulations of the insurance companies and local thrift institutions narrowly define an eligible loan as one that is received by a first lien against a property, the co-op stock interest just does not come under that definition. But since the late 1930's there has always been an exemption for FHA-insured loans. So section 203(n) would allow people to more freely transfer their units and would, in effect, keep the units economically healthy.

Mr. PATTERSON. And describe this again—you probably just did it—how they would come up with the downpayment, or, instead of that, what can they do, a new purchaser under section 203.

Mr. SPRAGENS. HUD would value the unit. A man from the single-family department of HUD would come out and value a particular

co-op unit. And if the unit were valued, say, at \$30,000, he would apply the 203(n) downpayment ratio to \$30,000, and then he would subtract from that the amount of the blanket mortgage that is attributable to that unit. And let us say it could be \$10,000, and that would leave a \$20,000 equity. And you may be able, then, to get an \$18,000 loan on that equity, for instance.

It would give it comparable financing as if it were a single-family unit or a condominium unit. And there was great care taken by the counsel of the committee to write it in that manner.

Mr. PATTERSON. But this new instrument, or whatever it is, that would allow a person to get in with, say, \$2,000 down and finance \$18,000, what is the security behind that?

Mr. SPRAGENS. The security behind it is the share of stock in the corporation and the perpetual lease to live in that unit. And, legally, it is just as good as any other right you could have in property. All rights in property have some kind of encumbrance on them, and here the encumbrances are no greater than in a condominium or any other multifamily structure where you can't put a nail through your neighbor's wall, or other things that hurt the structure of the building.

Mr. PATTERSON. In essence, it would be like a second secured loan on occupancy of the particular unit.

Mr. SPRAGENS. That is right.

Mr. PATTERSON. And it would run with the unit?

Mr. SPRAGENS. That is correct.

Mr. PATTERSON. I have just one last thing, I think, on page 18. I notice you list a number of projects. Virtually all of them, or just about all of them, appear to be in region V out of Chicago. Most of them, or Ohio or Michigan.

And I guess my question, my basic question, is why is it within only one particular region? Does it have something to do with the way the national needs are, or does it have to do with the way the regional HUD offices operate?

Or is it the structure of your organization, or recognizing committee assignments, or what?

Mr. SPRAGENS. It does, to a certain extent, recognize our operation, which has traditionally worked in the Midwest, although we have done some 2,000 units in California. The main reason is that, at the time of the moratorium in January 1973, we had 25,000 units that were like this that got washed out, over a \$2 million investment on our part, and over a \$10 million investment on the part of builders.

These projects are the ones that, even since January of 1973, are still within the pipeline and where the builders are still ready to build. And these are prospects we have kept in touch with. Several of these, we have applied for section 8 applications. So it doesn't really have anything to do with region V. It is mainly that, of that 25,000 units, these are the ones left over.

Virtually all of these projects, except four of them, are active, going projects right now. And this would represent the completion of the originally planned projects. They all have waiting lists, and, as I say, the builders have kept the ground, or the landowners, have kept it available. You are sometimes landlocked; there is nothing else to do with it.

And we also selected it because we feel reasonably sure that the money is still somewhere over at HUD, though they are not sure where it is.

Mr. PATTERSON. Thank you.

Mr. GRASSLEY?

Mr. GRASSLEY. Yes.

In the history of cooperative housing, particularly as it has been related to Federal housing programs, have you generally run into philosophical opposition to helping cooperative housing within various administrations?

I am not asking for you to point out a specific administration, but I am speaking very generally. Do you run into this sort of opposition?

Mr. SPRAGENS. Sometimes. And usually it is based upon a legal theoretician's viewpoint of what is ownership, and it is generally not based on the operation, because the projects usually operate well. If they don't, they do cause a lot of problems, because you have 200 people that act like homeowners and who all will call the HUD office and complain if there is a problem.

Representative Myers was talking about, and he made me think about, the leaky basements. Well, when we have a leaky basement in a co-op, we have got 200 people that call that HUD office and make a very big complaint about it.

Mr. GRASSLEY. But you don't run into the same opposition from the private sector, private business, that you do, for instance, in rural areas where we do from small businessmen who see cooperatives as unfair competition?

Mr. SPRAGENS. No; rarely. Occasionally, a landlord with an unsubsidized project feels that we might drain some people away, but that is, I don't feel that there is any more discrimination than maybe for rental projects. There has been very little of that.

Mr. GRASSLEY. I appreciate your clearing that up for me, because sometimes that is the opposition that you hear about cooperatives generally, and I thought maybe that would apply to cooperative housing.

Mr. SPRAGENS. No; I don't think it has.

Mr. GRASSLEY. Then you did talk about the advantages of cooperative housing for the community at large, and particularly to inner city housing production.

Is there a role for cooperative housing in rural areas, and how do you—and has there been any interest in that direction?

Do you see any possibility for the future, assuming that there has been in the past?

Mr. SPRAGENS. We were given a study by the Ford Foundation in the early 1960's, before I was actively involved in our company, to study rural housing. And we have been able to build several projects that really are in rural areas. But the major problem has been that the Department of Agriculture's Farmers Home Administration has really been against cooperatives, and why, I am not sure.

We as a company have had problems interesting our traditional urban builders to build where you have a limitation of 50 units or less. And we just have not been able to get into rural housing, even though we have many small groups call us from small cities throughout the

United States. And I have been told that it is basically the Farmers Home Administration has discouraged co-op housing. I know of several groups that are trying to do it, and we have helped a few.

Mr. GRASSLEY. Well, remember, we are trying to get cooperative programs between Farmers Home and HUD programs, and I would mention to you section 8 and Farmers Home 515. So I would think we could no longer afford a lack of cooperation if we are to take full advantage of every sort of effort or drive in the direction of better housing.

If you would have any advice for us in this area—and I am also interested because I am a member of the Agriculture Committee, and we do have oversight over Farmers Home—I would appreciate your communicating that to me, particularly if you feel like there is really a role. I don't think we want to just say, well, let us wiggle our way in there if there is not really a social goal that we can accomplish by that thrust.

Do you feel, in summary, that there is an effort that ought to be made?

Mr. SPRAGENS. I feel there is, and I will be happy to put together my thoughts on it. I will start with our actual study that we made and going through the legal problems with the programs and, also, I think, the practical problems. I think we could put that together.

Mr. GRASSLEY. And taking into consideration some recent efforts in this, we will say, like the section 515 and section 8 programs.

Mr. SPRAGENS. Good. Thank you.

Mr. GRASSLEY. I have one last question, and maybe I misunderstood you. But when you were talking about the means test in your first statement, were you in a sense—first of all, I would assume without a means test that we would dilute our resources and take away from the people that have the greatest needs.

But are you saying that there is enough money to take care of everybody who has a need so that we don't need the means test, or are you simply saying that the social value of not having the means test? I assume that one might say that mixing people of different economic groups from within our society is such a worthy social goal that we should not have the means test?

Mr. SPRAGENS. What I was particularly referring to was that the current GNMA program called tandem 23, which is a program that provides 7½-percent financing under a HUD-insured program, has no income limit or means test to it. I have been informed, although I am not entirely sure if it is correct, that the extension of that program—and I know that Senator Proxmire has been particularly concerned about this—that the extension of that program might impose an income limitation upon eligibility.

Our experience has been that when we work under this program—and we have worked under it in two ways: One, it provides absolutely an essential underlying mortgage for section 8. So the minute you put section 8 onto it, you have got the section 8 limitations. But if you do not put section 8 onto it, you have the limitations of the section 221 (d) (3) or (d) (4) or 207 or 220 program. And we feel those limitations, in effect, from our free market system, limit it to people that are now at that income limit anyway, and the imposi-

tion of an income limit on the tandem 23 would just be additional redtape, and that was the only thing I was talking to in this case.

But I think there should be the requirement that in subsidized projects the residents should pay no more than 25 percent of income and I think that legislation is needed.

Mr. GRASSLEY. Thank you for clearing that up for me.

Mr. Chairman, I have no more questions.

Mr. PATTERSON. Thank you, Mr. Spragens, for your testimony. Your written statement is very detailed and very interesting. It has a lot of substantive material.

I would like to ask if you would answer any written questions other subcommittee members may have and the subcommittee staff may have for the record as we look into it a little more.

Mr. SPRAGENS. All right.

Mr. PATTERSON. Thank you very much for coming today while you're still here, maybe I could ask you one last question and that would save doing it for the record. One page 16, about midway through the last sentence in (c), you say "existing site and neighborhood standards for section 8 preclude the possibility of using section 8 assistance in such an environment."

That is a very strong statement, and I wonder if you can support that either today or later.

Mr. SPRAGENS. Well, just briefly, what we have found is that an urban renewal projects are not being considered because in many cases there is no question but that the projects will be 100-percent minority projects. We don't think that is right.

Our experience with urban renewal projects in several big cities has shown that the disadvantage of not building this housing far outweighs the fact that it is going to be 100-percent minority housing.

We understand that the recent proposed changes to section 8 would allow the Secretary to relax this somewhat, but we feel that while the test on site selection that deals with minority concentrations might be a viable social policy in integrated neighborhoods, it just does not have any application in many of the urban renewal areas. The Federal Government has spent millions to clear this ground and the only way that good housing can be obtained by people living within a reasonable geographic area is if HUD insures subsidized new housing on this vacant ground. And right now, our proposals and other people's proposals are definitely being put to the bottom of the pile because in theory, they are going to cause more impact. We even have new urban renewal housing with waiting lists that people don't even bother to take anymore.

There are 1,000 people in Detroit on the waiting list, and with the ground next door and an application that has been in for 3 years, that continues to be shoved to the bottom of the pile, because it will impact the neighborhood, racially. Well, the neighborhood is 100-percent minority, and all we can see is that there will be 200 families getting decent housing instead of slum housing. We feel strongly about it.

Mr. PATTERSON. Do you know to what extent this is due to court action, rather than HUD policy?

Mr. SPRAGENS. That is a good question. I know the Philadelphia case concerned this concept, I cannot answer that. It is a good question.

Mr. PATTERSON. Mr. Spragens, thank you again for your good testimony and for your appearance before the subcommittee.

Mr. SPRAGENS. Thank you, Mr. Chairman.

Mr. PATTERSON. We will hear now Max R. Kargman, the president of the National Association of Housing Managers and Owners. Mr. Kargman, it is good to have you, and thank you for being patient and waiting for us to get to you, and you may do as the others did; you can either read your statement into the record, or you may submit the written statement for the record and speak just orally or summarize the statement, whichever you prefer.

STATEMENT OF MAX R. KARGMAN, PRESIDENT, NATIONAL ASSOCIATION OF HOUSING MANAGERS AND OWNERS, ACCOMPANIED BY ROBERT KARGMAN

Mr. MAX KARGMAN. Thank you, Mr. Chairman. I consider it a privilege to appear before this distinguished subcommittee. With me is my son, Robert Kargman, who is a member of the bar and who appears here as my personal braintrust.

Mr. PATTERSON. And your legal advisor?

Mr. MAX KARGMAN. Yes; my legal advisor and personal braintrust.

I have submitted and am submitting a formal statement, with studies and exhibits. And what I would like to do today, Mr. Chairman, is to summarize what the statement says.

Since I am going to propose some fairly strong solutions and make some fairly strong statements, I would like to acquaint the committee with my personal background. I am a lawyer. I have a Ph. D from Harvard, and I am an occasional lecturer at the Kennedy School of Government at Harvard as well as a guest-lecturer at Harvard Law School, Harvard School of Design, and the Sloan School of Management at MIT.

I was chairman of the Commonwealth Service Corps, the Massachusetts forerunner to the national Vista program under both Democratic and Republican Governors. And I am past-chairman of the Committee on Subsidized Housing of the Developers' Council of Greater Boston, whose membership speaks for some 23,000 subsidized dwelling units in the greater Boston area.

I grew up in the slums of Chicago, and therefore I know housing problems of poor people, as a participant as well as an observer and manager.

Today, I am appearing on behalf of the National Association of Housing Managers and Owners, which organization was formed about a year ago as a result of a shared concern among multifamily owners and managers across the country, because the subsidized housing programs of HUD were in serious difficulty and could not continue to fulfill their original purpose.

We believe these problems require new solutions, and HUD needs to be redirected to fulfill the implementation of Congress' national housing policy.

We believe that HUD needs to stop the irresponsible foreclosures and use other means to solve mortgage defaults.

Today the National Association of Housing Managers and Owners represents owners and managers who operate projects containing over 600,000 apartment units across the country.

Personally, I am president of the First Realty Company of Boston, which over the past 15 years has developed and now manages approximately 3,600 dwelling units under sections 221(d)(3), 236, and 220 of the National Housing Act, making us perhaps one of the larger developer-managers of such housing in the New England area.

Our national organization is, as I said before, seriously concerned about the serious defects now existing in the subsidized housing programs and about the way HUD has been administering these programs.

By way of a sketch of the history of the Housing Act, if I may, when section 221(d)(3) of the National Housing Act was first passed in 1961, the Senate Banking Committee, in reporting on the bill stated:

The moderate-income housing program which would be provided by this bill is designed to enable private enterprise to participate to the maximum extent in meeting the housing needs of moderate-income families.

The committee recognized that, "This is a new and untried approach, which, as time goes on, may require many modifications."

As you probably know, the mechanism designed to accomplish these purposes was to authorize GNMA, the Government National Mortgage Association, to make direct below-market interest rate mortgages with a 3-percent interest rate and a 40-year term to approved housing sponsors.

Housing sponsors and investors participating in the program would be limited to a 6-percent return on the investment in return for the very favorable mortgage terms given them and in order to keep the rents as low as possible for the tenants.

Note that this program was created in 1961 during a period of very low inflation; thus, the subsidy was geared to the mortgage only and not to operating expenses, which were taken as stable.

In 1968, Congress created the section 236 program to replace section 221(d)(3). Here again, Congress made a new congressional statement of purpose as to the public and private partnership to be created in the provision of low- and moderate-income housing.

The mortgage interest rate was lowered to an effective 1 percent, but still the impact on tenants and project viability and rapid increases in operating expenses and especially utilities and property taxes remained unaddressed.

In late 1974, Congress enacted section 212 of the Housing and Community Development Act of 1974, which, for the first time, addressed the issue of the impact which skyrocketing inflation was having on section 236 projects, but dealt not at all with the problems of section 221(d)(3) projects, whose problems were even more severe.

In the meantime, tenants across the country, whose expectations of a better life had now been raised by having been given the opportunity of vacating substandard housing for new and decent apartments at rents they were promised they could afford, were being forced out of such housing since they no longer could afford to pay the rent.

The National Association of Housing Managers and Owners has done a study on shelter costs and comparisons between the rise in operating expenses as compared to the rise in incomes from 1966 to 1977.

HUD-required rents rose 51 to 84 percent from 1966 to 1977. Incomes rose less than half as much. HUD's response to this disparity between rent requirements and income experience was to raise the income limits—which assumed that all apartments were to be vacated by those in possession under previous tenants.

If tenants were unable to pay the increased rents under these HUD rules, in effect they would be required to be forced out or evicted from the premises. Many tenants began to cry out for the imposition of rent control on HUD projects or attempted to challenge HUD-approved rent increases in the Federal courts.

Some tenants qualified for legal assistance by Government-funded lawyers, who did everything in their power to keep clients in possession. The Federal Government was and is right now in the position of funding the legal expenses on both sides because the housing programs do not work as contemplated by the National Housing Act.

Now, what did HUD do in this fight for decent housing at affordable rents? They threw in the towel. They began to foreclose section 221 (d) (3) projects with accelerated rapidity, thus destroying even the inadequate subsidy which these projects were providing to tenants.

As for section 236 projects, HUD totally refused, and even to this day continues to refuse, to implement section 212 operating subsidies, even though at this point in time nine U.S. district courts and two U.S. courts of appeals have ordered them to do so. HUD is in the process of taking an appeal to the Supreme Court.

It was inevitable that many projects defaulted on mortgage payments to GNMA and FNMA, who called on HUD's insurance fund. We have as an exhibit a study by the Citizens Housing Planning Association of Boston, which shows that in Boston 60 percent of HUD's subsidized units are in default or foreclosed.

In February of 1975, former HUD Secretary Carla Hills declared a moratorium on foreclosures of HUD multifamily projects with mortgages in default. When former Secretary Hills appeared before the House Subcommittee on Manpower and Housing of the House Committee on Government Operations on October 7, 1975, she said that HUD is "now making every effort to develop new programs which will deal with the problem" of the "steadily increasing" defaulting assignment and acquisition of federally assisted multifamily housing.

I can assure you that former Secretary Hills failed to keep that promise. On January 7, 1977, less than 2 weeks before the new administration was to take office, Secretary Hills lifted the moratorium on foreclosures. Her press release of that date stated:

Secretary Carla A. Hills said HUD has completed what it set out to do under the moratorium: provide extra financial aid to those projects capable of recovery but needing more help than available under conventional forms of financial assistance. Secretary Hills said she was pleased to be able to withdraw this partial moratorium. She said its original purpose, to defer foreclosures pending developments of additional financial measures, had been met through innovative use of the section 8 housing assistance program.

Mr. Chairman, as a matter of fact, the Boston area office, as an example, has committed not one penny of section 8 money to HUD-assigned projects. On January 14, Senator Brooke telegraphed Secretary Hills and stated:

As a result of HUD's January 7, 1977, decision to lift this moratorium on housing foreclosures, there are many projects in Boston that are in danger

of imminent foreclosure. I am deeply concerned about the effect that such action would have on the low- and moderate-income tenants now living in the projects in question. I, therefore, strongly urge that you restore and expand the moratorium in order to hold all foreclosure sales until the new administration has had an opportunity to explore this issue and develop a new strategy and resolve this problem.

On January 19, 1977, Secretary Hills wrote back to Senator Brooke. She stated, in part,

With respect to those projects which you identified in the Boston area, I want to assure you that this Department is cognizant of certain factors which have tended to compound the financial difficulties facing project owners, for example, increasing taxes and utility costs. In recognition of these problems a task force has been established by the Acting Director of the Boston area office. This task force, by attempting to develop a coordinated strategy to insure that subsidized housing projects in Boston remain available as decent, safe, and sanitary housing at rentals the current tenants and/or the market population can afford. The Department will await the results of the task force report before taking any further action regarding foreclosure of these projects located in the Boston area.

In short, then, because of the pressure by Senator Brooke, those tenants, investors, managers, and owners who were fortunate enough to be located in the Boston area are temporarily protected against foreclosures, which HUD is now in the process of carrying out elsewhere in the country. The Boston area office found that when it did foreclose, it sold the properties for 8 cents on the dollar as an average. The Citizens Housing Planning Study of Boston showed that HUD received only 1½ cents on the dollar. Many of these projects could immediately be taken out of the insurance fund and pay HUD 100 cents on the dollar if they were allotted section 8 funds.

One of our own projects was fortunate enough to receive section 8 funds. That project went immediately from 20 percent vacancies and the immediate threat of being assigned to HUD and thus draining the insurance fund of \$3½ million to immediate reinstatement at 100 percent occupancy. A member of the Developers Council of Boston had a subsidized project with 40 percent vacancies because of the high cost of utilities. The project had not made a mortgage payment in over a year. With section 8 money the project became 100 percent rented and developed a waiting list of 40 persons within 4 months. The mortgage is current.

These two projects received section 8 funds because they were not yet assigned to HUD. Projects assigned to HUD were given no aid whatever in Boston. The Secretary's theory was to protect the insurance fund from further drainage.

But we haven't come here merely with criticisms and complaints, Mr. Chairman. We have come with suggestions and solutions to these problems which we previously, a year and a half ago, did present to HUD but with no response. We have two memorandums as part of our exhibit showing how HUD could use conversions of section 221(d)(3) projects to section 236, plus section 212 operating subsidies to reinstate many projects. And with the aid of section 8, in these cases, or accompanied by section 223(f) financing, could reinstate most of the other projects which furnish a decent home and a suitable living environment as prescribed by the Housing Act.

The irony is that these units, which were built for as low as \$13,000 and provide decent housing, are being foreclosed while units which

cost \$30,000 to \$35,000 per unit are being produced to fill the same need.

Section 8 funds could aid twice as many families if they were required to be directed into aiding existing subsidized developments prior to producing new ones.

What we ask today is that Congress act to make sure that the national housing policy insofar as it concerns section 221(d)(3) and section 236 housing is not subverted and destroyed.

We have proposed a suggested clause to 12 U.S.C., section 1713 which would solve the problem on an interim basis and halt irresponsible foreclosures. I will read only the operating clause of the proposed amendment:

Provided, that no proceedings for foreclosure shall be instituted where the property covered by any such insured mortgage is serving the policy of the National Housing Act as set forth in sections 1441 and 1441(a) of title 42 by providing safe and sanitary living quarters for low- and moderate-income families at below-market rents, unless the Secretary shall determine that there exists a surplus of safe and sanitary living quarters for low- and moderate-income families at comparable rents in the housing market served by the property.

If I may, I would like to summarize the points we have made.

One, rents have risen out of reach for a great many low-income tenants now living in section 221(d)(3) and section 236 housing.

Two, many of these projects are now in default on their mortgages.

Three, HUD has not only failed but it has refused to carry out the laws of Congress designed to alleviate tenant and project problems.

Four, responsible use of section 212 and section 8 and creative use of section 236 and section 223(f) accompanied by section 8 by HUD would permit low-income tenants to absorb the rapidly escalating rent levels because of unanticipated increases in operating costs. Such programs would prevent tenants from being forced out of their homes only to find themselves on waiting lists for new subsidized housing costing twice as much.

Five, such programs would also reinstate the mortgages with a permanent lender and thus pay HUD in full rather than have the insurance fund suffer disastrous losses. More than twice as many low-income tenants could be served, because the cost would be less than half as much as the cost of subsidizing new housing.

We, therefore, ask the Congress to enact a law extending the type of subsidy already enacted for section 236 projects under section 212 covering increases in utilities and real estate taxes to section 221(d)(3) projects.

We ask the Congress to enact a new law to halt irresponsible foreclosures.

By these enactments, we believe, the Congress will redirect HUD to comply with the national housing policy by carrying out its partnership with private enterprise and discharge its obligations to the tenants as envisioned in the Housing Acts since 1961 at the same time as HUD saves severe losses in its insurance fund.

[The prepared statement of Mr. Max Kargman, on behalf of the National Association of Housing Managers and Owners, along with attached exhibits, follows:]

2010

National Association of Housing Managers and Owners

Suite 400 South • 1800 M Street, N.W. • Washington, D.C. 20036 • (202) 466-5674

STATEMENT OF MAX R. KARGMAN
PRESIDENT, NATIONAL ASSOCIATION OF HOUSING MANAGERS AND OWNERS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY
DEVELOPMENT
OF THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
ON
HOUSING AND COMMUNITY DEVELOPMENT
AUTHORIZATIONS
MARCH 7, 1977

SOLUTIONS TO DEFAULTS IN SUBSIDIZED HOUSING

SUMMARY

1. Rents have risen out of reach for a great many low income tenants now living in Sections 221(d)(3) and 236 housing.
2. Many of these projects are now in default on their mortgages.
3. HUD has not only failed but refused to carry out the laws of Congress designed to alleviate tenant and project problems.
4. Responsible use of Section 212 and Section 8 and creative use of Section 236 and Section 223(f) accompanied by selective use of Section 8 by HUD would permit low income tenants to absorb the rapidly escalating rent levels due to unanticipated increases in operating costs. More than twice as many low income tenants could be served because the cost would be less than half as much as the cost of subsidizing new housing. Such programs would prevent tenants from being forced out of their homes only to find themselves on waiting lists for new subsidized housing costing twice as much.
5. Such programs would also reinstate the mortgages with a permanent lender and thus pay HUD in full rather than have the insurance fund suffer disastrous losses. If HUD were paid in full it could save an amount equal to 10 years funding of Section 8 money for that unit.

6. We therefore ask the Congress:

1. To enact a law extending the type of subsidy already enacted for Section 236 projects under Section 212, covering increases in utilities and real estate taxes, to Section 221(d)(3) projects.

2. To enact a new law to halt irresponsible foreclosures which contravene the Housing policy of the Congress as expressed in the Acts of Congress.

7. By these enactments we believe the Congress will redirect HUD to comply with the National Housing Policy by carrying out its partnership with private enterprise and discharge its obligations to the tenants as envisioned in the Housing Acts since 1961 at the same time as HUD saves severe losses in its insurance fund.

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Mr. Chairman:

I consider it a privilege to appear before this distinguished committee. My name is Max Kargman of Boston, Massachusetts and I am President of the National Association of Housing Managers and Owners. The National Association was organized approximately a year ago as a result of a shared concern among multifamily owners and managers across the country that the subsidized housing programs were in serious difficulty and could not continue to fulfill their original purpose. They require new solutions. HUD needs to be redirected to fulfill the implementation of Congress' national housing policy. HUD needs to stop their irresponsible foreclosures and use other means to solve mortgage defaults.

Today, the National Association of Housing Managers and Owners represents owners and managers who operate projects containing over 600 thousand apartment units across the country.

Personally, I am President of the First Realty Company of Boston. Over the past 15 years our firm has developed and now manages approximately 3,600 dwelling units under Sections 221(d)(3), 236, and 220 of the National Housing Act -- making us perhaps one of the larger developer-managers of such housing in the New England area.

As for my personal background, I am a lawyer, a PhD from Harvard, an occasional lecturer at the Kennedy School of Government at Harvard, as well as a guest lecturer at Harvard Law School, Harvard School of Design, and the Sloan School of Management at MIT. I was Chairman of

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the Commonwealth Service Corps -- the Massachusetts forerunner to the national VISTA program -- under both Democratic and Republican governors, and I am past chairman of the Committee on Subsidized Housing of the Developers' Council of Greater Boston, whose membership speaks for some 23,000 subsidized dwelling units in the Greater Boston area. I grew up in the slums of Chicago. I know housing problems of poor people as a participant as well as a manager.

I would like to thank this committee for allowing me to share with you my concerns and the concerns of subsidized housing owners, managers, investors, and tenants throughout the country about the serious defects now existing in the subsidized housing programs created by Congress over the past 15 years and our even greater concern about the way HUD has been administering these programs.

When Section 221(d)(3) of the National Housing Act was first passed in 1961, the Senate Banking Committee, in reporting on the bill, stated: "The moderate income housing program which would be provided by this bill is designed to enable private enterprise to participate to the maximum extent in meeting the housing needs of moderate income families." The Committee recognized that "this is a new and untried approach, which, as time goes on, may require many modifications."

In short, Congress' purpose was to obtain maximum participation by private enterprise in a moderate income housing program. Such a program would stimulate jobs, thus alleviating the depression in the home building industry at the time -- and, more important, meet the country's greatest housing need -- that of low and moderate income families.

As you know, the mechanism designed to accomplish these purposes was to authorize GNMA to make direct Below Market Interest Rate Mortgages with a 3% interest rate and 40-year term to approved housing sponsors. Housing

sponsors and investors participating in the program would be limited to a 6% return on investment in return for the very favorable mortgage terms given them and in order to keep rents as low as possible to tenants.

It is important to note that this program was created in 1961 -- during a period of very low inflation. Thus the subsidy was geared to the mortgage only and not to operating expenses which were taken as stable.

In 1968, Congress created the Section 236 program to take the place of Section 221(d)(3). Here again, Congress reiterated its belief in the importance of a public-private partnership as the best vehicle for provision of low and moderate income housing. I quote:

"The Congress finds that the volume of housing being produced for families and individuals of low and moderate income must be increased to meet the national goal of a decent home and a suitable living environment for every American family, and declares that it is the policy of the United States to encourage the widest possible participation by private enterprise in the provision of housing for low and moderate income families."

(See 42 USCA Sec. 3931 et seq.)

The mortgage interest rate was lowered to an effective 1%, but still the impact on tenants and project viability of rapid increased in operating expenses, especially utilities and property taxes, remained unaddressed. In late 1974, Congress enacted Section 212 of the Housing and Community Development Act of 1974, which, for the first time, addressed the issue of the impact which skyrocketing inflation was having on Section 236 projects, but dealt not at all with the problems of Section 221(d)(3) projects whose

problems were even more severe. In the meantime, tenants across the country whose expectations of a better life had now been raised by having been given the opportunity of vacating substandard housing for new and decent apartments at rents they were promised they could afford, were being forced out of such housing since they could no longer afford to pay the rent. The National Association of Housing Managers and Owners has done a study of shelter costs and comparisons between the rise in operating expenses as compared to the rise of incomes for the Greater Boston area. (See Exhibit A.) HUD-required rents in subsidized housing rose 51% to 84% from 1966 to 1975. Incomes rose less than half as much during this period. A New York Times article of January 19, 1976, stated that rentals in New York City went up 57% from 1970 to 1975, while incomes rose only 17%. More than 400,000 households in New York City paid over 25% of income for rent. Nor can it be forgotten that New York City was under rent control during this five year period. Rather than provide the necessary subsidies to keep existing tenants in possession, HUD's response was to raise the income limits. By implication, HUD seemed to be saying: forget about the people living there; move in a higher income group if you have problems. In response, many subsidized housing tenants throughout the country simply refused to pay the increases and attempted to organize and block police officers when

the courts ordered them to move. Many tenants began to cry out for the imposition of rent control on HUD projects or attempted to challenge HUD-approved rent increases in the federal courts.

Tenants who qualified for federally funded legal assistance sought out lawyers who did everything in their power to keep clients in possession. The federal government now finds itself in the paradoxical position of funding the legal expenses on both sides of the conflict because Sections 221(d)(3) and 236 when enacted, did not contemplate the extraordinary increases in operating expenses which began in 1969 and were further exacerbated by OPEC.

What did HUD do in this fight for decent housing at affordable rents? They threw in the towel. They began to foreclose Section 221(d)(3) projects with accelerating rapidity, thus destroying even the inadequate subsidy which these projects were providing to tenants. As for Section 236 projects, HUD totally refused, and even under the new administration continues to refuse to implement Section 212 operating subsidies, even though 9

U.S. District Courts and 2 U.S. Courts of Appeal have ordered them to do so.

It was inevitable that many projects defaulted in mortgage payments to GNMA and FNMA who called on HUD's insurance fund. HUD now holds the mortgages. Attached is a study by Citizens' Housing and Planning Association of Boston which shows that in Boston 60% of HUD's subsidized units are in default or foreclosed. (See Exhibit B.)

In February of 1975, former HUD Secretary Carla Hills declared a moratorium on foreclosures of HUD multifamily projects with mortgages in default. When former Secretary Hills appeared before the House Subcommittee on Manpower and Housing of the House Committee on Government Operations on October 7, 1975, she said that HUD is "now making every effort to develop new programs which will deal with (the) problem" of the "steadily increasing" default, assignment, and acquisition of federally assisted multifamily housing.

Let me assure you that former Secretary Hills failed to keep that promise. On January 7, 1977, less than 2 weeks before the new administration was to take office, Secretary Hills lifted the moratorium on foreclosures. Her press release of that date stated:

"Secretary Carla A. Hills said HUD has completed what it set out to do under the moratorium -- provide extra financial aid to those projects capable of recovery but needing more help than available under conventional forms of financial assistance. Secretary Hills said she was pleased to be able to withdraw this partial moratorium. She said its original purpose, to defer foreclosures pending development of additional financial measures, had been met through innovative use of the Section 8 Housing

Assistance program."

In fact, the Boston Area Office has committed not one penny of Section 8 money to HUD assigned projects.

What happened after January 7 is of great interest. On January 14, 1977, Senator Brooke telegraphed Secretary Hills and stated the following:

"As a result of HUD's decision of January 7, 1977, to lift its moratorium on housing foreclosures, there are many projects in Boston that are in danger of imminent foreclosure. I am deeply concerned about the effect that such action would have on the low and moderate income tenants now living in the projects in question. I, therefore, strongly urge that you restore and expand the moratorium in order to hold all foreclosure sales until the new Administration has had an opportunity to explore this issue and develop a new strategy to resolve this problem."

On January 19, 1977, Secretary Hills wrote back to Senator Brooke.

She stated, in part:

"...With respect to those projects which you identified in the Boston area, I want to assure you that this Department is cognizant of certain factors which have tended to compound the financial difficulties facing project owners (e.g., increasing taxes and utility costs). In recognition of these problems, a Task Force has been established by the Acting Director of the Boston Area Office. This Task Force by attempting to develop a coordinated strategy to ensure that subsidized housing projects in Boston remain available as decent, safe, and sanitary housing at rentals the current tenants and/or the market population can afford.

The Department will await the results of the Task Force report before taking any further action regarding foreclosure of these projects located in the Boston Area."

In short, then, due to the pressure of Senator Brooke, those tenants, investors, managers, and owners fortunate enough to be located in the Boston area are temporarily protected against foreclosures which HUD is now in the process of carrying out elsewhere in the country.

The Boston Area Office found that when it foreclosed, it sold for 8¢ on the dollar as an average. The Citizens' Housing & Planning study shows HUD receiving 1½¢ on the dollar. Many of these projects could immediately be taken out of the insurance fund and could pay off HUD in full if they were given Section 8 funds. One of my projects was fortunate enough to receive such Section 8 funds. That project went immediately from 20% vacancies and the immediate threat of being assigned to HUD and thus draining the insurance fund of \$3.5 million to immediate reinstatement and 100% occupancy. A member of the Developers' Council had a subsidized project with 40% vacancies due to the high cost of utilities. The project hadn't made a mortgage payment in over a year. With Section 8, the project became 100% rented and developed a waiting list of 40 persons within 4 months. The mortgage is current.

These two projects received Section 8 funds because they were not yet assigned to HUD. Projects assigned to HUD were given no aid whatever in Boston.

Mr. Chairman. We have not come merely with complaints. We have come with suggested solutions. Attached is a memorandum showing how HUD could use conversions of Section 221(d)(3) projects to Section 236, plus Section 212 operating subsidies to reinstate some projects (See Exhibit C) with the aid of

Section 8 in these cases or accompanied by Section 223(f) could reinstate all other projects which furnish a "decent home and a suitable living environment." The sad irony is that units which were built for as low as \$13,000 and provide decent housing are being foreclosed while units which cost \$30,000-\$35,000 are being produced to fill the same need. Section 8 funds could aid twice as many families if they were required to be directed into aiding existing subsidized developments prior to producing new ones.

What we ask today is that Congress act to make sure that the National Housing Policy insofar as it concerns Section 221(d)(3) and Section 236 housing is not subverted and destroyed.

We have suggested a clause to 12 USC Sec. 1713 which would solve the problem on an interim basis and halt irresponsible foreclosures. The amended clause would state:

12 U.S.C. § 1713

ACQUISITION OF PROPERTY BY CONVEYANCE OR FORECLOSURE

(k) The Secretary is authorized either to (1) acquire possession of and title to any property, covered by a mortgage insured under this section and assigned to him, by voluntary conveyance in extinguishment of the mortgage indebtedness, or (2) institute proceedings for foreclosure on the property covered by any such insured mortgage and prosecute such proceedings to conclusion: PROVIDED, THAT NO PROCEEDINGS FOR FORECLOSURE SHALL BE INSTITUTED WHERE THE PROPERTY COVERED BY ANY SUCH INSURED MORTGAGE IS SERVING THE POLICY OF THE NATIONAL HOUSING ACT, AS SET FORTH IN SECTIONS 1441 AND 1441a OF TITLE 42, BY PROVIDING SAFE AND SANITARY LIVING QUARTERS FOR LOW AND MODERATE INCOME FAMILIES AT BELOW MARKET RENTS, UNLESS THE SECRETARY SHALL DETERMINE THAT THERE EXISTS A SURPLUS OF SAFE AND SANITARY LIVING QUARTERS FOR LOW AND MODERATE INCOME FAMILIES AT COMPARABLE RENTS IN THE HOUSING MARKET SERVED BY THE PROPERTY. The Secretary at any sale under foreclosure may, in his discretion, for the protection of the General Insurance Fund, bid any sum up to but not in excess of the total unpaid indebtedness secured by the

mortgage, plus taxes, insurance, foreclosure costs, fees, and other expenses, and may become the purchaser of the property at such sale. The Secretary is authorized to pay from the General Insurance Fund such sums as may be necessary to defray such taxes, insurance, costs, fees, and other expenses in connection with the acquisition or foreclosure of property under this section. Pending such acquisition by voluntary conveyance or by foreclosure, the Secretary is authorized, with respect to any mortgage assigned to him under the provisions of subsection (g) of this section, to exercise all the rights of a mortgagee under such mortgage, including the right to sell such mortgage, and to take such action and advance such sums as may be necessary to preserve or protect the lien of such mortgage.

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Citizen & Housing Planning Study on Foreclosed Projects	Page 12
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Exhibit C

Memorandum Analyzing Effect of Converting Section 221(d)(3) to Section 236	Page 17
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Exhibit D

Memorandum Comparing Section 223f to New Constructio With Section 8	Page 18
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EXHIBIT A

BACKGROUND PAPER FOR NAHMO

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BACKGROUND PAPER FOR NAHMO

Over the past three years perhaps the most serious defect in the HUD subsidized housing programs for housing lower income people is its failure to meet the serious increase in operating expenses arising from the increase in oil and utility costs and other inflationary increases.

By concentrating only on new housing construction, HUD is not succeeding in meeting the nation's housing goals. While new construction is necessary to help needy persons not presently benefiting from earlier housing programs, of equal importance is assistance to tenants of existing subsidized housing who are burdened by the increased operating costs and rents of the past five years. These people accepted the promise of the national housing program of the 60's, only to be thrust aside in the push for new housing construction in the 70's.

AVERAGE SHELTER COSTS: EUROPE vs U.S.

In European countries, the cost of housing as a percentage of total income, ranges from .020 in Poland to .218 in France. The average in all of Europe is 16 per cent. The latest U.S. figures indicate that 14.5 per cent of all consumer expenditures reflect housing costs.

Keeping these percentages in mind, let us look at the programs passed by the U.S. In 1961, Section 221(d)(3) of the National Housing Act provided for 3%, 40-year government mortgages for non-profit or limited dividend organizations. At that time, FHA used 20% in its basic formula for determining the allowable ratio of income to rent. This was well above the U.S. average and at the top of the Western European scale.

Later U.S. programs such as the 1968 Housing Act provision for Section 236

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loans financed through private lenders, the Rent Supplement Program for lower income tenants, and Section 8 of the 1974 Housing Act which provided rent subsidies for tenants, all established 25% as the proper ratio between income and rent. This percentage is 5% higher than in France, where housing costs are the highest in Europe and 67% more than the U.S. average.

Thus in the aid to the poor and the lower middle income families' housing programs the government contributes very little (minimally?) toward the "decent home and suitable living environment" of the people it seeks to help. Moreover, under both the 221(d)(3) and the Section 236 housing programs, HUD required that the projects be rented on a preferential basis to people at the lower end of the income scale. This means that most tenants paid at least 25% of their incomes towards rent initially. When inflation and skyrocketing operating costs raised rents, HUD's solution to this problem was to increase the income limits for admission to the developments. But HUD failed to consider three important factors:

- * That the people already living in the developments moved in under much lower income limits.

- * That under HUD rules most tenants are on the verge of being "under income" even at the lower income range.

- * That due to inflationary increases in fuel, utilities and taxes, rents are rising out of the reach of current residents of these projects.

It is safe to assume that most tenants, particularly in this income group, did not have an increase in income comparable to the higher rental costs.

The attached chart shows the relationship between rent cost and tenant income from 1966 to 1975.

As shown, rents in HUD projects in the Boston Area increased by 84% for

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one bedroom, 69% for two bedrooms and 58% for three bedrooms. Maximum income limits were increased between 51% and 53% for the prospective occupants. Using 35% as the maximum percentage of a person's income allowable for rent, this means that tenants would have had to experience income increases of 85% for one bedroom, 69% for two bedrooms and 58% for three bedrooms.

One study of typical Boston projects as well as three small town projects in Massachusetts indicated that 50% of tenants paid more than 35% of their incomes for rent during 1975.

As shown in the table, income has not risen even half as fast as rent levels. A "New York Times" article of January 19, 1976 said that rentals in New York City went up 57% from 1970 to 1975, while incomes rose only 17%. Half of New York's tenants paid 25% of income for rent, while 400,000 households paid more than 35%. It's important to add that New York was under Rent Control throughout the five year period.

SUITABLE LIVING ENVIRONMENTS: UNFULFILLED EXPECTATIONS

The obvious conclusion from the aforementioned studies is: that HUD has failed to keep pace with the housing problems of those people who accepted the government's invitation to participate in the rental housing programs. It has not provided sufficient funds to maintain its avowed purpose of providing a "decent home and suitable living environment" for those people who were promised help. Instead, HUD has publicized "paper programs" which usually were feasible at inception, but given outside economic factors such as inflation and recession, did not work as projected.

In some ways, the partial programs have been worse than none, because few people can live with the falsehood of a large promise that fails to be kept.

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The government has raised expectations by publicizing programs that sound good in concept, but in practice, add to frustration and confrontation between tenants, landlords and government officials. Most people living in less-than-desirable housing manage to adjust themselves to their circumstances. But once they are freed from poor conditions to enjoy a better quality of life and environment, they understandably resist the idea of returning from whence they came. When tenants can no longer afford the rent levels needed to maintain the decent housing they were promised, they become angry, disgruntled and ready to lash out at the administrators of the program.

The difference between "decent home" and "suitable living environment" is an important consideration in housing poor and lower middle income families. We need only mention Pruitt Igoe in St. Louis, North Lawndale in Chicago and Columbia Point in Boston to illustrate the fact that providing a decent home initially does not work to create a "suitable living environment" on a sustained basis, especially when lower income people are isolated from the rest of society. Just as the juvenile reform schools have been not so much conducive to reform as they have been incubators for advanced crime techniques, the strictly low income housing projects isolate a high proportion of people with social, physical and cultural difficulties. As a result, the burdens under which these people live become only heavier.

For example, when a family with problem children moves into an average American neighborhood, they benefit from peer group pressure. They are encouraged to be "good citizens", to keep up the neighborhood, and to devote sufficient attention to the problems of their children, while at the same time, anti-social behavior such as littering and vandalism is actively discouraged. Put a large

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proportion of disadvantaged and problem families together in an isolated setting, and anti-social behavior such as teenaged gangs frequently becomes the norm. Our experience in the national housing programs of the 1930's showed these tendencies and pressures, yet there was no attempt to meet the problem until the Housing Act of 1965, which created the Section 23 Pilot program and the subsequent Section 8 program.

THE PROMISE OF THE FUTURE

Despite the grim realities now confronting tenants, managers and owners of subsidized housing, the promises of the past need not be abandoned. Existing new programs such as Section 212 and Section 8 hold the potential for mending broken promises of the past, provided that these new subsidy programs are focused and administered properly.

By enacting the Section 212 operating subsidy and the Section 8 Rental Assistance Program, Congress has demonstrated its awareness of the excessive burden on tenants of subsidized housing. The Section 212 operating subsidy attempted to meet the problem of tenants paying 35% or more of their incomes for rent. Offered to Section 236 developments, the #212 subsidy covers the portion of any rent increase directly attributable to increased tax and utilities costs which rises above 30% of a tenant's income. (Note that 30% is more than twice the national average.) HUD, however, refused to implement this subsidy, and having lost lawsuits requiring implementation in various federal courts, is now appealing to the Circuit Courts of Appeal. Even when implemented, Section 212 is only a partial solution, for by virtue of the narrow nature of the benefit offered, many tenants still pay between 35% and 50% of income for housing.

The new Section 8 program holds the greatest promise for the future. In addition to providing that tenants need not pay in excess of 25% of income toward

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rent, it also encourages landlords to rent to lower income families by guaranteeing a portion of the rent, providing allowances for repair charges at vacancy as well as covering excessive vacancy costs involved. Besides resolving the dilemma of rent-to-income ratio, Section 8 encourages a beneficial income mix by enabling lower income families to move into average neighborhoods, where their children receive the benefit of cross-cultural experience, both socially and economically. This varied experience also benefits the children of middle and upper-middle income families. Through their association, both groups enjoy greater understanding and tolerance for the patterns of living of other socio-economic groups.

There can be little argument to a concept so universal in appeal. The reason it needs to be restated and emphasized is that government programs still are not targeted on this goal. A large block in Congress is using Section 8 to promote production; this is a desirable goal as it relates to increased employment and housing stock.

However, we cannot confuse housing production goals with the mandate for providing both decent homes and suitable living environments, for as seen earlier, one does not automatically follow the other. We are faced with the problem of making Section 8 work not only for new projects, but also for the maintenance of units previously created by HUD. Otherwise, we will see a continuation of the vicious cycle whereby the new developments of today become obsolescent within ten years or less.

PROTOTYPE: MASS HOUSING FINANCE ASSOCIATION (MHFA)

Massachusetts is the only state whose Housing Finance program contemplates that 25% of all units should be rented to low income individuals. This was

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my personal contribution to the drafting of the law when it was presented to the legislature. MHFA studies show that the program is successful, providing it is administered properly. The upper income people have lived comfortably with those of lower income, who in turn have enjoyed the additional amenities offered in order to meet the requirements of the upper income market. However, in order to build some projects, MHFA had to resort to Section 236 financing, and thus lost some of its cross-sectional approach. However, a great deal of flexibility in renting to higher income people was allowed, so that the problem of too high a concentration of lower income individuals was avoided to some degree.

Although HUD has given lip service to social and economic mix in its renting policy, it basically has accepted the pressure of lower income groups for better physical housing. This not only diminishes social and economic mixing, but also contributes little to a sustained "suitable living environment."

RESTORING TRUST

Insofar as administration of the national housing program is concerned, HUD has a three-fold responsibility. It has promised higher living standards to low and moderate income families, who now, due to economic factors beyond their control, are losing whatever gains they have made over the past few years. For the most part, we are talking about elderly people living on fixed incomes and the "working poor": those individuals trying to support their families on gross incomes of \$100-\$150 weekly. If the government fails to bolster this group's productivity by providing some incentive for them to continue working, many may simply give up, for frequently they can enjoy more comfortable circumstances on welfare, with its accompanying medicaid and similar benefits not

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ordinarily available to the working population. Offering sufficient assistance to help these people remain productive members of society may be regarded as expensive, but the alternative is far more costly, not only in terms of dollars, but in wasted human resources.

The private investors are another important consideration in subsidized housing. Their good faith has been shaken by the fact that the program has not lived up to expectation. Many investors have lost a great deal of money through foreclosure, many more are receiving no dividends on their investments, and the risk of foreclosure threatens still more. The concept of public housing has proved to be unworkable in most cases, and if Congress is to depend on the private sector for supporting subsidized housing, it must take positive steps to see that mutual trust and confidence remain effective.

Preserving the national housing program requires a three-way partnership between the government, owners and tenants. At this point, the government is failing to uphold its part of the agreement, which has caused a loss of faith and dissension among the other parties. Through Section 8, the government has the tools to restore confidence, to repair deficiencies and to build a solid housing program which is strong enough to withstand whatever pressures lie in the future.

RELATION OF RENT COSTS
TO TENANT INCOME, 1966 - 1975

Submitted by Max R. Kargman to
The Developer's Council of Boston,
April 1, 1975

ANALYSIS

In 1965 the Boston Standard Metropolitan Area, the maximum incomes for Section 221 (d) (3) were set as shown below. HUD encouraged management to seek tenants for whom the rent would equal no more than 35% of their income. If we use this 35% limit for comparison purposes between then and now:

Original rents for typical project in Boston according to the FHA Form 2458 signed Oct. 14, 1966 were as follows:

One bedroom (one or two people)	\$ 100.50
Two bedroom (three or four people)	116.50
Three bedroom (five or six people)	132.50

Maximum income limits for typical project in Boston according to FHA Form 1729 signed October 17, 1966 were as follows:

	<u>Yearly</u>
1 person	\$ 5,150.00
2 people	6,250.00
3 & 4 people	7,350.00
5 & 6 people	8,450.00

The minimum allowable income based on no more than 35% of a person's income going towards rent were as follows:

	<u>Yearly</u>
Small one bedroom	\$ 3,257.16
Large one bedroom	3,445.68
Two bedroom	3,994.32
Three bedroom	4,542.86

Present HUD rents for typical projects are as follows:

		<u>Percentage Increase</u>
One bedroom	\$ 175.00	84
Two bedroom	198.00	69
Three bedroom	210.00	58

Present maximum income limits are as follows (1975):

	<u>Yearly</u>	<u>Percentage Increase</u>
1 person	\$ 7,800.00	51
2 people	9,500.00	52
3 & 4 people	11,200.00	52
5 & 6 people	12,900.00	53

Present minimum allowable income based on no more than 35% of a person's income going towards rent are as follows:

	<u>Yearly</u>	<u>Percentage Increase</u>
One bedroom	\$ 6,000	84 to 87
Two bedroom	6,788.52	69
Three bedroom	7,200.00	58

Note: Our own study of five projects, two inner city and three in smaller towns in Massachusetts, shows that over 50% would have to pay in excess of 35% of their incomes for rent.

As the table points out, a single tenant, originally accepted under the minimum allowable income, and who in a majority of cases, lives on a fixed income, would have had to increase his income 84% from \$3,250 to \$6,000 to remain eligible for this type of housing. Similarly, a family of three or four had to increase their monthly income from \$3,994 to \$6,788.52 or \$7,200 depending upon whether they were living in a two bedroom or three bedroom apartment -- an increase of between 60 and 70%. I think it is reasonable to assume that very few people had income changes of those magnitudes.

The table below demonstrates that as the Consumer Price Index has risen, the definition of poverty has changed as well. Concomitantly, the eligibility for low and moderate income housing has changed. In 1965, for instance, a family of four was eligible for a two bedroom if it earned \$3,994.32 per annum -- or \$700 above the poverty threshold. In 1974, the same apartment required an income of no less than \$6,788.52 -- or roughly \$1,700 above the poverty level. The net result is that people have been and increasingly will continue to be displaced from the housing that was specifically designed for them.

Changes Between 1959 and 1974 in the Consumer Price Index and the Average Low-Income Threshold for a Nonfarm Family of Four *

<u>YEAR</u>	<u>CONSUMER PRICE INDEX</u> (1963=100)	<u>AVERAGE THRESHOLD FOR</u> <u>A NONFARM FAMILY OF</u> <u>FOUR PERSONS</u>
1974 (estimated on an 11% rate of inflation)	156.1	\$ 5,039
1973	145.1	4,540
1972	136.6	4,275
1971	132.3	4,137
1970	126.8	3,968
1969	119.7	3,743
1968	113.6	3,553
1967	109.1	3,553
1966	106.0	3,317
1965	103.1	3,223
1964	101.3	3,169
1963	100.0	3,128

* = Current population report Consumer Income Series P 60 # 98
Characteristics of the Low Income Pop.; 1973 Issued January 1975

Note: In the European countries, rents for lower-income families range from 6 to 20 percent of income in the Eastern European countries; 15 to 18 percent of income in West Germany; 12 to 13 percent of income in England; and 15 to 20 percent of income in the Nordic countries.

EXHIBIT B

CITIZEN & HOUSING PLANNING STUDY ON FORECLOSED PROJECTS



The CHPA letter

A report on the activities of the Citizens Housing and Planning Association and events in housing and community development.

NOTE CHARTS ATTACHED

Vol. V. No. 1

March 1977

NEW HUD LEADERSHIP URGED TO HELP FINANCIALLY TROUBLED FHA DEVELOPMENTS

CHPA and a wide number of tenant, neighborhood, and service organizations concerned with the future of financially troubled FHA housing developments, have asked HUD Secretary Patricia Roberts Harris to personally review HUD actions and policies in order to begin responsible action to fulfill the statutory purpose of HUD-held properties in Boston.

In Boston, there are 111 developments with 13,787 units of which 73 with 8,312 units are in default or more serious financial condition. Twenty-four projects with 2,286 units were bailed out by HUD with Section 8 funding last August.

The latest CHPA-initiated action, follows an effort in December through State Senator Joseph F. Timilty who requested the Carter Transition Team to impose a moratorium on the sale of HUD-foreclosed properties until the new Administration could develop a policy and a programmatic response to the problem. The Timilty memo was also fielded to the staff of U.S. Senator Edward W. Brooke who urged the outgoing Secretary Carla Hills to impose the moratorium. At Brooke's insistence, Secretary Hills reinstated the moratorium only a few days before leaving office, pending recommendation of a HUD Boston Area Office Task Force.

Previous to that action, Secretary Hills had directed HUD Area Office to pursue a program to dispose of the HUD held properties through foreclosure sales. Foreclosure proceedings have been underway for approximately 1,300 units.

The letter to Secretary Harris said that:

- HUD is failing miserably in its attempt to maximize the return to the insurance funds;
- Massive dislocation of needy tenants, mostly minority, is likely to result from HUD sales;
- The heavily minority neighborhoods in which the troubled properties are located will be massively disrupted if large numbers of units are sold in the same fashion;
- The lack of restrictions on owners and the current market price for these units encourage speculative purchasers with limited management capabilities and no concern for current residents.

For 441 multi-family units sold, the average sale price has been under \$250 per dwelling unit, returning 1.5 cents and 3 cents per one dollar in the original project mortgage. The letter pointed out that "these sales have contained no restrictions upon the purchasers as to the manner in which they operate the properties or as to the tenants whom they serve, as a result, substantial rent increases are being sought by the purchasers." It noted that in one case, increases totalling 32 percent of present rents were being sought through the Boston Rent Control Board.

The organizations recommended that:

- A moratorium on sale of HUD-held formerly assisted multi-family properties in Boston until a new analysis of possible alternatives for each project is undertaken;
- A more specific standard be established for disposition analysis and decisions regarding HUD-held formerly assisted properties in Boston. The suggested standard:

- The most effective way to provide decent housing for the present subsidy eligible tenants of HUD-held properties at rents they can afford thus allowing for consideration of alternatives that

meet the housing needs of the tenants and of the effects of alternative approaches on the neighborhoods.

- Establish a new process for preparation of disposition programs in Boston on a case-by-case basis, modeled on the demonstration project undertaken by the HUD Regional Office in San Francisco.

- Grant the HUD Area Office in Boston discretion to retain responsible housing managers for foreclosed properties rather than selection of the lowest bidder. It is critical that responsible housing managers be retained during the period when properties are held by HUD.

Figure A: FINANCIAL STATUS OF BOSTON'S 221(d)(3) & 236 HOUSING INVENTORY BY PROJECTS & BY UNITS (AS OF 12/10/76)

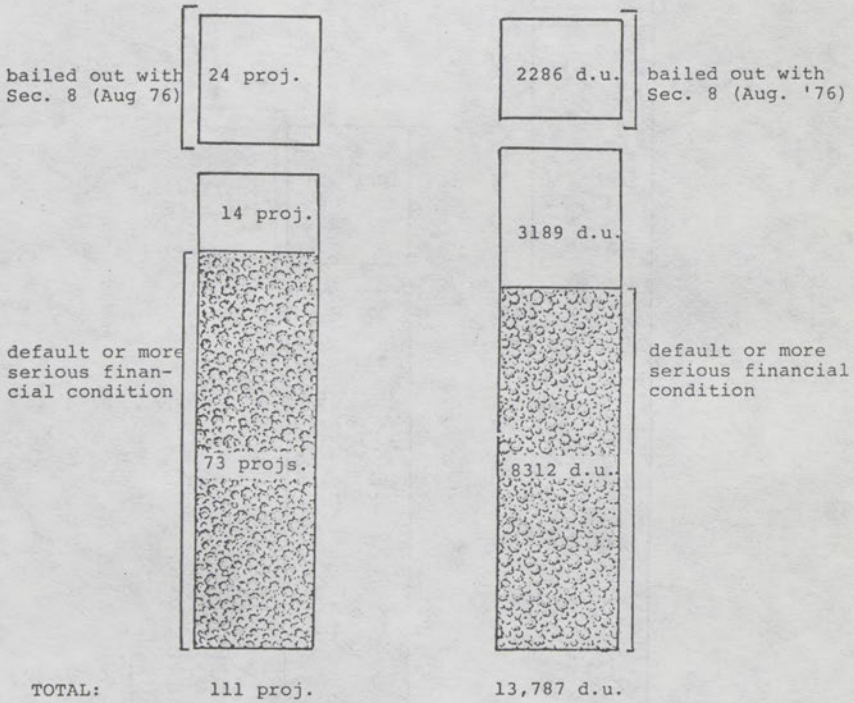


Figure B: FINANCIAL STATUS OF BOSTON'S 221(d)(3) & 236 HOUSING INVENTORY, NEW UNITS vs. REHAB UNITS (AS OF 12/10/76)

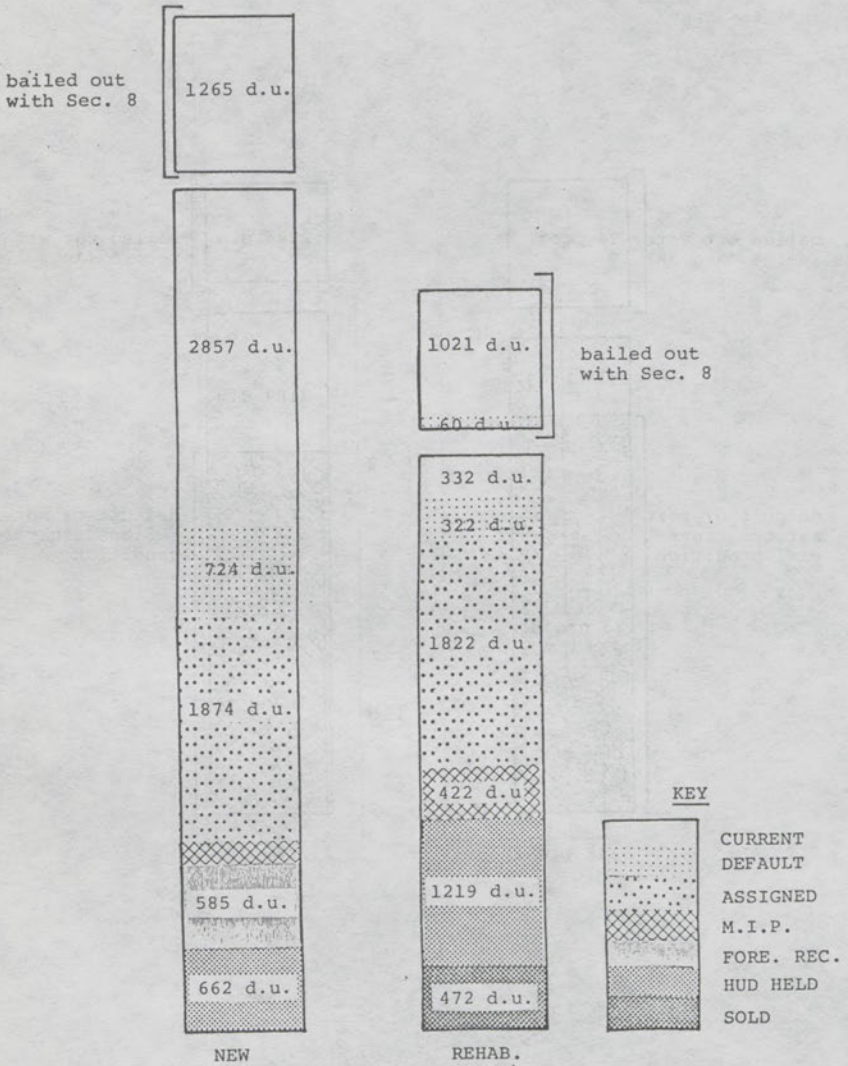


Figure C: CHANGES IN INCOME & EXPENSES FOR A SAMPLE OF 13 BOSTON PROJECTS 1970 - 1975

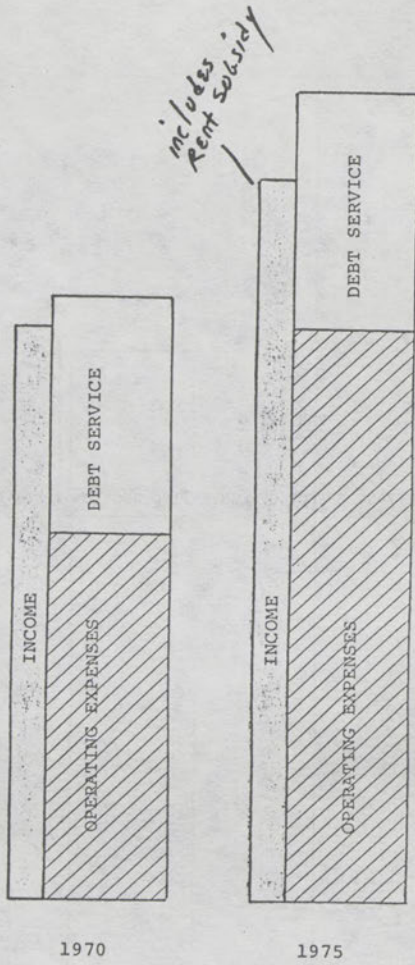


EXHIBIT C

MEMORANDUM ANALYZING EFFECT OF CONVERTING SECTION 221(d)(3) TO SECTION 236

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M E M O R A N D U M

Analysis of Section 221(d)(3) Mortgage, 10 years old, with a conversion to Section 236:

Under Section 221(d)(3), the 3% mortgage payable over 40 years requires payments of 4.3% per annum. Assuming the original mortgage was \$20,000 per unit the debt service payments under Section 221(d)(3) would be \$859.00 per annum. If such a 3% mortgage under Section 221(d)(3) is ten years old at the time of a conversion to a Section 236, the mortgage would have been paid down by 24% and the new mortgage under Section 236 would thus be only 76% of the original mortgage. The original mortgage of \$20,000 per unit would thus have been reduced after ten years by 24% to \$15,200.

Under Section 236 the debt service on a \$15,200 mortgage with a 30 year term would be 3.86% per year or \$587.00. Thus converting from Section 221(d)(3) to Section 236 in the tenth year would result in an annual debt service reduction of \$272.00 per unit.

Some 221(d)(3) projects would need only this kind of help to make them viable and to permit HUD to take them out of the insurance fund as Section 236 projects and have them transferred to FNMA. Adding the Section 212 Operating Subsidy to the project for future increases in utilities and taxes might be sufficient to make many more HUD projects viable without any necessity for Section 8 monies. Projects that could not be made viable with these two programmatic changes would have to have Section 8 supplements in addition.

EXHIBIT D

MEMORANDUM COMPARING SECTION 223f TO NEW CONSTRUCTION WITH SECTION 8

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M E M O R A N D U M

Comparison between a Section 8 application for a 223(f) mortgage to replace the present defaulted 221(d)(3) mortgage on two 80-unit buildings built in a sound neighborhood and for a 207 or 221(d)(4) application for two proposed new equivalent buildings:

The average annual income of the tenants now occupying (mostly elderly) is \$6,322. The operating expenses required per unit is \$1500. The mortgage servicing requirement for \$15,000 per unit is computed as follows: a 35 year mortgage at 9% with M.I.P. requires level payments of \$99.08 per year per \$1000. Thus, for \$15,000 the debt service would be \$1486. Total operating expenses are thus \$2986. With Section 8, the tenant would be required to pay 25% of his income or \$1581, thus requiring a Section 8 subsidy of \$1405 per year. Two new equivalent 8-story buildings would require a mortgage of at least \$30,000 per unit for mortgage servicing which would come to twice \$1486 or \$2972 per year.

If we add operating costs of \$1,500 we get \$4472 as the total cost per unit per year. The tenant would pay \$1581 as above and Section 8 money required would be \$2891 instead of the \$1405 required for the 221(d)(3) project. Section 8 funds would then serve two persons plus instead of one.

Page Two

With the Section 8 subsidy and 223f mortgage financing as above, the project in Boston where foreclosure sales have brought less than 10¢ on the dollar, would save at least 90% of the \$15,000 outstanding - \$13,500 - (See Exhibit B). This saving to the U.S. Treasury is the equivalent of approximately 10 years of Section 8 money as above described. Instead of an immediate loss to the Treasury of billions of dollars, not to mention the effect which these foreclosures would have on tenants and owners, the National Housing Policy of providing a decent home at rents which low and moderate income families can afford could be carried out for an additional 10 years without any additional cost.

Mr. PATTERSON. Thank you, Mr. Kargman.

Well, you suggest rather strongly that unless action is taken by the subcommittee, we can expect an increasingly larger number of multi-family foreclosures and huge financial disasters and losses to the Federal Government; is that correct?

Mr. MAX KARGMAN. That is right, Mr. Chairman.

Mr. PATTERSON. Can you now or either subsequently in writing give us your organization's estimate of the potential scope or extent of this problem in a little more detail?

Mr. MAX KARGMAN. Well, we had a meeting yesterday with the Chief of Staff of the Government Operations Committee, and it was not on this subject, but in the course of the conversation he mentioned the number of \$3 billion of HUD commitments.

Now, I am not sure what he meant by that, but my impression is that at least half of those are in jeopardy. In other words, the extent of the problem would probably—and this is only a guess, and I would be glad to gather that information and furnish it to you, Mr. Chairman, specifically, because I do think we should gather it for you—somewhere between \$1½ billion and \$2 billion is in jeopardy because of the programs as they are being carried out now.

[The information referred to by Mr. Kargman, was sent directly to Mr. Patterson's office.]

Mr. PATTERSON. Is this problem of multifamily projects going sour mainly due to FHA underwriting laxness in the past, or is it due to inherent defects in the multifamily legislation that we have enacted in Congress?

Mr. MAX KARGMAN. I would say the biggest reason for the great increase in defaults is the rapid rise of operating expenses since OPEC.

One of our studies shows the difference in operating expenses before and after 1974 on section 212, of section 236, was a law wherein Congress addressed itself to this problem specifically and said, when utility costs and real estate taxes rose so that the tenant was paying more than 30 percent of his income for rent, then HUD should fund the difference. This was the law that HUD refused to fund.

But I would say, of all the problems, and the problems you mentioned are there, that is the biggest. The biggest is that there was a quick rise in operating costs which were not anticipated, and there was no way that the people living in these projects who, after all, came in at the lower end of the scale, as our study shows, could ever have their incomes rise enough to meet the new rents required.

Mr. PATTERSON. The subsidy on the interest rate at that end was just fine, as far as the mortgage basic payment goes, as far as the payment on the principal and interest, but didn't cover the other factors.

Mr. MAX KARGMAN. That is right.

Mr. PATTERSON. Some feel that section 8 should be used for new projects because, otherwise, how do you get more in subsidized housing or more tenants into housing projects?

You suggest that you would like to see a focus of section 8 funds going into these projects first, I guess is what you said.

Mr. MAX KARGMAN. Well, Mr. Chairman, it is a very interesting situation. There are two problems that, I think, are before us. One is, new housing means housing production and employment which is,

of course, a plus and desirable in our economy. But it seems to me to be a little strong to say that somebody who is living in a \$13,000 or \$15,000 unit cost, and the mortgage being at that amount, should lose his subsidy and get in line to move into a new building that costs \$30,000 to \$35,000 per unit to build today.

In other words, the Housing Act is for the purpose of furnishing housing for the tenants. Employment, we believe, is a secondary element. And to eliminate the old housing from the market, to build new housing for the same people, just does not make social or economic sense. You disarrange their lives. You put them out. And they are complaining. The tenants' organizations are roused up. And for what purpose? So that people in the building industry can build new housing so that the same people can move into the double-the-price housing.

And Mr. Chairman, my counsel points out to me that by using the presently existing subsidized housing, you get more than twice as many—serve more than twice as many people with the same section 8 money as you would if you tried to wipe them out and start with new.

Mr. PATTERSON. I think you make a good point there.

Mr. ROUSSELOT. Would the gentleman yield briefly?

Mr. PATTERSON. Yes.

Mr. ROUSSELOT. You understand, Mr. Kargman, that part of the problem we have here is many homebuilders come here and lobby, too, and they always say, we want our "fair share" of subsidized dollars going into new housing; we don't want it all to go to existing housing. I appreciate what you are saying, that it is far cheaper to upgrade what we have or to find ways to keep people in there than it is to move them down the street to a more expensively constructed project in the name of better housing. But you must understand that the homebuilders have a very strong voice here in this Congress, and we are, of course, then accused, if we don't provide subsidized-type housing for them to build, of wanting to stop employment, and where the construction unions are strong, that argument comes across pretty heavy, as you can imagine.

I am not saying it is right, but that is what occurs.

Mr. MAX KARGMAN. And I don't want to be here really in opposition to the homebuilders' program.

Mr. ROUSSELOT. Yes; but they compete for the same dollars.

Mr. MAX KARGMAN. Well, the question of competition for the same dollars, we believe, is a matter of concept. We believe that dollars make more sense if they go into the old. That doesn't mean there should not be any for new.

Mr. ROUSSELOT. I understand.

Mr. MAX KARGMAN. They are not mutually exclusive. There are places, for example, where doing the old is all that is needed. There are places where, after you have done the old, you still have to build new. After all, this is a very, varying business in varying communities. There is not an easy answer. It is a difficult answer.

What we really ask is for some good, old commonsense to be applied to the problem instead of—you know, we have got to build new; therefore, forget the old, would seem to be one attitude that is around

sometimes. And we don't say, well, just do the old and forget the new. We do not take that position at all.

Mr. ROUSSELOT. I did not interpret your comments that way. But I am saying that part of the reason that some of those dollars are diverted from existing housing is that there is a tremendous amount of pressure for new construction.

Mr. MAX KARGMAN. Right.

Mr. ROUSSELOT. Because it creates new jobs, supposedly.

Mr. MAX KARGMAN. Right.

Mr. ROUSSELOT. Now, you brought up an interesting statistic, and I don't want to take time away from my colleague from California, but did you say that dollars put into existing housing many times produce residences in a proportion of 2 to 1 compared to new construction? Did I hear that?

Mr. MAX KARGMAN. Better than that. And I am talking about HUD housing.

Mr. ROUSSELOT. Did you document that for us? Could you give us some kind of backup?

Mr. MAX KARGMAN. Yes; I have exhibits which show that.

Mr. ROUSSELOT. Thank you, Mr. Chairman.

Mr. PATTERSON. You are welcome.

On page 8 you recommend that HUD as a practical matter purchase any low and moderate multifamily projects that are in serious default.

Have you had an opportunity to give us any kind of a ballpark estimate on what such a policy, if pursued, would cost the Federal Government?

Mr. MAX KARGMAN. Let me make myself clear. We do not recommend that. We recommend really the contrary. I really have not made myself clear.

We say that no proceedings for foreclosure shall be instituted where the property is serving the Housing Act unless there is a surplus. And the other part, the Secretary is authorized to pay, if you are referring to that, that is the old law. That is just repeating what the law is, but that is not our recommendation. Our recommendation is the capitalized section, which is the change in the law that we propose. The rest of it is the old law which says the Secretary has a right to foreclose and acquire the property if the Secretary thinks that is what is necessary to do. But we have said that the Secretary should be cautioned not to do that if the housing is serving the purposes of the act.

It is a little complicated. Mr. Chairman.

Mr. PATTERSON. Maybe there is a double negative there. I don't believe there really has been a surplus of safe and sanitary housing.

Mr. MAX KARGMAN. No, there isn't really, but we have to put that in, because you are talking about a law, and it has to be general enough to protect the Secretary in any given area.

Mr. PATTERSON. So you are not, in essence, suggesting what I thought you were, then.

Mr. MAX KARGMAN. No.

Mr. PATTERSON. Is Boston an especially hard-hit area with regard to FHA multifamily projects?

Mr. MAX KARGMAN. I would say yes, because Boston had rent control over HUD projects until we succeeded in getting the Federal court to overturn it, and that meant that the city kept the rents well below the HUD rent requirements. So that in one sense it allowed some of these tenants who would normally be forced out by the increases in rents to live there, which might be said to be a desirable social goal, but on the other hand, it ruined any chance of making the HUD projects work financially.

Mr. ROUSSELOT. When did the court overturn that rent control?

Mr. MAX KARGMAN. It was overturned about March of 1976.

Mr. ROUSSELOT. And the rent control by the city was in fact contributing to the problems?

Mr. MAX KARGMAN. Very seriously.

Mr. ROUSSELOT. I thank the gentleman.

Mr. PATTERSON. The gentleman from California, Mr. Roussetot.

Mr. ROUSSELOT. We really appreciate your testimony probably more than you know because you are talking about someone—as I read your résumé here of activities—somebody who has been heavily involved in trying to make many of these projects to go in the Boston area and also, of course, has been in the business side of it, too.

I am interested, and maybe somewhere you named the projects to which you refer on page 7 of your testimony in Boston, where—and I guess you are using this as an example of what you call an irresponsible foreclosure—where the vacancies went immediately from 20 percent up to 100 percent—what was the name of that project?

Mr. MAX KARGMAN. The Bay Village project. It is in Fall River, Mass.

If you would like, Mr. Congressman, I can give you a little vignette of history on that project.

It was built in a naval area, and the Navy closed shortly after it was built, and therefore over 60 percent of its tenants were Navy people. And when the naval base closed, there it was. It was a big struggle to keep it occupied and so on. We got deferments from FNMA and we struggled with it.

Mr. ROUSSELOT. When did the Navy close their base?

Mr. MAX KARGMAN. That would be in 1972, I believe.

And we had a big struggle.

Mr. ROUSSELOT. So that is clearly a case of one Government action creating practically insurmountable problems for another government project. We do a lot of that around here.

Mr. MAX KARGMAN. We struggled with it and had lots of trouble because of the rising operating costs which exacerbated the problem. But we staved off being assigned to HUD, and because it had not been assigned, and in order to save the insurance fund, HUD allotted us the section 8 money. And as I said—and by the way, is is very good housing.

Mr. ROUSSELOT. How many units?

Mr. MAX KARGMAN. There are 200 units.

And it staved it off. The project is full. It has a waiting list. It accomplishes the housing policy, and HUD saved a \$3½ million loss out of its insurance fund. And it—

Mr. ROUSSELOT. Is it operated as a nonprofit unit?

Mr. MAX KARGMAN. It is a limited dividend, which is not paid a dividend from—has not paid a dividend since its inception. It has just never earned enough money to pay a dividend. It has just barely struggled along to keep alive and was in danger of being foreclosed, but we kept it on the edge, and it has never paid a dividend. Today it may pay a 6-percent limited dividend, which is what the law contemplated, which is a partnership between private industry and the Government. But it is such an obviously sensible use of that subsidy as compared to building a new place down the street, which would move all those tenants into—and then this place would become nonsubsidized.

Mr. ROUSSELOT. And also, as you say, go into the big inventory of the HUD Secretary's own units, which cost us an awful lot of money to board up and maintain.

As you know, a lot of people have thought it would be desirable to use section 8 for this kind of reclamation—so I am glad to hear that is one less we have in the Secretary's own portfolio that you were able to save.

You say there was 100 percent vacancy?

Mr. MAX KARGMAN. Yes.

Mr. ROUSSELOT. And then there was a shortage of housing in that area even though the naval base had gone?

Mr. MAX KARGMAN. The point of it is that HUD has a rent limit. You can only rent to people in that band. Now, when the operating costs go up, the rents go up. So your rents are pretty high, and the limits of the people you can rent to is low. Therefore, there may be a housing shortage. But all the people with incomes that are too low to pay the rent can't get in, and all the people who can afford to pay the rents have incomes that are too high. You are dealing with a narrow band, a \$2,000 limit. You have to find the market within that \$2,000 limit. If they are below, they can't make it; if they are above it, they can't allow it.

Mr. ROUSSELOT. What is the average rent being paid now?

Mr. MAX KARGMAN. The rents now run about \$165 for a one-bedroom unit, and about \$195 for a two-bedroom unit, and about \$225 for a three-bedroom unit.

Mr. ROUSSELOT. Well, that is still a pretty good price.

Mr. MAX KARGMAN. It is a good price, but Fall River—Fall River is a very interesting town. Fall River has more women working than any other town in the country. Most of the mills were women-operated, and the men came and joined the women.

Mr. ROUSSELOT. I guess that includes Margaret M. Heckler, their Congresswoman.

Mr. MAX KARGMAN. And the result is that they have double incomes. They really live on a moderate basis, but they have two incomes, two solid incomes, instead of one helping the other, and that puts them a little over the HUD rule.

One of the recommendations we have in one of our exhibits is that, in cases like Fall River, HUD ought to have the flexibility to make an adjustment to meet the local housing area's real needs and real situation. By making a national rule, of course, you have to lose the flexibility of adjusting to local problems in different areas.

Mr. ROUSSELOT. Well, I was very interested in your comment about asking HUD to stop irresponsible foreclosures. We have been through this problem a great deal, because there is a tremendous inventory of Secretary-owned housing that has been taken back by foreclosure for all kinds of reasons, and it is very expensive to maintain that even when we board it up. We have to put alarms on it, and it costs you at least \$10-a-day per unit to keep it up, even in its boarded state.

So it's obvious that in Boston or in Fall River you found a way to put some foreclosed housing back into active use.

As a result of your experience, could you suggest ways we could improve the act?

Mr. MAX KARGMAN. We have a draft law which halts the foreclosures and compels HUD to look at other ways of solving the problem. We have presented on page 8 the law we think would do it, and in our exhibits, the last two.

Mr. ROUSSELOT. Your language on page 8 refers to the acquisition of property by conveyance or foreclosure. Do you want to insert that language in the present act?

Mr. MAX KARGMAN. Yes, provided that—you see the capitalized section, the rest of the statute is actually what it is today. The provided is the change.

Mr. ROUSSELOT. That is the additional language?

Mr. MAX KARGMAN. Yes. And then, Mr. Congressman, if we look at the last two exhibits, the memorandums, one is a comparison between a section 8 application for a 223(f) mortgage, which is a HUD method of financing, to replace a defaulted section 221(d)(3) mortgage. And we took actual buildings that we knew about—two 80-unit buildings, built in a sound neighborhood, and compared with section 207 or section 221(d)(4) application for two new proposed equivalent buildings and then we go through the figures.

The average annual income of those in occupancy, mostly elderly, is \$6,322. The operating expenses required per unit is \$1,500. The mortgage servicing requirement for \$15,000 per unit is \$1,400 per unit. Of the total of \$2,900, the dollars that the tenant is required to pay is \$1,600 which is 25 percent of his income.

A new, similar project—two eight-story buildings—would require a mortgage of at least \$30,000 per unit—\$2,800 per unit for mortgage servicing. Adding the operating costs of \$1,500, we get \$4,300 total cost per unit per year. The tenant would pay \$1,600, 25 percent of his income, and section 8 money required would be \$2,700 instead of the \$1,300 required for the conversion of housing that is now existing and operating satisfactorily. So that is one solution to this problem.

Now, just before that, the next to the last exhibit we have another proposal which is an analysis of a section 221(d)(3) mortgage, 10-years old, with a conversion to section 236, which HUD has done in some cases. In three of our cases, they have converted section 221(d)(3) to section 236, but they do not do that readily or regularly. It is a big difficulty to get them to do that. If they did that, then we showed that the tenants could save \$22.75 per month by changing in effect the mortgage interest obligation.

And if you add section 212 operating subsidy for which the Congress has already provided, you would meet the rising costs in utilities

and real estate taxes, and many, many of these projects could be saved, the Boston projects in particular. They are really very good projects. Many of them defaulted as a result of rent control by the city. And now, if the units were vacant, they could probably raise the rent \$70 a month.

But you can't do that to people who are living there, to a man paying \$160 a month, you couldn't ask them to pay \$230. He couldn't if he wanted to.

So if they did convert it to section 236, they would cut the debt service on the unit by 22. You might have to raise the rent \$20 to cover operating deficits, your operating subsidy would pick up \$20, so that you would have covered the deficit. HUD would have a good mortgage. It could be turned back to FNMA. MUD would save its insurance on it, the people would be saved, and it is only by application of existing regulations and HUD's own rules. As we call it "in a creative manner" Mr. Chairman, and it is just a matter of somebody taking the time and interest and using what we think is ordinary commonsense to do this.

Mr. ROUSSELOT. Well, we appreciate your suggestions, because there is no doubt about the fact that we have taken an awful lot—I say we—HUD has taken an awful lot of property back to become Secretary-owned projects. On the basis of your success—I don't know whether your language does it all, but a great number of us on this subcommittee and all over the country have an interest in how we can save what we already have, because building costs are so high—and if you say it is two to one on the basis of your experience on what it can provide in housing, compared to new construction, I think your point is well taken.

I think what the purpose of HUD has been is to try to streamline the foreclosure procedure so that—by the prodding of Congress so that it can move projects more quickly even through foreclosure, if one of the reasons for the default or going through foreclosure is unreasonable pricing, so it can get back on the market.

Anyway, I am sorry there aren't more of our colleagues here today to hear your comments, since you have been through this a couple of times, and from both sides of the picture, both the private sector and one who is involved in the public sector of local community housing activities.

Mr. MAX KARGMAN. If I may, I would like to indicate that my counsel—I don't know if you were here when I introduced my counsel here, who is my son and my private braintrust, and he suggested that I have not made clear the point that if HUD did foreclose, they would in effect take these people out of their subsidies which would put in out of their power to pay the rents. The new owner would in effect rent to the open market, pushing these people out, and now these people would get in line for the new \$30,000, \$35,000 unit, which would have to be built.

Mr. ROUSSELOT. Well, sometimes in foreclosure, they take it over, and that may not have been the case in Boston. They don't throw, as you say, those people out. Many times they feel committed to them. But the project suffers because it doesn't have effective management, and local management. And you are right, it is better to keep it under some kind of a local management.

In my judgment, in most cases, the private sector does a better job, even if it is kept on a nonprofit basis. The private sector does a better job, because it employs more effective management techniques.

So I am sorry to hear that the city did not respond sooner to the need to remove the rent controls.

Mr. MAX KARGMAN. They didn't respond. The court ordered it.

Mr. ROUSSELOT. I am sorry that more of my colleagues aren't here to be reeducated as to what rent control does do. We haven't educated all of our colleagues on that side.

Thank you, Mr. Chairman.

Mr. PATTERSON. Thank you, Mr. Rousselot.

Mr. Kargman, thank you for coming before the subcommittee today. We appreciate your input to our subcommittee, and the testimony and the written record, of course, will be available to all members of the subcommittee and the committee. And your participation has been helpful in giving us not only insight into the problems that you face, but into some of the other areas where we might improve on the present and past legislation.

Thank you very much for coming before us today.

Mr. MAX KARGMAN. Thank you, Mr. Chairman.

And any questions that any of the staff has or anybody, we would be more than glad to discuss and produce the material and the data to help, because we think it's a very serious matter and we want to do everything we can to be of help to this committee.

Mr. PATTERSON. Well, we thank you. And if there are questions that come from the staff or the members of the subcommittee, we will forward them to you.

Thank you.

If there is no further business to come before the subcommittee, the subcommittee stands in recess until 10 tomorrow morning.

[Whereupon, at 4 p.m., the hearing was adjourned, to reconvene at 10 a.m., on Tuesday, March 8, 1977.]

HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1977

TUESDAY, MARCH 8, 1977

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY
DEVELOPMENT OF THE COMMITTEE ON BANKING,
FINANCE AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 10:10 a.m. in room 2222 of the Rayburn House Office Building, Hon. Thomas L. Ashley, [chairman of the subcommittee], presiding.

Present: Representatives Ashley, Moorhead, Mitchell, AuCoin, Blanchard, Lundine, and Brown.

Mr. AuCOIN [presiding]. The subcommittee will come to order.

We will begin today's testimony on the housing and community development authorizations.

This morning it is the subcommittee's pleasure to welcome Leon Weiner of the National Housing Conference, and Nathaniel J. Parish, member of the board of directors of that organization.

It is good to see you again.

And, without further ado, let me ask you to deliver your testimony to the subcommittee.

It is a pleasure to have you here.

STATEMENT OF LEON N. WEINER, PRESIDENT, NATIONAL HOUSING CONFERENCE, INC.

Mr. WEINER. Thank you, Congressman.

We certainly enjoyed your visit with us on Sunday at our national convention. You struck many a responsive note, as you were aware.

The National Housing Conference, Inc., is an organization I think the subcommittee and the committee are familiar with.

Founded in 1931, it has been working in the field of low- and moderate-income housing perhaps longer than any other single group in our country.

It is an umbrella organization representing a coalition of all elements concerned with housing, and has extended its activities to include middle income and community development and a number of other aspects that deal with the matters before this subcommittee.

I should like first to ask for permission to include in the record and to submit to the subcommittee the National Housing Conference resolutions that we have just adopted.

Mr. AuCOIN. So ordered.

(2055)

[The resolutions adopted by the National Housing Conference submitted by Mr. Weiner may be found on p. 2076.]

Mr. WEINER. Thank you, sir.

And I would also like to submit for inclusion in the record the keynote speech dealing with new priorities in 1977 which is an overview of the problems as we saw them.

[The keynote address of Mr. Weiner entitled "New Priorities in 1977," presented at the annual convention of the conference on March 6, 1977, in Washington, D.C., may be found on page 2132.]

We are proposing today to depart somewhat from our normal one-person presentation because we think there is a critical need in these times to take a broader look at some of the major problems we are facing.

And we are aware that a little later on this morning we are going to be hearing from some of our friends in the rural area of housing activity which we think is extremely important.

So we would like to start off this morning by introducing Nathaniel J. Parish, a member of the board of directors of the National Housing Conference, who will address questions of the inner city and of community development and I will then follow up on some housing matters.

We have decided to divide this testimony for two reasons. First, we feel a great deal of lip service has been paid to the questions of the inner city and, second, that the inner city terminology has become sort of a mistake, that it is something mysterious and unknown.

And we think that Mr. Parish, who has tremendous experience in the area, will be most helpful in presenting this to you.

Mr. Parish is a member of the American Institute of Planners, is a professional engineer, and is chairman of the legislative committee of the New York State Association of Renewal Housing officials.

Nat Parish?

STATEMENT OF NATHANIEL J. PARISH, MEMBER, BOARD OF DIRECTORS, NATIONAL HOUSING CONFERENCE, INC.

Mr. PARISH. Thank you.

The subcommittee has heard sufficient testimony on this subject, and our resolutions which Mr. Weiner has just introduced speak in depth about these problems and the need to solve them.

But we think we must move quickly to some adequately funded action programs. And our resolutions set forth in depth what our proposals are in regard to both short and longer range programs.

And we realize that the subcommittee is now focusing on the short-range problems, as we will today, but we also have recommendations for the subcommittee to consider as it later studies longer range programs.

The major operative program right now is the community development program. We have made a number of suggestions and proposals in that regard.

These are not necessarily presented in order of importance, but I think we can sort of run through them in the order of our resolutions.

We suggest that some steps be taken by HUD, and hopefully with

the subcommittee's help and guidance, to improve the administration of the program to assure that it is meeting the primary objectives intended by the Congress.

And we do note that Secretary Harris has evidenced some of the same concerns that we have set forth in our resolutions about the way the program is being carried out.

We think in some communities it is doing an excellent job and in others there are certainly some questions.

We think that the program requires additional funds for HUD's staffing if HUD is to be able to properly monitor and evaluate local programs.

We ask that the program be authorized for an additional 6 fiscal years so we can plan ahead.

And we certainly support, as a minimum, the \$4-billion level for fiscal 1978 suggested by Secretary Harris.

We have not been able to analyze in detail the various alternative allocation formulas being considered by this subcommittee.

We do think that the factors of: age of housing, population losses, extent of the previous tax abated housing that has been constructed in the municipality, and the degree of deterioration of the central area of the city, are all criteria which ought to be used in determining the relative funding levels or allocations of funds.

We want to comment about the fact that we think that, given the inflationary trend, and the small amount of money that has really been available in total under the program that a formula should provide that no grant recipient should receive less in the fiscal years 1978 to 1980 than they have received in the 3 prior fiscal years.

We know that questions have been raised about the hold-harmless formula.

We submit to you that most of those affected are communities which were willing to build tax abated assisted housing to undertake code enforcement programs, to supply the local share of categorical programs which often exceeded the minimum of 25 percent of the program cost and they did this at great political risk and a great social risk, and it was a tough process to get the programs going.

We think for these reasons they deserve this special attention.

As they are presently administered, the discretionary grants offered as an alternative to hold harmless often do not permit communities to develop a program with any assurance of continuity.

We recognize that our various requests and suggestions do represent a moderately greater level of funding than the subcommittee has been considering, but we believe that the needs of the cities are important enough that the subcommittee ought to favorably consider such a modest increase.

We also feel that in the community development program the Congress wrote in a loan guaranty provision and we found that this has not really been workable in terms of encouraging economic revitalization, undertaking land assembly programs and being a catalyst for private sector involvement; and, therefore, in our resolutions we included some detailed suggestions for how the loan guaranty provisions could be made a more useful tool.

And we also suggest that Congress, if it wants to be serious about making sure that the community development program meets the ob-

jectives of the act, require that action areas be delineated, still retaining the local option for 10 percent of the funds to be used for other activities and also allowing activities outside of designated areas, but which directly benefit them to be a permitted activity.

We suggest that you consider a 3-year application process, but make it subject to annual HUD review as to performance.

We support the proposal which we understand the Secretary has made to make economic development a clearly eligible activity and in another section of our resolutions we discuss a new urban economic development area program, and in that discussion perhaps some of the thoughts there will help to define what some of the activities are that we think would be useful under the economic development heading.

We suggest that there be a requirement for a specific relocation plan and that is not very specific in the Act and regulations as they now exist.

And we also suggest that nonprofit groups be permitted under this program to build and operate neighborhood centers but subject to detailed agreements with local governments.

In a related area, we have reviewed the housing assistance plan and just in a few words we find its objectives most laudable, but that the present vehicle as administered is unworkable and unwieldy and it does not contribute much toward achieving coordination nor getting housing built.

We ask that the Congress and HUD get together and think about—and we certainly have volunteered our assistance on this—to get a better, more workable housing assistance plan which will achieve the objective of coordination of housing and community development, but at the same time will not become an administrative nightmare.

We think also that the subcommittee has to give some attention to completion of existing urban renewal projects. This has been an overlooked factor in the Housing Act of 1974 and the various subsequent bills.

We suggest that in the next 3 fiscal years a total of about \$700 million will be needed in urgent needs funds if we are to finally settle and complete these urban renewal projects.

We support the administration's proposal for a \$62.5 million appropriation for section 701 as a minimum level but feel that if we are going to meet the needs of the States, the area-wide organizations, and the smaller localities, we should consider perhaps doubling that level because some of them have no other resources with which to undertake necessary planning activities.

Very important to us and a very dramatic and helpful tool which we are happy to see the administration and Congress support is the section 312 rehabilitation loan program.

We recommend a 3-year extension of 312 at a 150 million authorization level; and I might comment that in order to make this program as effective as it can be on the local level we think it is going to need all the HUD staffing support the subcommittee can give it because the communities are very interested and able to process applications, send them in, but where HUD approval is still required, we find that there is not adequate HUD staff available to get the loans approved within any reasonable time period.

This has been a problem for many of the communities because they go out and work with the people in the neighborhood, with the homeowners, go through the process of putting the loan application together, people are waiting for it, and then they find that HUD funds are cut off or there is a new change in policy. •

And when a homeowner applies for a loan, and is ready to fix up his house, and then finds that he has an 8-, 9-, 10-month wait, and then maybe the program is cut off, the result is very discouraging for the local communities who have to prepare these applications, send them to HUD, and then lose their credibility with their homeowner constituents.

We want to put some emphasis on the fact that the program can work. It is an excellent program. But it will only work if it is structured in terms of rapid processing for those applications that make sense.

We have suggested two new programs in some detail in our resolutions which we have entered into the record. One relates to a neighborhood improvement program which we think the subcommittee will be doing some more thinking on in the future, and we will be happy to discuss it then, and also with your task forces.

We feel that it is important that there be some new thinking on neighborhood improvement programs both for preservation and for dealing with the problems of abandonment.

We are not focusing on it fully today because we realize that your focus is mainly on existing programs.

We have also made some suggestions for a comprehensive economic development action program. In this regard we support Secretary Harris' proposals for development action grant programs.

We think that is an important first step in bringing about the economic revitalization of our cities.

In our resolutions we have made some proposals for a longer range urban economic development areas program, and we think there is going to have to be some focus on that type of program if we are to be serious about doing something with the economic improvement of our cities.

We look forward to discussing this program in greater detail at future committee hearings and also with your relevant committee task forces.

Thank you.

[The prepared statement of Mr. Parish, on behalf of the National Housing Conference, Inc., follows:]



NATIONAL HOUSING CONFERENCE, INC.

1126 SIXTEENTH ST., N.W.

WASHINGTON, D.C. 20036

March 8, 1977

Testimony by Mr. Nathaniel J. Parish, AIP, P.E.*, on behalf of the National Housing Conference, presented to:

House of Representatives Committee on Banking, Finance and Urban Affairs; Subcommittee on Housing and Community Development.

*Mr. Parish is also Chairman of the Legislative Committee of the New York State Association of Renewal and Housing Officials, and Executive Vice President of the firm of Raymond, Parish, Pine & Weiner, Inc.

I am sure that this Committee is well aware of the needs of our cities. We do not believe they can be improved through rhetoric, slogans and untried theories. We must quickly move to comprehensive, adequately funded action programs. Our resolutions set forth what NHC's proposals are in regard to both short and longer range programs. I would like to briefly summarize these.

1. In Relation to the Community Development Program:

- (a) We suggest some steps to be taken by HUD to improve the administration of the program to assure that it is meeting the primary objectives intended by the Congress.
- (b) The program requires additional funds for HUD staffing if HUD is to be able to properly monitor and evaluate local programs.
- (c) We ask that the program be authorized for an additional six fiscal years, and we certainly support, as a minimum, the \$4 billion level for fiscal 1978 suggested by Secretary Harris.
- (d) We have not been able to analyze in detail the various alternate allocation formulas being considered by the Committee. We do think that age of housing stock, population losses, extent of previous tax-abated housing constructed in the community, and the degree of deterioration of the central area of a city are additional criteria which ought to be used in determining allocations of funds.
- (d) We recommend that under any allocation system no grant recipient receive less than they have received in Fiscal Years 1978 to 1980. Questions have been raised about the so-called "hold-harmless" formula for smaller communities. We submit that those affected are communities which were willing under previous programs to build tax-abated assisted housing, and to undertake concentrated code enforcement programs, and to supply the local share of the cost of categorical programs which often exceeded the required minimum of 25 percent of the program cost. These communities undertook such programs at great political risk because their needs and problems were greater than many others who chose not to participate. For these reasons we believe they deserve the special attention which the "hold-harmless" formula gives to them.
- (f) We propose an increase in the amount of discretionary funding to be made available. The concept of these types of grants needs to be reviewed. As presently administered, they often do not permit communities to develop a coordinated program with any assurance of continuity.

We recognize that our various requests with respect to funding may increase the total authorization to a level modestly greater than that which the Committee is considering. It is our belief that the needs of the cities are important enough for the Committee to favorably consider such a modest increase.

- (g) The loan guarantee provisions have not been found to be a feasible tool for undertaking land assembly programs that would encourage economic revitalization and private sector improvement. We have included suggestions for making this a useful tool.
 - (h) We suggest that Congress require that localities specifically delineate areas within which community development activities will take place and that these be areas and activities which clearly meet the primary objectives of the Act. We do recognize that there can be important and eligible activities outside such areas, but which directly benefit them, and that these should be permitted. Also, to provide for local flexibility, 10 percent of the community development allocation should continue to be permitted for local option activities on a more flexible basis.
 - (i) We suggest a three-year application process subject to annual HUD review of performance.
 - (j) We support the proposal to make economic development a clearly eligible activity and in our section on a proposed new Urban Economic Development Areas Program, we discuss our thoughts on that subject.
 - (k) We suggest that there be a requirement for a specific relocation plan.
 - (l) We propose that non-profit groups be permitted to build and operate neighborhood centers under agreements with local governments.
2. In relation to Housing Assistance Plans, we find that the present vehicle has proven to be unworkable and unwieldy. We request that HUD and Congress take action to create a new and more effective method for achieving coordination between community development and housing programs.
 3. In relation to the completion of existing urban renewal projects, we ask that Congress authorize and appropriate during Fiscal Years 1978 to 1980 a total of \$700 million in urgent needs funds to financially settle and complete these projects.
 4. In relation to the 701 Comprehensive Planning Program, we understand that the Carter Administration has requested a \$62.5 million appropriation for Fiscal Year 1978. We believe that this is the minimum desirable level and suggest that a \$125 million level is needed in order to enable this program to meet the needs of the states, area-wide organizations and the smaller localities which have no other resources to draw upon.

5. In relation to the Section 312 rehabilitation loan program, we very much appreciate the interest and support which the Congress and the Carter Administration have shown for this most useful tool. We recommend a three-year extension at a \$150 million annual authorization level.
6. We support the concept of a National Commission on the Neighborhood. It certainly would be helpful to develop more information on the causes of neighborhood deterioration and some additional thinking about new techniques for neighborhood preservation and for dealing with the problems of housing abandonment.

We do think that a start on an action program can take place before such a study is completed. Our resolutions include proposals for a new Comprehensive Neighborhood Improvement Program. We shall be happy to discuss these with the Committee at its future hearings on new programs and with the relevant Committee task forces which have recently been formed.

7. We fully support and commend the proposals by Secretary Harris for a Development Action Grant Program.

This is a most important first step towards bringing about the economic revitalization of our cities.

Our resolutions include proposals for a longer range Urban Economic Development Areas Program. Again, we look forward to discussing this in greater detail at future Committee hearings and also with the relevant Committee task forces.

Mr. AuCOIN. Thank you, Mr. Parish, Mr. Weiner, why don't you take over from there?

STATEMENT OF LEON N. WEINER—Resumed

Mr. WEINER. Thank you.

I had earlier asked permission to enter the resolutions and policy statement of the National Housing Conference. I would like to just add a couple of comments about it.

Mr. AuCOIN. Do you have your testimony in written form?

Mr. WEINER. Yes; I do.

We will have that distributed in a few moments. I think you have a copy of our policy statement and resolutions before you.

I wanted to call your attention quickly to our table of contents. We have cut down the length of our statement. Usually, it runs to about 80 or 100 pages. We have attempted to cover the field on a much simpler and clearer basis and we have gone over it.

We think we have covered all of the things that concern the broad group that we represent. And I am not about to start to outline or go through the program item by item, except to point out that we have divided it into several parts including, one, the programs for the current year, and second, a look at a 4-year program, looking ahead from 1977 through 1980 as to where the housing needs are.

And I wanted to start off by pointing out that one of our major concerns will be, it seems to us, the recognition of the need for assisted housing in the coming future.

In 1968, when we adopted our national housing goals, we said there was a need for about 6 million out of 26-million units of subsidized housing. We would suggest that that need in terms of volume is much higher than 600,000 units a year.

We suggest, also, that we are aware of the constraints both on our natural resources, including lumber—and as our friend from the bricklayers union at our legislative breakfast this morning pointed out, including brick—he didn't want to be partial just to the lumber people—that we needed to step this matter up to fulfill the need at a level of about 1.2 million housing units per year, because the gap between income and the cost of housing has been growing.

And there is no other way that we know of that you can cover it except to provide programs that are designed to make the two meet. And so the need we think is much greater than the 600,000 units a year, and we are a long way from achieving that level.

As a matter of fact, Secretary of HUD Harris pointed out in a speech to the Housing Conference Convention that in 1976, we had just about 50,000 units started or publicly assisted housing against an immediate recognized need of 600,000, and we are suggesting that over the 4-year period it ought to reach a level of 1.2 million.

That is the order of magnitude of the problem, and we think it is a serious one. We think there is a real crisis.

We think there is a real shortage developing, and we regret the policy that seems to persist that we can meet our housing needs without increasing our supply of housing.

At the rate of family formations, and the rate houses are going out of our inventory or out of our stock, we are not going to achieve our

objectives of a decent home and a suitable environment simply by reshuffling programs that will just bring about reshuffling of the existing stock.

We need to preserve that stock. We need major rehabilitation to bring abandoned houses back into the housing supply.

But the answer really is the supply of housing. And we are very happy to see the approach that has been taken by the current secretary of HUD, although we do not believe she went far enough.

And I will address myself specifically to a couple of those questions in a moment.

With the advent of a new administration—and I would recall to this subcommittee that our organization 2 years ago testified against the appointment of the new Secretary, in that case a very lovely and very bright, capable lady by the name of Carla Hills. We objected to her appointment and went to the Senate committee hearings on her confirmation, objecting on the grounds that she had no experience in the field of housing.

We felt that on-the-job training in the field of housing was really not conscionable when we were in this kind of crisis. We did not appear against the appointment of Secretary Harris, and not on a partisan basis, I might point out.

We did not appear before them because we felt that it was a new administration and during the campaign there were refreshing pledges and promises and speeches on housing and the cities. We are very aware of the content of those speeches. They sounded better than what we had seen.

So we said, well, perhaps.

Second, we felt that the incoming Secretary would have an opportunity to appoint a new staff. And if this staff was knowledgeable and competent, that perhaps this would permit a new kind of administration.

I think the subcommittee members may be interested to note that, No. 1, we have watched the appointments by the Secretary that have been announced, although not confirmed yet, and we are impressed that she has brought together a group of people widely diversified in experience, but experienced. And professionals. These are not simply attorneys, with all due respect to any member of the subcommittee who is an attorney.

[Laughter.]

That the simple qualification was not a law degree, although it didn't hurt and she whacked me over the knuckles when I pointed out that she didn't know much about housing. She said, "Yes; you may know more about housing than I do, but I know more about Washington than you do."

I think that was a good omen. And we were impressed with the fact that we have a Secretary who seems to put the concerns of housing and community development very high on her priority list and will speak up as a spokesperson advocating housing.

And we think it is time that we had somebody who was representing HUD and this subcommittee's province who was going to fight for the programs and for the things that the subcommittee and the Congress have put into the Housing Act. Someone who will not simply say I can't overcome that little Department over there known as OMB,

that Department which we like to put a "the" in front of, and then the initials spell t-o-m-b, the tomb.

It has been the tomb of housing activities for all too long.

Mr. AuCOIN. Let me interrupt for just a second and make the point—I think that you recognize it—that in the Carter budget revisions that have cleared OMB, HUD comes out better than any other Federal agency.

Mr. WEINER. This is one of the reasons we are proud of the lady.

I was referring to the OMB's past history and we will be hoping that that place will be aired out. At the moment, however, we will take note of one item that we think got lost down the road somewhere, because we have been following very closely what requests were made by HUD and what came out at the other end.

And I will deal with the question of tandem plan fund money in a moment, because that did not appear on the budget requests, although many of the others did, and we think they will do well.

I would like to talk for a moment, then, about some of the things that are before you for authorizations in the administration's fiscal 1977 budget supplementary preparations request.

We believe that the additional funding and contract authority for section 8 housing is very important. We believe also that after almost 2½ years of promises of section 8 being a reality that it is beginning to work.

We are impressed that section 8 works best when there is a strong will to make it work. We are impressed with the record of production and of deliberate starts that took place after August of 1976.

Now, we don't know that there is any correlation between certain events that took place in August or in the fall of 1976. But we are impressed that this number of starts in section 8 doubled in the months of September and October of 1976 over what they were in the previous 2 years since the act was passed.

And we are concerned that that level of starts not fall off because we think that with direction and encouragement given by the Secretary of HUD, it can happen, and therefore, we are encouraged that section 8 can work.

We are very, very encouraged with the thinking that we need to have some 30-year housing assistance payment contracts, the 30-year program, in addition to the 20 and 40 that we now have for the State agencies in order to try to get conventional funding into the program.

We are concerned with the budgetary system and the way that we calculate budget authority and runouts on housing.

We would urge that this subcommittee call on the Budget Committee to come up with a more equitable way of calculating the runout costs.

We know of no other ongoing Federal program that is calculated in a similar fashion, a fashion, frankly, that is—it seems to us, ultimately going to destroy the support for a reasonable level of assistance for low-, moderate-income housing, and especially new construction.

When you take that 40-year figure and you multiply it out and extend it, the question really is how much of it is budgetary impact now and how do you discount the dollars 30, 40 years from now in terms of the program? And second, when you have a 20-year contract, are

we saying really that at the end of that 20 years, we are going to cut off the subsidy when all of those elderly persons and others in the program who are still there, that we are going to cut that housing out of the supply of low- and moderate-income housing?

So ultimately, we think that kind of calculation is wrong, and what we would plead with you would be to recognize that the mechanism used by the State housing financing agencies is seriously impaired by that kind of calculation.

Our experience has been—and now I put on a hat as somebody that's out in the field with a pair of muddy shoes a good part of my time, and tell you that if it hadn't been for the strong support of the State housing financing agencies, we would not have achieved the records of housing production under section 8 that we have been able to achieve to this date.

And so I would seriously urge that the subcommittee try to prevail on the Budget Committee to do a new program.

In connection with fiscal year 1978 budget we urge the subcommittee to support at least the present level of funding for Farmers Home and incidentally to make sure that the Farmers Home program gets implemented.

We have seen too frequently the fact, and particularly in the Farmers Home activities and you will probably be hearing more about it from our friends in that area shortly, that they have made the authorizations, they have not implemented the programs. They have not staffed them adequately in order to do the job.

We are concerned with, and I would like to call the subcommittee's attention now to the need for Brooke-Cranston funds which were denied. It never got to the committee as a matter of a request.

In the Senate the chairman of the committee, Senator Proxmire has introduced a bill calling for tandem Brooke-Cranston funds.

MR. AUCOIN. Where are you in your testimony, Mr. Weiner, so we can be following you as you go along.

MR. WEINER. I am jumping down to page 5, and I want to deal with the definitive report on housing needs by the MIT-Harvard Joint Center.

In a very timely fashion, the MIT-Harvard Joint Center came out with a report on housing needs, which makes the case for Brooke-Cranston fund authority.

We are aware that some of those funds can be recycled and will be available in it for reuse. But we believe more funding is needed. And I think that the MIT-Harvard Joint Center report, which was issued only on March 3, pointed out the real problems that we have in the single-family house market and points up why the cost of housing has risen so high.

For example, it very clearly points out that sales pricing of new single-family housing has climbed twice as fast as family incomes have grown over the past 6 years.

And the other measure of housing expense, the monthly cost of homeownership, including the cost of fuel and utilities and property taxes and insurance and maintenance have increased even more rapidly than the sales price of these houses, these costs rising 102 percent between 1970 and 1976.

In contrast, median-family income increased 47 percent over the same period. There was in the last few years an opinion that there was no longer a need for support for the single-family house market, simply on the grounds that we were producing sufficient housing for these families.

The Harvard-MIT report points out that the production of housing for middle-income families, has risen because we were appealing to the upper middle-income ranges and, therefore, they wanted more houses and could afford it.

But the report points out that the majority of the families in the median income had dropped down as a percentage because they could not afford the higher interest rate and the monthly payments.

And, therefore, it is important to close the gap between the 8.5, 9 and even 9.25 percent mortgage rates which exist and the 5 percent which the section 235 program provides.

I would say to you also that we need to make the section 235 program work, and part of making it work means increasing the mortgage limits on it, part of making it work means having it work from 5 percent going down to 1 percent in order to reach that broad spread of income levels that are needed.

Mr. Chairman, we will stop our testimony at this point. We think we have given you reasonable background and we would be very pleased to answer questions.

[Mr. Weiner's prepared statement on behalf of the National Housing Conference; resolutions adopted by the membership of the conference at its annual convention in Washington, D.C., on March 6, 1977; and the keynote address by Mr. Weiner entitled "New Priorities in 1977" delivered at the convention, follow:]

STATEMENT OF LEON N. WEINER
PRESIDENT OF THE NATIONAL HOUSING CONFERENCE, INC.
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY
DEVELOPMENT
OF THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
ON
HOUSING AND COMMUNITY DEVELOPMENT
AUTHORIZATIONS

March 8, 1977



NATIONAL HOUSING CONFERENCE, INC.

1126 SIXTEENTH ST., N.W.

WASHINGTON, D.C. 20036

INTRODUCTION

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE: I appreciate the opportunity to present the views of the National Housing Conference, Inc. to the House Subcommittee on Housing & Community Development on the very important matters of HUD supplemental authorizations in fiscal year 1977 and funding authorizations for fiscal year 1978.

BACKGROUND

The National Housing Conference, Inc. is a non-partisan, broadly based national citizens' organization. It has worked for 46 years for housing and community development programs beneficial to the families and individuals of the towns, cities, and rural areas of this Nation.

We appreciate this Committee's past record of cooperation and support for those of us concerned with housing and community development, particularly during the bleak period in 1974-1975 when housing starts declined to an all time low. We look forward to a continuing close relationship as we attempt to regain the initiative in our continuing struggle for better communities and decent, affordable homes for all Americans.

With the advent of a new Administration and a new Secretary of HUD, who has selected experienced, knowledgeable assistants..we look forward with optimism to a much improved environment for progressive housing and community development programs. We may yet meet the goals established by the Housing and Urban Development Act of 1968. To that end, the NHC will work in a cooperative partnership with the Congress and the Administration. We were greatly encouraged by the positive tone of HUD Secretary Harris' address to the National Housing Conference's 46th Annual Convention earlier this week.

In December 1976 we submitted to the President-elect specific recommendations for early administrative actions the new Administration could take "to make the existing HUD programs more effective." We have been gratified to note that the new HUD Secretary has reviewed these recommendations favorably. On March 6 of this year the NHC membership adopted more far reaching recommendations which comprise our 1977 Resolutions.

I will not take the Committee's time to detail these Resolutions but will submit them for your review and consideration as an addendum to this testimony.

RECOMMENDATIONS

HUD has proposed several new authorizations to support the Administration's fiscal year 1977 Supplemental Appropriation request, including an additional \$378 million in contract authority for the Section 8 leased housing program. This additional contract authority is necessary if the Department is to meet its goal of providing assistance to 400,000 units in fiscal 1977, especially in the area of new construction and rehabilitation, and we support it.

Regarding the Section 8 program, we earnestly hope, and in fact believe, that HUD has now identified the administrative and legislative problems that for 2½ years have prevented the program from producing any sizable volume of new construction. We are confident that HUD's new leadership will make every effort to correct these problems as quickly as possible. An early indication of this intent is the Secretary of HUD's recommendation that Section 8(e)(1) of the United States Housing Act of 1937 be amended to permit HUD to enter into thirty-year housing assistance payment contracts in order to encourage the conventional financing of Section 8 projects. We support this amendment as a practical way to improve the effectiveness of the Section 8 program at minimal cost to the Federal government.

We realize that besides HUD's request for supplemental legislation, another impetus for this morning's hearing is to comply with the Congressional Budget Act and attempt to formulate your budget estimates for fiscal year 1978, as revised by the new Administration.

We are disappointed, however, by the projected reduction in new construction activity under Section 8. We realize that the 50,000 unit reduction has been shifted into public housing, but we believe it would have been better to take these units from the existing housing category (172,000 units) rather than new construction. At a time when rental vacancy rates have dropped sharply and there is an unquestioned need for new multifamily housing, it seems inappropriate to place such a heavy reliance on existing housing needs.

Perhaps one reason for this undue reliance on existing housing is the budget authority calculation problem. Unlike most other Federal programs, the housing programs for low and moderate income families function with the use of contract authority which will be used over multi-year periods. The amount of contract authority reserved, especially under the Section 8 program, is substantially in excess of what will be paid out in any one year. Sufficient contract authority is set aside for each unit to pay the full rent--a situation that will only occur if the assisted low income occupant has no income. This is highly unlikely in most cases. However, when these maximum possible, but unlikely, amounts are multiplied by 15 years for existing housing or 20-40 years for new housing, huge amounts result. Therefore, the more contract authority that can be shifted into existing housing, the lesser the amount of budget authority.

We urge this Committee to call upon the Budget Committee to come up with a more equitable calculation of budget authority for the low and moderate income housing programs. After all, the budget authority for no other on-going Federal program is calculated in a similar fashion--a fashion calculated ultimately to destroy support for a reasonable level of assistance for low and moderate housing, especially new construction.

In connection with the fiscal year 1978 budget, we urge the Committee to support at least the present level of funding for the Farmer's Home Administration housing programs, as well as such funds as may be needed for the 235, 236 and rent supplement programs. In addition, we urge your support for the Administration's revised budget requests for the 701 planning and 312 rehabilitation loan programs.

Another area of budgetary concern is the availability of adequate budget authority to assist the conventional housing market in case we are confronted with the problems of tight mortgage funds and high mortgage interest rates during fiscal year 1978.

The volatility of interest rates and the cyclical position of the home building industry in our national economy, are two obvious factors that make it difficult to accurately forecast the health of the housing industry throughout fiscal 1978. While single-family housing construction was at a fairly good level in 1976, and we are projecting a moderate increase in 1977, this is based on the continuation of interest rates at or below their present level and the continuation of strong inflows of savings into the thrift institutions.

While single-family housing construction has been encouraging, many families are finding it difficult, if not impossible, to purchase a new home. These families are faced by a "housing affordability" problem that has been caused by inflation pushing up mortgage interest rates and construction costs beyond a corresponding increase in family income. The ability of these families to purchase a new home is made even more marginal by the escalating cost of utilities and local property taxes. Clearly, the percentage of American families who will

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be able to enter the housing market will decline unless the consumer is able to devote a higher percentage of his gross income to housing-related expenses, or some means is found to assist these families to afford the purchase of a new home.

In this regard I call to the Committee's attention a definitive report on the nation's housing needs released March 3 by the MIT-Harvard Joint Center for Urban Studies. The report is entitled, "The Nation's Housing, 1975 to 1985." They point out that in 1970, 46.6 percent of the American families could afford to buy a medium priced new house. By 1976, only 27 percent could afford the same standard.

They point out that sales prices of new single family housing have climbed twice as fast as family incomes have grown over the past 6 years.

More important, they point out that the total measure of housing, the monthly cost of home ownership, which includes the cost of fuel, utilities, property taxes, insurance, and maintenance have increased even more rapidly than the sales prices. These costs have risen 102 percent between 1970 and 1976.

In contrast, median family income has increased just 47 percent over the same period, from \$9,867 to \$14,500.

NHC has long supported the GNMA Special Assistance programs as authorized by the National Housing Act. The Market supports provided by GNMA for the purchase of various types of mortgages have been instrumental in permitting consumers to finance the purchase of new homes when mortgage credit was in scarce supply or available only at extremely high rates of interest. Thus, in 1974, we supported enactment of the Emergency Home Purchase Assistance Act, adding Section 313 to the National Housing Act, which authorized GNMA for the first time to purchase conventional mortgages. This program was well received by our industry and, in many cases, it enabled builders to continue to operate during the bleakest period

-6-

of the recent economic depression. It also contributed substantially to the relatively good level of single-family construction activity in 1976.

We, therefore, recognize the need for the continuation of the Emergency Home Purchase Assistance Act beyond September 30, 1977. Earlier this year we recommended that the Third Congressional Budget Resolution provide budget authority that is still available under the Emergency Housing Act of 1975, a \$3 billion increase in budget authority over the Second Congressional Budget Resolution.

This concludes my portion of the NHC's testimony. I would now like the Committee to hear briefly from Nathaniel J. Parish, a member of the NHC's Board of Directors, who has additional testimony on the Community Development aspect of HUD authorizations.

Thank you for this opportunity to present our views.

NATIONAL HOUSING CONFERENCE RESOLUTIONS
ADOPTED BY THE ENTIRE MEMBERSHIP AT ITS
ANNUAL MEETING IN WASHINGTON, D. C., ON
MARCH 6, 1977

NATIONAL HOUSING CONFERENCE

Leon N. Weiner, President

LEGISLATIVE POLICY AND
RESOLUTIONS COMMITTEE

David L. Krooth, Chairman

Victor A. Altman, Co-Chairman

Jeffrey G. Spragens, Co-Chairman

NATIONAL HOUSING CONFERENCE RESOLUTIONS
 ADOPTED BY THE ENTIRE MEMBERSHIP IN
 WASHINGTON, D. C.
 MARCH 6, 1977

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NATIONAL HOUSING CONFERENCE RESOLUTIONS
ADOPTED BY THE ENTIRE MEMBERSHIP IN

WASHINGTON, D.C.
MARCH 6, 1977

PART I - SUMMARY

Introduction:

The NHC Resolutions are in two parts: Part I is a Summary which is made up of Part A, NHC's Recommendations to President Carter for Immediate and Broad Administrative Actions, and Part B, NHC's Recommendations for a 4-Year Housing Program to Meet the Needs of All Income Groups. Part II sets forth NHC's Recommendations for Housing and Community Development Programs for the current year. In setting forth its Recommendations for an improved Housing and Community Development Program, NHC recognizes that our cities are not static. They are constantly changing and that such changes affect the lives of almost three quarters of the American people. Therefore NHC supports the necessity of urban planning in order to influence the orderly development of our cities. In order to provide land for housing and other economic activity in the inner-city, we must follow a program of urban and community development that conforms to the broad city plan and is effectively carried out in a timely manner. It is within this framework that NHC makes the following recommendations to meet the Housing and Community Development needs of our society.

PART A. NHC RECOMMENDATIONS TO PRESIDENT CARTER FOR
IMMEDIATE AND BROAD ADMINISTRATIVE ACTIONS

President Carter can best achieve his goals for stimulating housing and community development (CD) and providing jobs by directing the new HUD Secretary to:

1. IMMEDIATE ADMINISTRATIVE CHANGES. Initiate a series of administrative changes to allow CD and housing programs to operate as they were intended, namely:

a. Line Authority. By simple administrative order, establish direct line authority between the HUD Assistant Secretary for the Office of Housing - FHA Commissioner and HUD Field Offices. Such an order would permit implementation of OPERATION PUSH-OUT.

b. Improve Use of Funds. Maximum utilization of existing funding. Current regulations and administrative actions have kept production substantially below existing funding levels. The new Administration can assure maximum utilization by:

(1) Section 235. Broaden the market by permitting a range of interest rates from 5% to 1% as allowed by law, and by lowering downpayments to the statutory amount. This program can be used for both new and rehabilitation housing.

(2) Section 236.

(a) Permit increases in subsidy and construction cost limits for existing applications which have been pending for many years;

(b) Eliminate the comparability test;

(c) Allow a higher percentage of units in a project to be assisted by rental assistance payments (RAP) for deep subsidy; and adjust income limits and requirements so as to obtain a broader economic mix and require residents to pay the larger of basic rents or 25% of income.

(3) GNMA Program 23 Tandem. Recycle unused funds and reduce interest rate to a level which is 2% below the legal FHA interest rate. All unusual and restrictive application fees should be eliminated, and the program administered so as to foster its use.

(4) Section 8. Change OMB's calculation of Section 8's impact on the budget so as to make the Section 8 funds produce more housing. Simplify Section 8 processing, especially by eliminating the complicated and ill-administered fair market comparability test.

(5) Public Housing. After finally agreeing to reinstate the program, HUD's new regulations limit production to one type and are generally unworkable. These should be rescinded and the regulations in force at the time of the moratorium should be reissued, restoring the full program. Priority should be granted to projects on available sites -- urban renewal, NDP and CD programs.

(6) Farmers Home Administration (FmHA). Eliminate the present rationing and allocation systems which result in money not being used even though demand far exceeds available funds. Utilize fully and rapidly the monies which were appropriated for personnel to process application backlogs.

(7) Section 202 - Elderly and Handicapped Housing. Although the prior HUD Administration finally allocated relatively few units compared to the tremendous demand, few of these units will even begin construction in 1977 because of the slowness and difficulty of processing. Further, HUD's announced intention of decentralizing processing will further set back production. HUD should use development costs instead of comparables because the latter are hard to find and apply.

c. Staffing. Complete staffing with competent and sympathetic people for key HUD, OMB, VA and FmHA positions. Similarly, appoint such people to the Board of Directors of FIRMA and Federal Home Loan Bank Board.

d. National Commitment. In general, revitalize HUD and FmHA by reestablishing a national commitment to meet housing and community development needs and national goals of equal housing opportunity by providing HUD and FmHA with a staff adequate in numbers and quality of training to process rapidly and well the increased number of applications for new projects and accelerate the processing of requests for assistance for existing programs.

e. HUD Reorganization. In NHC's Recommendations for the first 100 days of the Carter Administration, NHC recommended that there be no immediate reorganization of HUD. NHC reaffirms its position that there should be no immediate reorganization which would disrupt the administration of current programs. However, we recognize that in order to increase production of public housing and to increase production of housing utilizing the traditional FHA programs, some organizational changes must be made. In order to increase production of housing programs utilizing the traditional FHA programs, NHC recommends re-establishing HUD Insuring Offices and establishing direct line authority between the HUD Assistant Secretary for Office of Housing -- FHA Commissioner and such Insuring Offices.

In order to stimulate production and effective implementation of urban planning, community development and public housing programs, NHC recommends that the Regional Offices be strengthened and that the non-FHA components of the area offices be returned to the Regional Offices in order to increase the competency and staffing depth of the Regional Offices.

f. Affirmative Action. Establish a clear Presidential policy for Affirmative Action to make fair housing and equal opportunity programs more effective in achieving non-discrimination in all HUD programs.

g. Existing Housing. As set forth in Part II, Part A, Chapter VIII, a number of steps can be taken immediately by administrative action which will facilitate the utilization of current appropriations.

h. Community Development. The capacity of local governments to carry out employment-generating and development activities can be greatly increased by taking the administrative steps set forth in Part II, Part B, Chapter I, below. These include use of the discretionary funds to enhance on-going local CD programs, and to maximize the funds to hold-harmless and entitlement communities; also, use of the "urgent needs funds" of CD to complete on-going programs.

i. Better Coordination. Initiate effective measures to provide adequate and fair mortgage financing for areas that have had difficulty in receiving adequate mortgage credits, such as inner-city neighborhoods, declining neighborhoods, and neighborhoods of minority concentration.

2. OPERATION PUSH-OUT

Implement an effective OPERATION PUSH-OUT so as to produce starts in 1977, on more than 200,000 units of housing which are already in the HUD pipeline in various stages of processing. Such an operation was successful and with effective leadership under a presidential call stating the urgency of maximizing well-processed housing production, OPERATION PUSH-OUT can immediately increase jobs significantly.

3. IMMEDIATE LEGISLATIVE REQUESTS

Request any legislative amendments needed to make housing and CD programs more effective and request budget authority, authorizations and appropriations at sufficient funding levels so as to use all existing programs fully.

a. Prepare program funding levels in time to meet congressional budget deadlines of March 15, 1977 for Fiscal Year 1978. Special attention should be given to requesting the remaining \$5 billion for mortgage purchases under the Emergency Housing Act of 1975 and additional CD funding.

b. Establish housing guidelines for the entire Presidential term, which would reaffirm the national housing goals and take into consideration changing demographic structure and economic trends, and develop a 4-year program which would make up for the shortfall in achieving the goals of the last several years. For example, there should be a program to implement NHC's 4-year program for 1.2 million annual assisted units.

c. NHC supports the reported extension of Regulation Q, which provides for incentives for savings in S&Ls and Mutual Savings Banks beyond the March 1 expiration date and the continuation of current interest rate differential. This

extension should be a simple extension and not tied to any overall legislation reform of mortgage credit programs.

d. Prepare recommendations to Congress to initiate a Marshall-type plan for revitalizing older and depressed cities with emphasis on large-scale job-creating projects.

e. The Section 312 rehabilitation loan program should be extended for at least 3 years, with annual authorizations of at least \$150,000,000.

f. The rent supplement program should be funded by requesting the appropriation of all existing authorizations and the regulation requiring that rents be at least 30% of the economic rent should be abolished.

g. Allow area offices after consulting with local and state housing agencies and non-profit sponsors, builders and housing managers and others, to set income limits, eligibility standards, and rent income ratios. These items vary greatly from area to area and national standards cannot be accurately applied.

h. Raise the mortgage limits for Section 221(d)(3), a program utilized by non-profit and cooperative sponsors, to equal the Section 220 mortgage limits so that nonprofits, which operate under the same cost constraints as profit-motivated sponsors, will not be discriminated against in producing housing in high cost areas.

PART B. NHC RECOMMENDATIONS FOR FOUR-YEAR HOUSING
PROGRAM TO MEET THE NEEDS OF ALL INCOME GROUPS

1. GOAL:

The National Housing Conference reaffirms the fact that there still exists a serious housing shortage for many Americans. This housing shortage pervades our cities and rural areas and is a serious problem for all of our citizens, except the very wealthy. Because of the drastic reduction in recent years of all types of housing production, NHC in addition to its recommendations for the current year (in Part II), finds it necessary to set forth recommendations for a four-year housing program which should be followed by the new Administration. This program sets forth a four-year goal of production of 1,200,000^{1/2} units annually of assisted housing. However, NHC wishes to make clear that 1,200,000 units of annual assisted housing production is far less than the actual number of units needed. NHC recognizes, however, that it is practically impossible to reach the production of 1,200,000 units of assisted housing per year immediately. Therefore, we are calling for 600,000 units now and a move towards a goal of 1,200,000 units annually within 4 years.

^{1/2} NHC has set a goal of 1,200,000 units annually. This is an approximate number. The actual number is 1,240,000. For ease of reference, the number 1,200,000 is used in most places in the Resolutions. The actual number as described herein is 1,240,000.

Income Groups To Be Served:

The four income groups to be served by this new program include:

- those of very low incomes whose incomes do not exceed 50% of the median;
- those of low incomes whose incomes do not exceed 80% of the median;
- those of moderate incomes whose incomes do not exceed the median; and
- those of middle incomes whose incomes do not exceed 120% of the median.

2. HOUSING PROGRAMS TO BE UTILIZED:

The housing programs to be utilized in achieving NHC's four-year program are summarized in the table below. The table also indicates the number of units assigned for production to each program.

HOUSING PROGRAMS TO BE UTILIZED TO MEET NHC'S GOAL OF
1,240,000 ASSISTED HOUSING UNITS ANNUALLY IN THE NEXT FOUR YEARS

<u>Program</u>	<u>Annual Production of Units</u>	<u>Very Low Income Under 50% Median</u>	<u>Low Income 50% to 80% Median</u>	<u>Moderate Income 80% to 100% Median</u>	<u>Middle Income 100% to 120% Median</u>
Public Housing and Section 8	520,000	310,000	210,000		
Section 236	200,000	50,000	75,000	75,000	
Section 235	200,000		75,000	125,000	
Farmers Home (Rural) ^{1/}	120,000	25,000	55,000	40,000	
GNMA Purchase of 6% Mortgages	<u>200,000</u>	_____	_____	_____	<u>200,000</u>
TOTALS	1,240,000 ^{2/}	385,000	415,000	240,000	200,000

^{1/} HUD estimates that about 10% of all HUD programs serve rural areas. Therefore, NHC's program would make about 180,000 units available for rural areas annually.

^{2/} The annual production of units of 1,240,000 includes the Section 202 program to the extent that Section 8 assistance is made available under that program. NHC is recommending 50,000 units under the Section 202 program.

3. NEED FOR ECONOMIC MIX:

Under NHC's recommended program, all housing should achieve the objectives in the 1974 Housing Act that there be an economic mix.

4. NEED FOR COORDINATION WITH COMMUNITY DEVELOPMENT PROGRAMS:

Along with the housing produced under this program, there should be imaginative coordination with the CD programs to assure suitable living environments.

5. NEED FOR ASSISTANCE TO STATE HOUSING FINANCE AGENCIES:

NHC recommends immediate use of legislation authorizing a Federal guarantee of bonds issued by State housing agencies.

6. NEW BOLD PROGRAM TO PRESERVE EXISTING NEIGHBORHOODS AND TO ELIMINATE ABANDONED HOUSING:

NHC recommends a comprehensive program to coordinate all efforts to launch new programs to preserve existing housing in neighborhoods and to eliminate the waste of abandoned housing. All existing programs should be used including the use of the Section 312 Rehabilitation Loan program. NHC recommends three years of annual appropriations of \$150,000,000 each year.

7. PAYMENT OF FULL TAXES:

All subsidized housing programs should include adequate subsidies to enable projects receiving assistance to pay full local taxes. When payment of full taxes results in projects not being feasible, additional subsidy money should automatically be made available to allow the projects to go forward.

8. SOCIAL SERVICES AND COUNSELLING NEEDED FOR EXISTING PROJECTS AND SINGLE FAMILY HOUSING:

Recent studies have confirmed the fact that proper counselling and social services in subsidized housing projects drastically decrease the chance of failure of such projects. Therefore a special fund should be allocated for every unit for pre-occupancy counselling. In addition, funds should be available for on-going social services on an annual basis. These funds should be provided by HUD from a special allocation or, if they are included in the cost of operating the project, additional operating subsidies should be made available. HUD should establish a fully funded program of training and support to housing counselling agencies at an annual funding rate of \$10 million.

9. COST OF HOUSING PROGRAMS TO BE UTILIZED:

The estimated annual assistance cost after initial occupancy is summarized for each of the programs in the table on the following page.

ESTIMATED ANNUAL ASSISTANCE COST OF
EACH YEAR'S HOUSING PROGRAM AFTER OCCUPANCY

<u>CONVENTIONAL PUBLIC HOUSING RENTAL AND SECTION 8 RENTAL:</u> ^{1/}		
Very low income and low income:		\$1,533,000,000
<u>SECTION 236 RENTAL:</u> ^{1/}		
Moderate income: 75,000 x \$1,500/Unit	112,500,000	
Low Income: 75,000 x \$2,200/Unit	165,000,000	
Very Low Income: 50,000 x \$3,600/Unit	<u>180,000,000</u>	
		\$ 457,500,000
<u>SECTION 235 HOME OWNERSHIP:</u> ^{2/}		
Low income: 75,000 x \$2,000/Unit		\$ 150,000,000
<u>FARMERS HOME ADMINISTRATION PROGRAM:</u>		
Very low income, low income and moderate income:		
90,000 home ownership x \$1,500/unit	135,000,000	
30,000 rental x \$2,000/unit	<u>60,000,000</u>	
		\$ 195,000,000
<u>6% INTEREST RATE PROGRAM FOR HOME OWNERSHIP AND RENTAL:</u>		
Middle income: 200,000 x \$480/unit		<u>\$ 96,000,000</u>
	TOTAL ^{3/}	\$2,431,500,000

^{1/} Under existint law, the term "rental" includes cooperative ownership under Sections 8 and 236. All estimates of subsidy costs (including operating and rental subsidies) are based on a National average which takes into account dramatic regional variances.

^{2/} Under existint law, the term "home ownership" includes cooperative ownership under Section 235.

^{3/} Section 312 Rehabilitation program is recommended for funding of \$150 million per year. See Chapter VIII, Part II.

PART II - HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS FOR CURRENT YEARPART A. HOUSINGCHAPTER I. URGENT NEED TO INCREASE HOUSING PRODUCTION TO MEET NEEDS AND TO PRODUCE JOBS1. Introduction.

There is great need for federal assistance to spur the construction of needed housing and thereby reduce unemployment. Housing production continues to fall far short of the minimum annual housing requirements, and there are growing shortages of standard housing affordable to low and middle income people. The so-called housing recovery -- particularly with respect to multifamily production -- has gone flat and housing costs continue their inflationary rise. It is extremely timely for President Carter to search for effective initiatives to further stimulate the stalled economic recovery he has inherited.

There has been a continued national under-production of housing units relative to need, particularly with respect to low and moderate income housing. NHC urges accelerated utilization of existing programs and development of new initiatives.

There is a dangerous socio-economic condition created by high concentrations of unemployed persons, which bears upon possible solutions to inadequate housing conditions in older central cities. Late last summer, numerous occurrences of vandalism and violence by bands of youths in Detroit and New York assumed mini-riot proportions. Such incidents, which serve as grave reminders of the full-fledged riots of the sixties, have serious repercussions. They create an urban environment which decreases the desirability for residents in such areas, or the likelihood of revitalizing them through rehabilitation and occupancy of existing vacant units. This environment exacerbates the net out-migration from the older cities and decreases their base and fiscal capacity. Any consideration of future housing policy and programs for older central cities will need to address the high unemployment problem if the housing program in those areas is to be successful.

2. Need to Produce Jobs

The national unemployment level is at an unacceptable rate. However, the unemployment rate for workers in the construction industry is even worse. While the unemployment rate is down from the high of 18.1 percent in October 1975, the present rate still represents a serious under-utilization of trained manpower. At the same time, the need for housing has never been greater, especially housing that can be afforded by the vast majority of our citizens.

3. Need to Produce Housing

Private, non-subsidized production is not meeting housing needs. Annual housing needs, as estimated by Henry R. Schechter, Director of Urban Affairs, AFL-CIO, are 2.5 million units for the period 1977-1980.

The components of this estimated need are as follows:

	<u>Annual Housing Needs</u> <u>1977-1980</u>
Annual increase in households	1,550,000
Replacement of losses from the supply	750,000
Replacement of 3.5 million occupied, substandard units, over ten-year period	350,000
Additions for the vacancy "float" and absorption of units for seasonal and secondary homes	<u>150,000</u>
TOTAL ANNUAL basic requirement	2,800,000
Less: Mobile homes added	<u>300,000</u>
TOTAL NET regular unit additions needed	2,500,000

NHC has never recognized that mobile homes and trailers are acceptable housing. The 1968 goal of 2.6 million units to be produced each year did not include mobile homes. Therefore, the need documented above easily supports NHC's recommendations to adhere to the 1968 goal of 2.6 million new units annually, and NHC's new goal of 1.2 million of those units to be assisted.

Recent housing production levels compared to estimated basic needs show a serious shortfall in meeting the basic needs. The 1973-75 downturn in housing was the deepest and most prolonged since World War II. Total annual housing starts (public and private) dropped 51 percent from a high of 2.38 million in 1972 to only 1.17 million in 1975. Only 1.55 million units were started in 1976. Thus, 1976 -- with a shortfall of about 650,000 units below needs, will mark the third consecutive year of production deficiency relative to needs. The deficiencies in 1974 and 1975 were about 750,000 and 900,000 respectively. The three-year cumulative production deficiency is about 2.3 million, and this does not include replacement of occupied substandard units.

Demographic data indicate significant additional potential for new home sales. Between 1970 and 1974, the average annual increase in the number of households with heads aged 25-44 (age when most families consider purchasing a home) was 632,000. For 1974 to 1980, the projected comparable annual increase is around 870,000.

Housing construction starts in rental-type structures of five or more units has remained within an annual range of 200,000 to 300,000 units during 1974-1976 compared with a range of 800,000 to 900,000 in the years 1971 to 1973. Of total housing units started, the proportion attributable to multifamily starts has dropped significantly in the last two years. Between 1969 and 1973, between 38-39 percent of all units started were multifamily; in 1975, less than 18 percent were multifamily. As the data suggest, the greatest potential for increased production lies in the rental segment of the market.

The existing inventory is inadequate to counteract the inflation in housing prices and rents which is caused by shortfalls in production and increasing demand. The median price of existing homes sold in November 1976 increased 9% in a year. Rents are going up at 6% per year. For new homes, the median price in November, 1976, \$46,100, was 12% more than a year ago, reflecting local shortages as well as increases in component costs.

Many low and moderate-income households, who cannot buy or rent at current price levels, are doubling up, causing overcrowding and excessive wear and tear of the existing housing stock.

In order to stop adding to the cumulative production deficiency and to replace one-tenth of the occupied substandard units a year, 2.8 million standard units must be added in each of the four years 1977-80. Every effort should be made to improve substandard units through rehabilitation.

CHAPTER II. OPERATION PUSH-OUT TO ACHIEVE PROMPT STARTS ON THOUSANDS OF UNITS OF ASSISTED HOUSING IN HUD PIPELINE WITH AVAILABLE FUNDS

At the direction of President Carter, HUD Secretary Harris and QMB Director Lance, HUD could get a quick start on construction in 1977 of thousands of units of assisted housing by reviving the Operation Push-Out Program which was used successfully in 1971. These housing projects are already in the HUD pipeline and have funds available under assisted programs. There is a long-neglected need for this housing among families of lower and moderate incomes who will be able to afford the monthly charges achieved through federal assistance. The Secretary of HUD last year set as a goal the prompt processing of 784 applications for Section 236 projects. The prior HUD Administration before leaving office announced that only about one-half of its goals were met. These units would have provided thousands of full-time jobs for a year or more and greatly increase national production and federal tax revenues.

Operation Push-Out could provide expeditious processing and cut red tape on projects in the HUD pipeline. HUD should give top priority to getting these units under construction at the earliest possible date, with a target that all of them should start this year. While admittedly insurance companies and other private lenders do not have some of the processing requirements of a government agency, it is significant that they are able to issue commitments and get housing started within a few months. In 1971, when HUD utilized Operation Push-Out, they were able to get commitments issued quickly and achieve a high volume of housing starts on multifamily projects. This will be more readily achievable on the projects which have been in the HUD pipeline for a long time and need an extra push to get construction started.

Housing start targets should be established for every project in the pipeline, with weekly progress reports required on them. Special task forces should be sent from Washington to HUD offices to assure that these targets are met. There should be reassignments and additions to the production staff to get the job done. Some of the experienced personnel who have retired should be called back into service during this critical period. Congress should promptly appropriate additional funds to expand HUD's production staff to push housing starts.

Operation Push-Out is the fastest way to get a quick start of construction on the units in the HUD pipeline with available funds under assisted programs. The new Secretary of HUD should set firm goals for achieving production of such housing. Operation Push-Out will help achieve these goals.

The following specific achievements are possible under OPERATION PUSH-OUT:

Public Housing. Exclusive of Indian housing there are a total of 56,000 units in projects with pre-January 1973 bona-fide commitments that have not been started, including 41,000 units that already have been funded.

OPERATION PUSH-OUT could start about 30,000 instead of 10,000 public housing units in 1977 for a net increase of 20,000.

Contract authority for Fiscal Year 1977 is sufficient to place the 20,000 units under commitment, including 6,000 for Indians and 14,000 for others. To achieve this result, HUD should reinstitute the regulations and procedures in force at the time immediately prior to the moratorium of January 1973. HUD should not discourage any of the public housing programs which were in operation prior to the January 1973 moratorium.

Section 8. This program provides housing assistance payments for low- and moderate-income tenants in projects that are financed under other mortgage insurance or mortgage loan programs. Contracts for assistance payments with respect to privately owned new construction or substantially rehabilitated projects may not exceed 20 years. (It may be up to 40 years for projects under State or local public agency programs.) However, 40 year financing is required in order to have market (i.e., pre-subsidy) rents that do not exceed established Fair Market Rents, but private lenders are reluctant to make loans for 40 years when assistance contracts are limited to 20 years. It is also difficult to keep market rents below Fair Market Rents, based on rents for comparable units in the locality, with 9 to 9-1/2 percent mortgage interest rate financing. For that reason the new construction part of the Section 8 program is largely dependent upon (1) State housing finance agency programs which have tax-exempt financing with lower interest rates than private mortgages, as well as 40 year assistance payment contracts; and (2) FHA-insured mortgage loans to private developers bearing a 7-1/2 percent interest rate provided by GNMA under the Brooke-Cranston Act as part of the "tandem plan" operation.

As of October 29, 1976, the estimated Section 8 fund reservations, new construction, were:

State-agency related	59,000
Private	<u>105,000</u>
	164,000

Section 8 starts through October 29, 1976 were about 24,000 or about 2,500 per month. By using OPERATION PUSH-OUT, and simplifying the processing, Section 8 starts could be stepped up to 5,000-6,000 units per month in 1977. This would result in approximately 35,000 additional starts in 1977.

Section 202. About 9,000 units of Section 8 are to be financed with Section 202 direct loans. About 25,000 units have preliminary Section 202 loan reservations. There is a lack of a definitive organization and procedure to process Section 202 project applications. If this could be rectified perhaps 10,000 to 15,000 more units might be started in 1977.

Section 236. There are still projects with 23,000 units with bona-fide, pre-January 1973 Section 236 (rental housing assistance) commitments, including 16,000 that have been funded. Available data suggest an annual starts rate of 5 to 6 thousand. With a willingness to push for starts, it might be possible to get

15,000 to 16,000 unit starts in 1977, for a net gain of 10,000 units. There are many projects which cannot be started because costs have escalated since the project applications were filed several years ago. If HUD would permit amendments of development cost ceilings to recognize the cost increases, such projects could be started.

Section 235. With interest rate reduction to the allowed 1% and a return to the statutory required downpayments, the program could achieve substantially more production than projected by former Secretary Hills. We project an increase of 100,000 starts in 1977, if OPERATION PUSH-OUT would be utilized.

Farmers Home Administration Section 502 Interest-Credit Loans. A substantial amount of authorized funds has not been used. The allocation for subsidized housing loans for fiscal 1977 is \$930 million for new construction and \$620 million for existing housing. That would support roughly 40,000 new homes and 25,000 existing home purchases. By shifting \$400 million more from existing to new home allocation and by implementing OPERATION PUSH-OUT an additional 15,000 new housing units could be started.

To summarize, the estimated possible net increases in subsidized housing construction, if appropriate actions are pursued, would be as follows:

Public Housing	20,000
Section 8	35,000
Section 202	15,000
Section 236	10,000
Section 235	100,000
Section 502	<u>15,000</u>
	195,000

CHAPTER III. IMMEDIATE REQUEST OF PRESIDENT CARTER AND SECRETARY HARRIS FOR CONGRESSIONAL ACTION TO INCREASE AND ACCELERATE EXISTING HOUSING PROGRAMS

The following housing programs have proved effective and important in stimulating needed housing production and creating jobs. NHC urges that President Carter and Secretary Harris make the following request to Congress for special Congressional action to activate and increase the existing programs:

a. Additional Authorizations and Other Funds for the Public Housing and Turnkey Programs

We recommend that \$300 million in annual contribution authority be made available for the development of traditional public housing, including turnkey projects. This should provide at least 120,000 additional units of such housing for families of very low and low income. There is a particularly urgent need for a large number of these public housing units for the elderly under the turnkey program.

Besides the measures taken in the 1974 Housing Act to increase income from public housing, it must be recognized that an adequate continuing amount of operating subsidies is necessary for the proper operation and maintenance of public housing. The Fiscal Year 1978 budget for operating subsidies in public housing should be \$700 million.

b. The Section 235 program should be extended by legislation, for two more years to September 1979. Present funds would support 250,000 units but only an estimated 50,000 will be started in fiscal year 1977. With program momentum and increased processing capacity at HUD, it might be possible to accelerate starts in fiscal year 1977 and achieve much higher levels in fiscal years 1978 and 1979. Mortgage limits should be increased to make the program feasible in higher cost areas.

c. Additional Funding for Assisted Private Housing Under Section 236.

The Section 236 program should be extended, by legislation, for two more years to September 1979. There should be \$427 million as contract authority. This should provide 200,000 additional units of multifamily housing.

The 1974 Housing Act improved the Section 236 program. The financial difficulties of some existing 236 projects resulted from unforeseen inflation and energy cost increases and not from mismanagement or miscalculation. HUD should take necessary and timely actions on rent increases, operating subsidies and other matters to assure the continued viability of the projects. Section 236 admission limits should be raised so that needy families -- who do not qualify under current, too-restrictive income limits -- can occupy units and get a partial subsidy. The 1974 Housing Act requires projects to serve a reasonable range of income groups, including low and moderate income families. This would serve to decrease the total subsidy per unit.

The program of operating subsidies for Section 236 projects with major increases in utility costs, as authorized by the Housing Act of 1974, should be amended to eliminate all restrictions except the basic requirement that all tenants must pay not less than 25% of 'net income' as defined by HUD. This operating subsidy program should then be implemented for all Section 236 projects. This amendment is needed because the operating subsidy program as now authorized is administratively unworkable because of conflicting limitations.

d. Appropriate and release \$2 billion of the \$5 billion in GNMA Tandem Plan funds already authorized by Congress but not appropriated. These funds could be divided between multifamily and single family mortgages. If \$2 billion were used for multifamily housing, it would support about 80,000 more units, which would probably all be started in fiscal year 1979. This program is needed.

CHAPTER IV. SECTION 8 PROGRAM SHOULD BE MODIFIED.

If the Section 8 program is to provide adequate production of assisted housing, the Administration and Congress should immediately enact and implement the following modifications in order to achieve a significant volume under the Section 8 program:

a. Concurrent Processing

Section 8 projects which will include any form of FHA insurance ought to be given concurrent processing so that the Section 8 contract and the insurance approval are issued at the same time. In the case of Section 8 projects, all preliminary processing fees for FHA insurance should be waived.

b. New Allocation System

The system for allocation of Section 8 units should be altered. Each HUD field office should be given an allocation of units. It then should establish a time frame for receipt of applications from throughout the jurisdiction. Priorities for approval should include factors such as: (1) potential for early project start (e.g., site availability, no infra-structure problem, proper zoning); (2) conformity to local Housing Assistance Plan; (3) rebuilding of urban renewal or community development area; and (4) degree to which project contributes to

diversification of the housing supply for minority groups. Project applications not approved in the first round should be held and preliminary processing started so that they might be substituted if any first round choices cannot move ahead expeditiously.

c. Increases in Contract Rents

NHC recommends that Section 880.209(b) be revised so that requests for increases in contract rents prior to Final Proposal approval or Architect's Certification be permitted to a maximum of Fair Market Rents in effect at the time of the request.

HUD's December 30, 1976 proposed regulations do liberalize the provision for increases in contract rents but limit the increase to the Fair Market Rent in effect at the time of submission of the preliminary proposal even though there may be a time difference of twelve months between submission and final approval. NHC urges HUD in its final regulations to limit the maximum increase in contract rents to the FMRs that exist at the time of the request.

The proposed regulations also stipulate that rent increases be granted only on the conditions that the increased rents are due to factors beyond the owner's control and that rents were not a deciding factor in the proposal's selection. If the factors causing the rent increase were beyond the owner's control, then this would apply across the board to all applicants so that the "not a deciding factor" test need not be applied.

d. Section 8 Processing

HUD delays in processing proposals are resulting in unreimbursed cost increases to sponsors, particularly sponsors proposing use of FHA insurance. As a partial solution to this problem, NHC recommends that at the time HUD advertises for Section 8 proposals, HUD identify its time schedule for the various processing stages.

NHC recommends the option of a "single track processing system" when FHA insurance is involved. Processing should be set up whereby sponsors could obtain a conditional commitment for FHA-insured mortgages simultaneously with Section 8 preliminary proposal approval. Although this method is theoretically permitted by the Handbook, it has not worked in practice.

e. FHA Insured Section 8 Projects

NEC recommends the following changes in the Section 8 regulations relating to Section 8 projects with FHA insured mortgages:

(1) That Section 880.207(c) be revised so that when a sponsor has received Section 8 unit reservations and he applies for a FHA insured mortgage, the rents under the insured mortgage program shall automatically be the same as the contract rents approved in the Section 8 proposal; and

(2) That Section 880.110 be clarified so that the automatic annual rent adjustment for the Section 8 program supersede any and all rent increase requirements attributable to any FHA insured mortgage program.

f. Rent Comparability Test

Despite HUD's recent revision of adjustment factors to the method of determining comparables for Section 8 units, the market comparable test remains a major hindrance to the production of Section 8 housing. The inflation experienced by the housing industry over the last several years combined with a market situation which has kept an artificial ceiling on existing rents produces comparables which are unrealistic.

NHC recommends the elimination of the comparable requirement and empowering HUD Area Office Directors with the discretion to determine reasonable rents taking into account the developer's costs and need for a reasonable profit. This practice is now followed by state housing finance agencies.

g. Section 8 Financing.

In designing Section 8, HUD sought to separate federally assured financing from the subsidy mechanism, looking to the conventional market to bear the financing load and risk. This divorce of financing and subsidy has simply not worked and has proven the principal obstacle to making Section 8 work. The financial community's fear of vacant Section 8 units and unnecessary risks have made it continually difficult for developers to secure conventional financing for their projects and public housing agencies to market Section 8 bonds. The following changes are needed to correct this serious defect:

(1) Assurance of Cash Flow

NHC recommends federal assurance of cash flow in the amount of a unit's debt service for the contract period (20 or 40 years), for Section 8 new construction and substantial rehabilitation projects whether publicly or privately financed.

Under this proposed statutory change, HUD's award of Section 8 funding would automatically be accompanied by the cash flow guarantee. However, such guarantee would not be absolute; an owner would be required to keep the units in decent, safe and sanitary condition and would have to make good faith efforts to rent vacant units.

(2) Federal Backup of LHA Borrowing Under Section 4

In addition, NHC recommends utilizing Section 4 of the U.S. Housing Act of 1937 as a Section 8 financing mechanism. In effect, the loan mechanism in this section provides for a federal guarantee of bonds issued by a housing authority to finance Section 8 PMA projects.

(3) Section 11(b) Tax Exempt Bonds

NHC also urges HUD to permit the use of proceeds of tax exempt bonds issued by non-profits claiming exemption under 11(b) of the U.S. Housing Act of 1937 for both construction and permanent financing. If the forthcoming proposed regulations limit the use of bond proceeds to permanent financing, NHC urges that the restriction be modified in the final regulations.

(4) Longer Term Contracts.

A legislative amendment is needed to extend the amortization period on privately financed Section 8 obligations from 20 to 40 years, or for the term of the permanent financing.

NHC also suggests the following changes in the Section 8 Existing Housing Program:

(1) Fair Market Rents

Low Fair Market Rents for the Section 8 Existing Housing Program discourage participation in the program. As presently determined, FMRs neither reflect varying housing market conditions nor varying housing stock within an SMSA.

The 10 percent limitation on increases in FMRs established by the Fiscal Year 1976 Appropriations Act has expired. NHC urges HUD to act expeditiously on all requests for increases in FMRs.

Responding to a May, 1976 reconnaissance study of the Existing Housing Program, HUD agreed to publish FMRs for individual counties to relieve the problems of widely varying rent levels within an SMSA. The Department also agreed to calculate separate FMRs for single family units as there are substantial price differences between single family and multi-family structures. We urge immediate implementation of these promised changes.

- Review and adjust fair market rents to assure that available, standard units are made available in other than areas of low income and minority concentration; and to meet the requirements of large family units.
- Review and adjust "fair market rents" to insure that adequate management and tenant services are made available.

(2) Administrative Fees and Shoppers' Incentive Credit

Although slightly revised in August 1976, the formula determining PHAs' administrative fees continues to discriminate against PHAs with small allocations and geographically large service areas. PHAs are presently allowed an administrative fee for each unit month under the HAP contract equal to 8-1/2 percent of the existing FMR for a 2-bedroom, non-elevator unit in the locality or \$15, whichever is greater.

NHC urges that a more equitable formula be developed that reflects actual administrative costs.

(3) Develop incentives, statutory if necessary, to provide for the Administration of the Section 8 Existing Program on a coordinated community wide and area wide basis by local housing authorities. This would make possible common ground rules and regulations and less confusion for lower income families. In addition, small rural communities and small LHAs have not been able to participate in the program because they lack staff and the small number of allocated units make participation infeasible. Steps should be taken to stimulate the creation of county-wide and area-wide housing authorities.

(4) Reduce the complexity of the program requirements and reporting which is confusing for the low income applicant and burdensome to the local housing authority.

(5) Section 23

Under present HUD policy, Section 23 lease renewals may only be granted for occupied units or units to be reoccupied within 30 days. These renewals must expire by June 30, 1978 (or by June 30, 1979, with HUD approval).

Many owners do not wish to convert their Section 23 units to Section 8 units. NHC urges HUD to allow Section 23 units to run the term of their contract so that many tenants will not be left homeless because landlords refuse to convert to Section 8.

Make more flexible the proposed responsibilities of landlords to assure that negotiations can be undertaken with landlords that can be adjusted to particular needs and circumstances, as previously demonstrated under the Section 23 leasing program.

(6) Section 8/Section 515 Projects

NHC urges the Farmers Home Administration to eliminate FmHA's present restrictions on profit-motivated sponsors applying under the single-track processing and taking advantage of the interest-credit. NHC urges FmHA to lower its general interest rate to 7% to obviate the need for interest credits.

NHC also suggests to HUD and FmHA that Section 8 sponsors be permitted to apply for Section 8 subsidies and Section 515 loans either under dual track processing or single track processing.

(7) Section 8 - Non-FHA Housing

Many LEAs own and/or operate non-federally aided housing. Current HUD regulations prohibit LEA's using Section 8 Existing to assist these families and permit HUD or FHA to issue such Certification of Participation. HUD's expressed fear that conflict of interest exists is unrealistic and this regulation should be changed to eliminate this discrimination against many poor families.

CHAPTER V. SECTION 8 AND PUBLIC HOUSING PROGRAMS

a. Public Housing Production (New Construction)

The public housing program now has approximately 1,300,000 units in management. There are an additional 50,000 units at some stage in the production pipeline; these are "bona-fide" units under the terms of the moratorium of January, 1973, but which have not yet been completed. The HUD budget for FY 1977 proposes new contract approvals for 21,260 units, amendments to existing contracts for 64,000 units, and 6,000 new contract approvals for Indian housing. A supplemental request has been proposed recently by Secretary Harris for 50,000 additional units in FY 1977. This is the end of the current public housing pipeline. Over 200,000 units in application were returned to local housing authorities by HUD Area Offices in January, 1973.

NHC recommends the transfer of \$250,000,000 in contract authority in the Section 8 program to provide for the development (new construction) of approximately 80,000 traditional public housing units. These units can be financed quickly through the sale of tax-exempt bonds by local housing authorities, backed by the full faith and credit of the Federal Government, and fill the gap caused by the present inability to finance Section 8 assisted new construction. Some of the proposed developments (over 200,000 units in application) from the 1973 moratorium can be quickly put into processing.

The Congress, in 1975, set aside \$50,000,000 for contract authority to be used for the new construction or acquisition of housing under the additional public housing programs. The Administration has proposed in its FY 1977 budget to use this authority for local housing authorities to acquire about 30,000 units of FHA housing either defaulted or in troubled projects.

NHC recommends that any such acquisition be financed out of authority now allocated to Section 8 new construction, but that \$50,000,000 set aside by the Congress be used for the development of new housing under the traditional public housing program.

b. Operating Assistance For Public Housing

NHC recommends that the Performance Funding System be fully implemented by allocating the full amount assigned under the approved formula. The estimate for operating assistance based on this formula is approximately \$700,000,000 in contrast to the \$612,000,000 proposed by the Ford Administration budget. There are serious inequities in HUD's Performance Funding System (PFS) covering the provisions of operating subsidies for operation of low rent public housing programs. NHC recommends that HUD consider the following changes to the PFS:

- (1) Authority Size Factor - The total unit months available in the conventional low rent housing program in the locality should be added as an indicator of overall PHA capacity.
- (2) Bedroom Size Factor - The bedroom size factor should include an allowance for "efficiencies", as well as other bedroom sizes. Efficiencies should be counted the same as "One-Bedroom" units.
- (3) Project Height Factor - Cost allowances involving height of buildings should relate to the HUD approved and published Fair Market Rents for the locality and should be applied separately for "Elevator" buildings, and "Non-Elevator", as published in each category for a 2-Bedroom unit.
- (4) HUD Regional Relative Cost Factor - A relative cost factor should be determined for each HUD Regional Area for large, medium, and small size PHA's using the same criteria for separating size classes as was used in the 120 PHA sample used by the Urban Institute in their study of PHA performance.
- (5) Appeals Procedure - An appeals policy should be provided which would allow any PHA, including those who are "over the upper range limits" in the PFS formula, to detail and submit supporting information to describe and justify unusual or special conditions that need to be recognized in connection with PHA operations. The appeals procedure should specify time limits for submission by PHA's as well as time limits for HUD response.

(6) Operating Reserve Start-up Minimum Factor - A PHA should have a one time operating reserve allowance to start operations under the PFS, providing the operating reserve at the end of the fiscal year, immediately preceding PFS start-up, is below 40% of the maximum allowable. The one time allowance should be an amount that brings the operating reserve to 40% of the maximum allowable, at the start of PFS.

(7) Deferred Maintenance Funding - The PFS needs to allow for special funding to cover catch-up deferred maintenance. All of the deferred maintenance needs may be impossible or impractical to correct within one fiscal year of operations. The PHA should prepare and maintain an inventory of deferred maintenance needs which will include justification and cost estimates, and which will be submitted annually with the operating budget. If the total deferred maintenance need cannot be accomplished within the fiscal operating year of the PHA, the amount that can be completed, and the total funds needed for the operating year, should be funded within the PFS.

(8) Special Security Funding - Only a minority in the total number of PHA's have a special need for additional funding for security purposes. The PFS prototype formula should allow for a "Basic Supportable Expense Level" for all PHA's with consideration of the variable factors above and include special additional funding for those PHA's that provide full details and justification for special needs (above the basic supportable expense level) for security purposes.

(9) Special Social Services Funding - For the same reason as outlined above for special security funding, special additional funding for those PHA's that provide full details and justification for the special need should be available within the PFS.

(10) Non-Routine Special Funding - The PFS should include special additional funding for non-routine costs covering major extra-ordinary maintenance items, costs of special operating capital equipment, or other major special needs.

(11) Utility Allowances - The formula for computation of allowable utility costs needs to be simplified. The costs allowed should be based on current consumption rather than on a 3-year average.

(12) Funding Authorization and Appropriations - HUD should request, and CMB and Congress should approve, authorization and appropriations to cover full PHA operating subsidy funding based on the approved PFS. Assurances should be given by CMB and Congress that supplemental HUD appropriation requests would be invited to cover deficits resulting from PFS full implementation of current rules and regulations.

(13) Income Projections - PHA income projections should not be based on a national arbitrary amount but rather be based on more realistic local economic factors including wage levels, unemployment rates, welfare allowances, etc.

(14) Inflation Factor - More realistic "inflation factors" are needed for each locality which are computed on a broader base than wage data alone. As in the case of "income projections" described above, inflation amounts should also include all economic factors in an area.

(15) Incentive Benefit for Reduced Utility Consumption - The incentive benefit, as described in the previous approved PFS rules, involved with reduced utility consumption accomplishment should be greater, in favor of the PHA rather than HUD. It is recommended that regulations provide for a 75% retention in savings by the PHA, with the balance to HUD.

(16) Monitor and Evaluation of PFS Experience - The PFS was first implemented with PHA's with fiscal year starting April 1, 1975. The PFS experience should be monitored and fully evaluated to seek ways of further refinement or to determine if a completely different funding system is needed. It is recommended that HUD provide funds and proceed with a full evaluation of the PFS to date. The evaluation should be done by experienced, and technically qualified, professional persons, including those with full knowledge of subsidized low rent housing operations.

(17) HUD publish all data needed for each PHA to complete PFS Form at least one month before Budget is due.

c. Modernization

The estimated modernization need for older housing developments is \$1,600,000,000. NHC recommends a four-year program requiring an allocation of \$40,000,000 in contract authority in each of the four years.

d. Deferred Maintenance

The estimated backlog of deferred maintenance is \$400,000,000. NHC recommends a two-year program to clear up this backlog. This would require an annual contract authority of \$20,000,000 in order to preserve the billions of dollars of investment in public housing developments, and to greatly improve the daily welfare of public housing residents.

e. Implementation of Provisions of the 1974 Housing Act

The 18-month deadline set in the statute for the implementation of the public housing provisions of the 1974 Housing Act expires at the end of February, 1976. Some provisions of this Act (including the handling of obsolete housing developments and Section 203(n)) have not yet appeared in regulations. In addition, the regulations that have been issued (including those relating to minimum rents, welfare rents, and achieving cross-section of income occupancy) have not been related as a total policy in the HUD regulations. The HUD procedures have tended to be very broad, leaving unresolved major policy issues, and providing no national office counsel or guidelines for such difficult matters as achieving cross-section of income occupancy.

NHC recommends that HUD quickly convene a task group of HUD Central Office and Field Office officials with representatives of local housing authorities to develop a total approach to implementation of the 1974 Housing Act provisions; and that guide materials and technical assistance be provided to assist local housing authorities in implementing these provisions.

f. The Status of Public Housing Management

Despite the inadequacy of Federal operating assistance, important steps have been taken over the last five years to recognize the importance and advance the condition of public housing management. The Housing Management Improvement Program (HMIP) and the Target Projects Program (TFP) are just beginning to reap important results in local housing authority operations. The move to professionalize public housing managers is also important evidence of new maturity in the Housing Management field.

CHAPTER VI. SECTION 202 SHOULD BE FULLY IMPLEMENTED TO PROVIDE 50,000
ADDITIONAL DWELLINGS FOR THE ELDERLY AND HANDICAPPED

HUD's program last year sought to provide both construction and permanent financing for 14,000 units of Section 202 housing. Applications were filed for many times the number of available units. Nevertheless, very few units were started last year, and HUD's recently announced decentralization program is likely to slow up production.

NHC urges the use of the full \$800,000,000 authorized in the 1974 Housing Act, together with the millions of uncommitted funds previously available under Section 202. To enable the full use of these authorized funds, it will be necessary to obtain approval in an appropriation act of an increase in the limits of HUD's lending authority equal to the full amount of the legislative authorization under Section 202. NHC recommends such action. Appropriations of this magnitude will scarcely meet the presently expressed demand, let alone the additional proposals which will be submitted.

NHC recommends that HUD adopt procedural changes so as to improve the Section 202 program. The Section 202 Handbook and regulations are unnecessarily complex. They refer back to the Section 8 Handbook and do not explain which instructions control when the Handbooks conflict. Section 202 processing should be simplified to two stages -- the preliminary Section 202 and Section 8 proposal, and the second and final submission for the final proposal/firm commitment. It is believed that the new Section 202 regulations provide for Field Office selection of projects, site designation at the selection stage, and elimination of the rent comparability test; NHC supports such changes. The Section 202 program should provide for allocation of both loan and subsidy funds to a project before it is transmitted and Field Office directors should not be forced to select among long-standing housing commitments and priorities, with so few Section 8 units available. Finally, HUD should return to the Section 202 specialist concept; in each office, at least one person should fully understand the program, and be responsible for keeping each project moving rapidly.

Although Congress enacted the congregate housing program in 1970, few units have been produced. HUD should seek to increase production of such units.

Section 202 requires full implementation of the program for technical assistance and seed capital loans under Section 106(b). NHC urges that the Section 106(b) program be adequately funded and staffed so as to be of maximum effectiveness in bringing Section 202 housing into being at the earliest possible date.

Section 8 assistance should be made optional in relationship to Section 202 development so that 202 development can proceed in those areas where Section 8 allocations are not available.

Current regulations should be revised to permit public agency sponsorship of 202 housing, as authorized under the statute.

The elderly housing assistance effort should be encouraged and expanded beyond the Section 202 program. The 202 program should not be the only elderly housing effort. Additional resources should be made available for elderly housing beyond the resources directed to the 202 program which is limited to private, non-profit groups.

CHAPTER VII. RURAL HOUSING RESOLUTIONSa. Immediate Legislative ProposalsFarmers Home Administration

- (1) Establish water and sewer financing under Rural Development Act on a matching 75% grant/25% loan basis, with ultimate goal to be 100% grant basis where needed by local communities to provide projects.
- (2) Remove general limit of 20% on proportion of family units which can have rent supplements under 515.
- (3) Implement the 504 grant program for families as well as the elderly.

Community Services Administration (CSA)

- (1) Develop annual planning requirement for effective use of Section 222(a)(11) (Perkins Amendment) authority.
- (2) Reimplement Rural Housing Opportunities Loan Fund for housing development and rehabilitation purposes.
- (3) Re-establish migrant and seasonal farmworkers programs.
- (4) Increase the appropriation for rural housing programs (section 220(a)(11) to \$20 million in FY 1978.

Housing and Urban Development

Give top priority to bring public housing production to premeratorium level as soon as possible. Allow the amount of usage to rural areas to float above the floor of 20% according to need and demand. Provide adequate operating subsidies to enable public housing to house neediest families, and institute an automatic cost factor in the operating subsidy formula. Allow both turnkey and conventional production without emphasizing one over the other. All new public housing should meet strict energy conservation standards; modernization funds should be used to retrofit existing public housing.

Establish a Rural Citizens Consumer Review Panel within HUD's Office of Consumer Affairs to offer advice on rural use of HUD programs. Establish Office of Rural Affairs to facilitate use of HUD programs in rural areas and to develop cooperative agreements with other agencies affecting rural areas.

Support continuation of the Indian public housing set-aside. Implement operating subsidies for Indian mutual help program.

Restore previous practice of counting only conventional housing units, not mobile homes, in calculations of housing production, such as those of the national housing goals reports.

In view of the recent GAO study of the CDEG program, there should be an increase in the percentage of funds being allocated to nonmetropolitan areas to more closely reflect the needs established in applying the formula.

Amend Section 8 to allow housing authorities to manage existing units. Provide for negotiated rents under a ceiling comparable to former Section 23, as alternative to fair market rents in areas where fair market rent approach is unworkable.

FHA Budget Recommendations for Housing Programs

	<u>1976</u>	<u>1977</u>	<u>1977 NHC</u>	<u>1978</u>	<u>1978 NHC</u>
		<u>Budget</u>	<u>Recommen-</u>	<u>Budget</u>	<u>Recommen-</u>
		<u>Request</u>	<u>dation</u>	<u>Request</u>	<u>dation</u>
1. Low Income Housing Loans (502)	1,503	1,454	1,874	1,481	3,000
2. Moderate Income Housing Loans (502)	840	838	1,238	901	2,000
3. Above Moderate Income Housing Loans (502)	0	0	0	700	500
4. Rental Housing Loans (515)	340	400	600	600	1,000
5. Farm Labor Housing Loans (514)	0	0	10	10	25
6. Housing Repair Loans & Other (504)	20	20	20	15	20
7. Mutual & Self Help Housing Site Loans & Technical Assist. (523)	0	0	1	0	10
8. Site Loans (524)	3	3	3	3	5
9. Mobile Park Loans (527)	0	1	1	1	2
10. Predevelopment Loans (525b)	0	0	0	0	3
11. Farm Labor Housing Grants (516)	0	0	1	0	25
12. Housing Repair Grants (504)	0	0	0	0	20
13. Mutual & Self Help Housing Site Grants & Technical Assistance (523)	0	0	9	0	10
14. Housing Research Grants (506)	0	0	0	0	10
15. Rent Supplements (521)	0	0	0	0	15
16. Technical Assistance Grants (525)	0	0	0	0	5
TOTAL HOUSING PROGRAMS	2,706	2,716	3,757	3,711	6,650

(millions of dollars)

Farmers Home Administration

1. Immediately implement Rural Rent Supplement Authority (Section 521 of the Housing Act of 1949, as amended).
2. Remove the 10,000 unit restriction on the use of Section 8 in Section 515 financed projects.
3. Allow the use of Section 8 on 515 existing and rehabilitation projects.
4. Develop method to use Section 8 in combination with FmHA 514/516 farm labor housing projects.
5. Increase FmHA staff by 1,500 to meet the various program needs and to act on the tremendous backlog of applications. Hire employees with housing skills such as construction inspectors and engineers, etc.
6. Utilize Section 506 authority to create a comprehensive rural housing research capacity in FmHA. Require full public availability of information and eliminate research funding priority for agricultural land grant colleges. Increase the authorization level for rural housing research to \$10,000,000 in FY 1978.
7. Revise FmHA civil rights review and compliance procedures. Institute adequate data collection, compliance review, and appeals procedures. Affirmatively enforce Title VI, VII, and VIII civil rights requirements.
8. Adopt meaningful appeals procedures to cover grievances in all loan and grant programs.
9. Enforce expanded and uniform use of Section 505 moratorium and forbearance powers. Require that borrowers be informed of availability of program prior to institution of foreclosure proceedings.
10. Initiate study of proposals for new or expanded home ownership subsidy program to serve households with incomes below \$6,000.
11. Establish National Rural Housing Advisory Board to advise FmHA in major policy areas.
12. Suspend the FmHA guarantee program in favor of the Federal Housing Administration program. Keep the guarantee loan program for above moderate income families.

CHAPTER VIII. COMPREHENSIVE INDIAN HOUSING PROGRAM

NHC recommendations are based on the following goals -- the opportunity for decent housing and a suitable living environment for Indian people. In Indian areas, the need for housing is just as great for people with jobs as well as people without. There is a pressing need for a comprehensive program to provide a continuous flow of financing that will enable home building to occur on Indian trust land. For those people who can afford an economic rent, there should be legislation that authorizes 100 percent government guarantee for the long-term financing. This

guarantee should be coupled with the appropriate safeguards to assure that both the lender and the government follow the policy of non-alienation of the trust land status as well as the need for proper safeguards for the lender and the Government. The Bureau of Indian Affairs limited but direct repair and renovation program, the Housing Improvement Program (HIP), should also be included in this comprehensive approach and the appropriation increased to practical and suitable levels. This program should be directed toward repairs and providing for new housing only in isolated circumstances where project type developments, age, income or location is so distinct or prohibitive as to make the general subsidized authority unworkable or uneconomical.

The authority of the Indian Health Service should be retained and combined with this comprehensive approach in order that a single direction can be achieved.

The Administration should provide a continuing, comprehensive housing program for Indians that will produce 7,000 new units and 2,000 housing repairs per year. The bulk of the program, some 5,000 units, should continue to provide subsidies similar to those of the low-rent housing program now in wide use in Indian areas. There should also be provision for shallower subsidy programs, as well as guarantee authority, for Indian people who are upwardly mobile, or already have sufficient income to afford housing, but who live where normal sources of mortgage financing are not available.

Comprehensive legislation should use the existing local Indian housing authorities and provide funds for upgrading the quality of their management. The present fractionalized approach to solving Indian housing problems should be centered in the Interior Department because the housing is generally located on trust lands. HUD and HEW would also continue to have substantial responsibility for the program.

CHAPTER IX. REHABILITATION TO IMPROVE EXISTING HOUSING, INCLUDING SECTION 312 AND PUBLIC HOUSING.

a. Section 312 Program for Rehabilitation Should be Extended with Additional Authorizations

The Section 312 rehabilitation program should be extended through Fiscal Year 1980 and provide sufficient new funding authority at a level at least equal to \$75 million annually. Because of the critical need for rehabilitation, the Section 312 program should continue independent of the Community Development Program funding. The Section 312 program is the only viable private program available to achieve the needed rehabilitation.

Despite HUD processing difficulties from insufficient staff, the Section 312 program is most successful and cost-effective. Demand is extremely high because communities need it as a supplement to rehabilitation activities planned under community development.

Accordingly, the 312 program should be funded, as stated above, and, except in unusual cases, early loan commitment procedures should be replaced by loan commitments related to actual applications. Funds should be disbursed on a fiscal year basis, rather than quarterly. Additional HUD staff should be provided and adequately trained to administer the 312 program on a continuing basis.

By providing assistance for rehabilitation to people who cannot afford to make necessary improvements, we can preserve and improve the housing stock. This should make it possible for some of the elderly and others to stay in their present housing if it can be properly rehabilitated with monthly charges that they can afford.

b. The Following Administrative Actions can be Taken Immediately to Facilitate the Utilization of Current Appropriations

1. Revise and issue Section 8 regulations on major rehabilitation including a review of the allocation of funds, in order to strengthen local urban revitalization efforts.

2. Revise and issue immediately public housing modernization regulations and review allocations in order to target the funds on modernization programs that can be quickly initiated and completed.

3. Rescind proposed regulations limiting the capacity of local governments to requisition lump sum amounts under community development which sums are proposed to be utilized for funding local rehabilitation loan programs.

4. Decentralize, through contracts or otherwise, to local institutions the processing of 312 loans in order to facilitate their utilization. Existing backlog could easily be cleared up if HUD were to expand the local "self approval" process to all of the communities which have sufficient staff expertise in this area.

5. Activate more realistic operating subsidy programs for public housing and FHA subsidized units which will permit adequate maintenance of properties and services without increasing rents beyond the reach of the residents.

6. HUD should provide appropriate training and experienced personnel commitment for the administration of the Section 312 program.

7. HUD should take necessary administrative steps to insure that community development block grant funds allocated for rehabilitation and conservation activities are effectively coordinated within local neighborhoods.

8. HUD should provide greater technical assistance to localities to enable them to undertake rehabilitation programs.

9. HUD should provide coordination with Small Business Administration (SBA) and other Federal agencies in order to improve the delivery of Federal conservation and rehabilitation assistance.

c. The Following Authorizing or Appropriating Actions Should Be Initiated Immediately to Facilitate the Rehabilitation, Modernization and Maintenance of Low Income Housing:

1. Appropriate under existing authorizations \$25 million additional contract authority for public housing modernization.

2. Provide supplementary appropriations for adequate operating subsidy funds to meet the net "performance funding system" requirements and appropriations necessary to initiate an effective deferred maintenance program.

3. Congress should pass the National Neighborhood Policy Act, and HUD should clarify its organizational structure in order to provide a clear focal point for assisted rehabilitation activities.

4. Section 312 should be extended for a period of at least three years with an annual funding level of at least \$150 million.

5. New rehabilitation program should be enacted to provide (a) improved incentives for private sector participation rehabilitation financing and (b) workable mortgage insurance programs for housing rehabilitation and refinancing.

d. Rehabilitation Under Other HUD Programs

Assistance and financing should be provided under other HUD programs for rehabilitation to preserve and improve existing housing. This includes assistance and financing under Sections 236, 221(d)(3), 202, and Section 8. It also includes financing of unassisted housing with FHA insurance under all applicable programs.

CHAPTER X. ASSISTED HOUSING PROJECTS SHOULD ENCOURAGE ECONOMIC INTEGRATION TO PRODUCE BETTER COMMUNITIES

The 1974 Housing Act contains various provisions on the different programs to achieve an economic mix in assisted housing developments. This is recognized as a major means of achieving sound and wholesome communities -- not just housing. Unhealthy communities are often created when developments are occupied solely by a stratified low-income group with many deprived families who have serious social problems. A broad range of incomes will include people with upward mobility who can provide leadership in developing good and stable communities. We have long advocated this policy of economic integration in assisted housing. NHC recommends necessary action to help effectuate this objective.

As to the public housing program, the 1974 Housing Act similarly provides that housing projects should include families with a broad range of incomes. However, at least 20% of the units in any project are for very low income families, i.e., those with incomes not more than 50% of the median income in the area. The Section 8 program contains similar provisions and 30% are to be very low income families, on a national basis.

Section 202 housing and Section 236 housing are also to serve both low and moderate income families. Under Section 236, 20% of units are for very low income families.

Realistic and workable income limits help achieve economic integration. Since income limits are based on median income in an area, HUD's median-income determinations must be accurate. Frequent redeterminations should be made to keep the limits current, particularly when wages and living costs rise rapidly. Income limits should not apply after the initial rent-up of any assisted programs. The requirement to pay a percentage of income is an adequate protection against abuse of the assisted programs.

In previous years, HUD recommended median income as the appropriate income limit, so as to encourage economic integration. By allowing this limit for only 20% of assisted units, HUD can better achieve an economic mix while retaining 80% for those of lower incomes.

The proposed amendment will help families which are largely self-supporting, but need some help in obtaining decent housing, particularly with current high interest rates and high costs. As a matter of equity, housing assistance should meet the needs of these families as well as those of lower incomes.

Under the applicable legislative formula, assisted families with incomes above 80% of median would pay higher rents, thus reducing total housing assistance. This will help financial stability and produce more project income to meet obligations. Finally, it will avoid a gap of unfilled housing needs, particularly in these critical times when we need to broaden the market for housing to reach those who need some help and to stimulate production and employment.

CHAPTER XI. COOPERATIVE AND CONDOMINIUM HOUSING

1. INTRODUCTION

Not only in urban areas where multifamily housing predominates, but also in many suburban and rural areas, cooperative and condominium housing are providing more and more opportunities for home ownership in multifamily settings. From high rises to townhouses and garden apartments, cooperatives and condominiums are rapidly gaining in popularity. There are approximately 1,700,000 condominium and cooperative units today compared with only about 450,000 such units five years ago.

2. CONDOMINIUM HOUSING

The growth of condominium housing has been mainly as an alternative to the traditional single-family home. The HUD Section 234 program has played a relatively minor role in this development. Private sources of financing, working with private mortgage insurance companies (PMIs) have provided the major amounts of financing for the growth of condominiums. However, certain problems remain, particularly those associated with the refinancing of condominium units in existing projects and consumer abuses. HUD is chairing the Task Force for Standardization of Condominium Requirements. The Task Force is made up of HUD, the Veterans Administration, Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation. Its purpose is to simplify through maximum standardization the legal and documentary requirements for condominiums. NHC approves this effort to achieve uniform documents for all of these agencies. However, the Task Force should give great emphasis to requiring additional consumer protections for condominium owners and buyers as well as greater uniformity and wider acceptance among lenders. The above-described Task Force is a result of the 1974 Housing Act's requirement that HUD study alleged abuses concerning condominium housing. As a result of HUD's study, Secretary Hills stated that the abuses were of no interest to HUD and that the states should properly prevent and control such abuses. Chairman Proxmire has seriously questioned this finding and NHC urges the new Administration to review this conclusion. If the Task Force is successful in achieving uniformity among all of the above-mentioned government-sponsored agencies, condominium housing will be more attractive. However, at the same time HUD should take the responsibility for centralizing and regulating all aspects of condominium housing relating to consumer protections and abuses.

3. COOPERATIVE HOUSING

Cooperative housing has traditionally served a broader range of income groups than condominium housing. Luxury cooperative housing, such as the Watergate Apartments in Washington, D.C., and the United Nations Plaza in New York City, use conventional financing like condominiums. However, cooperatives also serve low and moderate income families. Over 200,000 units of cooperative housing have been financed with HUD programs for low and moderate income families in many states. NHC recommends the following to increase cooperative home ownership opportunities for low and moderate income families:

a. Immediate Implementation of Section 203(n)

Section 203(n) became law in late 1974 and provides HUD insurance for mortgages financing the purchase of cooperative memberships in an existing cooperative housing project whose mortgage is insured by HUD. Congress specifically stated that this new program was to make cooperative ownership comparable to condominium ownership. Draft regulations were published this summer for Section 203(n), but the final regulations have been stalled because of technical problems. The new HUD Secretary should make this program a top priority.

b. Immediate Implementation of Section 246

Section 246 became law in the summer of 1974, but draft regulations have never even been published for comment. Section 246 makes clear that HUD could dispose of HUD-owned multifamily property to nonprofit cooperative ownership. The new Secretary should direct the Office of Property Disposition to implement this program immediately in order to give additional alternatives in dealing with the problems of HUD-acquired properties. The Congressional Reports stated that Congress anticipated that a significant number of HUD properties would be disposed of using the provisions of Section 246.

c. Revitalization of the Office of Special Assistant for Cooperative Housing

The Housing Act Amendment of 1976 included an amendment updating the duties of the Special Assistant for Cooperative Housing. Congress took special note of the fact that the statute providing for the Special Assistant for Cooperative Housing was not being followed by HUD; namely, the legal requirement for HUD to provide a full-time Special Assistant who reports directly to the FHA Commissioner and with adequate staff to make sure that all of the FHA programs for cooperatives are fully utilized and administered efficiently. The prior Administration completely ignored the existing statute and the 1976 amendment. NHC urges the new Administration to follow the letter of the law and provide for the Special Assistant for Cooperative Housing with adequate staff and authority to assure that all cooperative housing programs are fully implemented and efficiently administered.

d. Workable Section 8 Program for Cooperatives

The law creating Section 8 specifically included cooperatives as a form of housing to receive Section 8 assistance. However, HUD's current administrative procedures for Section 8 make it impossible to produce family units for cooperative housing. The following changes need to be made in order to meet the intent of Congress:

(1) A Change in the ranking and selection of Section 8 proposals which are discriminating against cooperative housing because:

- (a) Priority is given to proposals which ask for 20% or less subsidy. Builders guarantee payments for up to two years on unsold units in cooperatives at final closing, and they are unwilling to make this guarantee unless all of the units are available to receive Section 8 assistance.
- (b) HUD gives priority and ranking to those proposals with the lowest proposed contract rents. These lowest rents will not support large townhouse family units as required by cooperatives as distinguished from smaller, less costly walk-up and garden apartments. The Section 8 program should not penalize proposals designed to meet the needs of families.
- (c) Section 8 site and neighborhood standards discriminate against cooperatives proposed for urban renewal areas. Urban renewal areas often have a particularly high minority concentration. Existing site and neighborhood standards for Section 8 preclude the possibility of using Section 8 assistance in such an environment.

(2) Comparability test. Cooperative housing which provides homeownership should be compared with other FHA-insured homeownership projects rather than with rental projects. This means the market-rent comparability test should be eliminated as an underwriting criterion for cooperative homeownership. At a minimum, cooperatives should receive an adjustment allowance as is now done for elderly housing. The adjustment should be larger than the elderly housing adjustment to reflect the homeownership and amenity values.

e. Immediate Issuance of Workable Section 236 Commitments on Previously Funded Cooperative Projects

As stated in Chapter II, there are over 23,000 units of Section 236 projects with bona fide pre-January 1973 commitments including 16,000 units that HUD still considers funded. Many of these units would provide for the completion of all the originally planned and approved sections in existing cooperative housing projects. The completion is needed in order to utilize community facilities and other amenities originally planned in projects prior to the moratorium. Some of the funded units are designated for left-over land-blocked sites. As recommended before, by administrative order, Operation Push-Out should be implemented immediately to issue commitments which reflect the cost increases which have occurred since those projects were originally funded.

f. Legislative Actions

(1) Long-term continuation of the Tandem 23 Program

The Tandem 23 program is absolutely vital for the production of non-assisted new cooperative housing as well as cooperative housing receiving Section 8 assistance.

(2) Reactivation of Cooperative Special Assistance Program

During the effective life of GNMA Program 6, which started August 16, 1955, the total amount of mortgages purchased by GNMA was \$365 million. This figure represents a total of 26,000 cooperative dwelling units. This special assistance program was dropped on June 30, 1964 by President Johnson. Presently, because of the discontinuation of the program, the money being repaid to GNMA is mortgage payments from these cooperative units is not used to finance new cooperative housing mortgages. This program should be reactivated at once so that the repayments would be an immediate source of financing for new cooperatives as originally intended.

(3) National Consumer Cooperative Bank Bill

On February 1, 1977, the National Consumer Cooperative Bank Bill was introduced in the House of Representatives. This Cooperative Bank, if established, would provide badly needed financing for all types of consumer-oriented cooperatives, including bona fide housing cooperatives. The bank would be authorized to make loans to eligible cooperative businesses at a reduced lending rate and would help foster cooperatives throughout the country.

NHC recommends that the National Consumer Cooperative Bank Bill (HR 2777) be passed, so that the long-needed financial institution, designed specifically for cooperatives, will be established.

g. Support of Cooperative Conversions

Cooperative conversions particularly in inner city areas require multi-faceted assistance. Successful transition from privately-owned, threatened (or deteriorating) housing to a stabilized, functioning cooperatively-owned and operated project requires consideration of and assistance for each of several components such as planning, construction-permanent financing, design and cost analysis, management capability, tenant-cooperator training, regional and national exchange of tenant-consumer cooperative information, and as part of urban revitalization and neighborhood conservation, there should be a range of aids to self-help tenant-consumer-cooperative oriented organizations as follows:

- (1) Financial assistance for preliminary planning and processing of tenant-consumer-cooperative conversion projects.
- (2) Technical assistance on design and cost analysis related to such conversion efforts.
- (3) Tenant organization and education to encourage training and full participation by low and moderate income persons in cooperative undertakings.
- (4) Inner city management training to develop capabilities and techniques to foster better maintenance and up-grade the quality of life in tenant-consumer-cooperatives.
- (5) Area, regional and national exchange of information pertaining to tenant-consumer-cooperative problems, techniques, innovations and solutions.

And further that the subsidy program (Sections 8, 236, 221(5)) provide appropriations and allocations sufficient to achieve a significant volume of conversions commensurate with the dimensions of the urban problem.

CHAPTER XII. EQUAL HOUSING OPPORTUNITY AND FREEDOM OF CHOICE

1. NHC reaffirms its commitment to equal opportunity for all American families to secure good housing in good neighborhoods. Equal opportunity in housing is now the law of the land -- both by statute and by court decree. Yet this opportunity is still denied to millions of American families throughout every section of the land because of their sex, race, color, creed or national origin, or because of the myth which exists as to their desire or ability to pay for and maintain good homes. To overcome this denial of opportunity and to dissipate these myths, an urgent task is facing the nation.

2. NHC has long supported the principle of a competitive housing market open to free bargaining by all people without regard to racial or ethnic background. Many localities have been limited in achieving this objective, however, because of inadequate supplies of low and moderate cost living accommodations and the congestion of many minority groups in limited sections of the community.

3. NHC, in furtherance of its commitment to equal opportunity hereby supports the purposes of the Fair Housing Amendments Act of 1977, as contained in HR 3504, to provide needed strengthening to the Federal Government's efforts to assure equal housing opportunities for all Americans and calls for early enactment of such legislation.

CHAPTER XIII. ENCOURAGE ENERGY CONSERVATION IN HOUSING

Many bills have been introduced in Congress both last year and this year to encourage the purchase and installation of energy conservation improvements in existing residential housing. The unusually cold winter in 1976-7 emphasized this critical need for speedy and sweeping action to avoid repetition of the natural gas shortage, and the unemployment and discomfort caused by the shortage. We urge both the Administration and Congress to coordinate efforts to pass such laws and to administer them aggressively.

We applaud HUD's contracts and grants made to determine the economic and technical feasibility of utilizing solar energy for heating and cooling residential housing. We hope that HUD will monitor the outcome of its demonstrations and seek to apply the new technology derived as quickly as possible to single- and multi-family housing throughout the United States.

NHC urges that all measures designed to promote energy conservation take into account the capital expenditures required by the new requirements. There should be a finding that the cost of any such capital expenditures not exceed the benefits that can be derived from them.

CHAPTER XIV. MATERIALS FOR HOUSING

Equally important with adequate financing for keeping housing costs within the reach of low and moderate income families, and for maintaining employment in the building trades, is the need for HUD, Agriculture and other elements of Government, including the Congress, to take whatever action may be necessary and appropriate to assure a steady flow of building materials for housing and related construction.

This is especially important with respect to the supply of timber from National Forests, a basic source of softwood construction lumber, plywood and other wood products.

NHC recommends that Congress and the new Carter Administration implement fully the National Forest Management Act of 1976 and the Resources Planning Act of 1974 with necessary appropriations and expedition of administrative decisions.

CHAPTER XV. SPECIAL HOUSING CENSUS IS NEEDED

There is a great need for better data on national and local needs for housing. The 1970 Census did not supply comprehensive information about housing conditions and needs. Further, the information is no longer relevant because of the major changes since the Census.

NHC recommends that Congress authorize funds for a special housing Census which can be the basis for Congressional consideration on future housing appropriations, programs and goals.

CHAPTER XVI. ADDITIONAL ASSISTANCE TO SAVE NEW COMMUNITIES PROGRAM

The New Communities Program of HUD, with stimulus from Title VII of the Housing and Urban Development Act of 1970 ("Title VII") was a promising approach to solve many of the social objectives and to requirements in housing and community development. As a demonstration program, it was to have Federal support through (1) grants for public services and facilities, special planning grants and supplementary grants, (2) set-aside of housing assistance, and (3) loans to new community developers to assist them in making interest payments on indebtedness incurred to finance new community developments approved by HUD.

HUD failed to follow through with the purpose and intent of the Program. In fact, HUD's funding and support was cut off just at the critical time -- after major investments had been made by developers and others who had relied upon HUD's use of its existing authority to back the Program. NHC urges HUD to take all possible measures to complete the approved new communities as originally planned. This is necessary to protect the tremendous investment made by families who have moved to new communities. If HUD does not carry out its original programs, not only will the new community developers suffer substantial losses, but the thousands of families who moved into these new communities could suffer. The new communities have suffered greatly by being deprived of these intended grants and aids. They were also drastically hurt by the deep recession and high mortgage interest rates which combined to soften real estate markets and discourage developers from undertaking new housing starts.

It is not too late to save the new communities which are now distressed and facing foreclosure, but this can only be accomplished if the authorized and promised Federal support is forthcoming. It is unthinkable that the entire Title VII program would be abandoned in mid-stream, leaving in despair those who purchased their homes in new communities in reliance upon HUD's support to assure the continued operation and completion of those new communities. In many of the new communities, such continued HUD assistance is necessary to assure the continuance of basic services such as water and sewer services. New community developers often subsidize these services until there is sufficient growth in the new communities to support the services from utility income or local taxes, but the funds of most developers for this purpose are now exhausted or nearly exhausted.

We recommend that Congress mandate HUD to utilize its full authority under Title VII and the 1974 Housing Act to make necessary grant funds and other authorized assistance available to new communities to keep faith with them and help restore their financial stability. Such action is urgently needed to carry out the intent of Title VII relating to Urban Growth and New Community Development.

PART B. COMMUNITY DEVELOPMENTREVITALIZING OUR CITIES: AN AGENDA FOR THE NEXT DECADE*

In earlier sections of these resolutions we proposed short and longer range targets for a comprehensive national housing program. This is a sine qua non of any effort to improve the living conditions of the millions of Americans still living in poor housing in all of our older urban areas. Such a housing program cannot succeed in the absence of a parallel and coordinated attack on the problems of blight, deterioration and obsolescence which characterize too great a proportion of American cities. If we do not approach the problems of our cities with a massive and carefully planned program, we shall soon find ourselves to be a nation of suburbs and rural areas with our old urban centers relegated to the role of caretakers for the poor and the elderly, and interest in them confined to the historians and archeologists.

Any program for improving cities must address itself first and foremost to restoring the economic vitality of the city and to improving housing and neighborhood preservation, rehabilitation, new construction...all performed in a partnership of the local community, the public sector and the private sector. City revitalization means that central and neighborhood business districts must be improved; cultural, recreational and educational facilities enhanced; and new job and business opportunities encouraged. There must be social, health, incomes, employment and educational programs that become part and parcel of the total commitment to make our cities blossom again.

We have learned through painful experience that completely scrapping old programs before we are ready to embark on new ones is a most frustrating way to improve cities. For this reason our resolutions address themselves first to short range goals for improving our existing programs; and then to our proposals for longer range approaches that should be considered by the Administration and the Congress. Once the longer range programs have proved themselves, it might at that time be desirable to revise or phase out some of the older less effective programs.

CHAPTER I. THE COMMUNITY DEVELOPMENT (CD) PROGRAMA. Review of the First Two Years Since Initial Implementation

The following conclusions may be suggested:

1. The increased local flexibility has been helpful in some instances and has caused a diffusion of effort in many others;
2. Although HUD performed a commendable job in getting the program started quickly, there is a need for increased leadership and direction from HUD;
3. There is an increasingly widening gap between local needs and available program resources;
4. The fund allocation scheme has only partially met the program objectives of "certainty of funding with minimum delay" and there appears to be a basic inconsistency between the objectives of the program and its funding scheme;
5. The program does not fully focus on long-term capital and redevelopment needs;
6. Confusion resulted in many instances because of shifting of local program community development needs and priorities and political-electoral considerations;
7. There is a lack of inducement for private sector participation.
8. More coherent Federal policies are needed, plus assurance of the continuation and completion of prior categorical program efforts; and
9. Meaningful housing programs, including more generally available assisted housing resources, should be meshed with proposed CD activities, to supply the housing needs of low, moderate and middle income families.

The 1974 Housing Act stated its "primary objective" was the "elimination of slums and blight and the prevention of blighting influences and the deterioration of property and neighborhood and community facilities of importance to the welfare of the community, principally persons of low and moderate income." The 1974 Housing Act further stated that applications could be approved for activities designed to meet "other community development needs having a particular urgency." NHC urges that HUD administer the program so as to assure that these criteria are met by every local program. Recent HUD changes in regulations appear to be a step in this direction.

The following sections address themselves to specific aspects of the community development program. While we propose short change improvements in the various programs and some new approaches, our basic conclusion is encompassed in the last section where we call for a new comprehensive long-range approach to city revitalization.

B. HUD Policy Determinations, Regulations and Forms

HUD did well in getting the CD program under way, and kept its promise of a 75-day maximum review period. HUD kept its application forms simple and brief, and the funds disbursement system worked well.

Yet, there are serious problems. The promulgation of policy determinations by Federal Register regulations is cumbersome. HUD issued policy letters, which interpret regulations. There is no regular distribution system for them. Instead, they are sent ad hoc from Washington to Area Offices. Sometimes, they are reported in trade newsletters, or copies are sent from one local agency to another, while the HUD Area Office may not have received them.

Another problem is the late arrival of HUD regulations and forms, as the deadline approaches for submitting applications and housing assistance plans. The final materials are sometimes not issued until just a few weeks before some communities had to have their applications ready for A-95 review.

Accordingly, NHC recommends that

1. HUD should regularly issue CD policy letters to a formal distribution list including all CD agencies and interested community groups.
2. Communities should be exempt from following any new forms or regulations which are promulgated within 60 days prior to the date that their CD application must go to A-95 review, except for any regulations which result from new statutory requirements.
3. HUD should determine the amount of CD funds to be devoted to "software" activities (e.g., public services, social, recreational, educational programs). The Congressional conference committee report stated that it was the intent of the legislation that not more than 20% of CD funds were to be so used. The HUD regulations are silent on this matter. Although these programs are of great importance, they ought not to be funded in a major way out of CD funds. There is great pressure on local governments to use CD funds in a multitude of ways. The net result is often a series of small, unrelated programs with very little concerted effort to meet the major thrust of the Act...removal of slums and blight.

NHC proposes: That HUD adopt a regulation which would limit the use of CD funds for public service type programs to 20% of the local annual grant except in unusual circumstances where the Secretary might approve a larger proportion. Municipalities which fall under the continuation of model cities activities provision of the Act would be exempt from this requirement.

C. Administration and Monitoring of CD Programs

Congress delegated to the communities much responsibility for monitoring and evaluating the effectiveness of their own programs. It did retain for HUD the role of reviewing whether local programs were meeting the spirit and letter of the law. This was to be done through an on-going spot monitoring system and a post-audit procedure.

Some CD programs are working well, others are not. Some programs are clearly within the letter and spirit of the law; others skirt dangerously close to ineligible activities, or activities which are inconsistent with their applications or the intent of the HUD regulations. Some CD programs are administered well, under the direction of experienced professional personnel. In others, it is often not possible to evaluate whether the program is making any progress or is merely doling out funds.

Some communities lag in drawing down CD funds, often because of the lack of a clear administrative, local structure. Congress could decide to reduce future appropriations on finding that the funds cannot be used within the action year. There is also the danger that HUD or Congress could set up a capture and reallocation system.

While NHC does not propose that HUD review and approve every step that a community takes, HUD should take a more active role in requiring grant recipients to meet the letter and spirit of the law.

Specifically, NHC recommends:

1. Congress should undertake a study of the HUD staffing needs. This study ought to utilize the resources of NAHRO, the Conference of Mayors - National League of Cities, NHC, and other public interest groups, as well as outside management firms.
2. That HUD require in its CD applications a more careful description of the specific programs to be undertaken and particularly how they relate to the objectives and purposes of the CD Act. HUD recently added a requirement that applications describe activities intended to meet urgent community needs. This is a step in the right direction but far more information is needed if HUD is to perform an effective review function.
3. That HUD require communities to develop an administrative plan showing how they intend to carry out CD programs. The plan should indicate the type of professional expertise and community representation to be engaged through staff or consultants to carry out the programs set forth in the CD application. The plan should not require HUD approval as to its details. Rather, HUD should verify the existence of the plan and review its completeness. The intent is that communities be encouraged to come to grips with this aspect of the CD program in advance of the availability of funds. NHC wants to encourage professional administration of the program without mandating specific organizational structures.

Where HUD finds a lag in the use of the funds due to lack of an adequate local administrative plan and staff capacity, it should encourage the grant recipients to engage competent experienced professionals; and broader use of citizens in the community, including the resources of existing agencies and particularly LPAs and LHAs.

4. That HUD define "maintenance of local effort" so that CD activities do not substitute for the previous activities of local government. Congress did not intend that CD was equivalent to general revenue sharing; rather CD was to provide, on a block-grant basis, funds for carrying out the programs previously permitted under the folded-in categorical grant programs. These were to be over and above the ordinary services provided by local government. As local budgets become tighter, recipients tend to look for ways in which CD funds might be used to carry out municipal services previously funded out of the municipality's operating budget. A specific regulation which spelled out "maintenance of effort" requirements would guide many communities as to what they can or cannot do.

D. Some Legislative Changes for the CD Program

Although most necessary program improvements can come about administratively, certain legislative changes also need to be considered:

1. FY 1978-80's CD Funding

To plan to eliminate and prevent slums and blight, and assist low and moderate income families, communities need to know future funding levels. These decisions should be taken early in 1977, so communities can plan for three years. The 1974 Housing Act provided for another look at these matters as they affect the last three fiscal years of that Act.

The five-year base period (1968-1972) and the method of computation caused severe inequities for many cities. 250 metropolitan cities and 740 other local governments would suffer from reduced, or zero, funding levels if the formula is not changed. The formula hits particularly hard at smaller communities which had urban renewal programs, but which will have to compete for inadequate funds with 38,000 other communities.

Further, because of inflation, localities receive less "real" dollars than they had in the base years. The CD program broadens the list of possible activities, and, in turn, this reduced the monies which could be spent to arrest physical decay.

For these reasons we recommend that: (1) During calendar 1977, Congress should set up CD authorization levels for FY 1978-80; (2) CD grant formulas under Section 106(g)(2) and 106(h) should provide that no recipient receives less in FY 1977-1979 than during the prior three years. For those recipients who were to be phased into higher levels of funding, the formula should remain the same; (3) CD discretionary funds should be increased; (4) Urban Development Action grants be funded at the annual level of at least \$400 million; and (5) The Community Development program be re-authorized for six years.

We suggest that Congress and HUD consider alternate funding formulas which would recognize the age of housing stock, population losses and population shifts, and extent of previously developed tax abated assisted housing,^{*/} as added criteria for determining funding levels. It is believed that these formulas can accommodate necessary increases for cities which were seriously underfunded during Fiscal Years 1975-77, while at the same time not decreasing the allocations for the smaller cities and towns which also have serious urban problems.

The total CD funding level will need to be modestly increased, but not so much as to have any significant inflationary impact. The increase would stimulate local job production and reduce unemployment which are primary goals of the Carter Administration.

2. Loan Guarantees to Help CD Eliminate Slums and Blight

This experience of the first two years showed a sharp reduction in funds for "elimination of slums and blight" as compared to the folded-in programs. There is no suitable mechanism to finance land assembly and other major capital outlays within annual CD budgets. Longer range financing is needed to buy and redevelop slum areas.

Federally-guaranteed loans could fill the need, but guarantee provisions of the 1974 Housing Act are not feasible and are not used. The Act requires that most loans be repaid from one year's CD grants; and it demands local guarantees, which are unacceptable because they usually fall within the local debt limit.

The CD loan guarantee provisions should be revised as follows: (1) A local government, or designated entity, may get Federally guaranteed loans to finance up to 90% of payments for land and other major capital outlays, eligible as CD activities; (2) Loans may be amortized over 10 years, or longer in hardship cases; (3) HUD Secretary may accept, as local government's guarantee, a pledge of its annual entitlement to future CD grants, so as to cover annual carrying charges on outstanding guaranteed loans; or disposition proceeds of land to be acquired with CD grants or loans; and any other local revenues anticipated to be available; and (4) on request, HUD shall make the loan guarantee available directly to any other local agency empowered to make such loans and carry out the purposes of the CD program.

3. That CD Areas Be Delineated and Programs Have More Citizen Participation

CD activities should be carried out within areas, or directly benefit areas specifically delineated by the local municipality and which meet the test of (i) containing concentrations of low and moderate income persons, or (ii) exhibiting such conditions that programs are needed to eliminate or arrest slums and blight. Treatment in such areas should be sufficiently comprehensive so as to result in economic and social improvements which alleviate blighting influences. Such areas should be sized to be capable of substantial completion within a definable period of time which period should not exceed 10 years without the approval of the Secretary of HUD. It is intended that municipalities could continue to use 10% of their CD allocation for otherwise eligible local option activities.

The CD program should be consistent with a specific area plan which was developed with citizen participation, including the local residential, business and institutional community, elected officials, financial institutions and representatives of labor and development organizations.

^{*/} This assumes the adoption of NHC's proposal that all future assisted housing will pay full local property taxes.

The local Housing Assistance Plan must reflect neighborhood needs.

4. That HUD must approve a specific relocation plan for any CD funded activities that will engender displacement of residents and businesses. The law should provide that CD program-related activities fall within the purview of the Property Acquisition and Relocation Act of 1970. That, as part of its consideration of an Urban Development Action Grant Program, the Congress amend the Housing and Community Development Act of 1974 to provide a separate grant fund equal to 100% of the cost of relocation payments and expenses, where such activities are required to be undertaken for an eligible activity under the Act. These funds are required if cities are to be able to undertake certain economic development activities, which require the acquisition of severely blighted areas.

5. The law should permit local non-profit groups to receive CD grants to build and operate otherwise eligible neighborhood centers. Such centers must not exclude any group in the municipality. The grant should give the municipality the right to take over the center, if it is not operated efficiently and equitably.

6. The Housing and Community Development Act of 1974 be amended to remove "economic development" from the confines of the provision on "public services" and to give it a standing of its own as a separate eligible activity.

7. The present annual application process should be replaced with a 3-year application process subject to annual HUD review of local performance.

8. Tax Incentive for Community Development

In a recent statement, Treasury Secretary Michael Blumenthal said that one of the goals of the Carter Administration tax reform program would be to increase investment in the cities. For nearly three decades now, the Federal Government has struggled to devise a program to preserve and improve our urban areas; where inner city decay and deterioration, housing abandonment and urban disinvestment continues, and in some cases are worsening, because none of the programs provide the one essential ingredient of urban redevelopment and revitalization -- private capital investment.

The Tax Reform Act of 1976 continued the current 10% tax credit for investment in business or manufacturing plant or equipment for an additional four years, through 1980, but no such incentive is available for investments intended to "recycle" our cities; clearly a goal of comparable or greater importance to the economic and social health of our nation.

With one or two "sunbelt" exceptions, investment in the development or redevelopment of high risk urban real estate is not competitive with other safer and more attractive forms of investment. NHC therefore recommends that, in order to reduce that imbalance and redirect capital investment toward our center cities, the Internal Revenue Code be amended to provide a 10% tax credit for real estate investments made in furtherance of locally approved community development plans and programs intended to eliminate or prevent slums, blight and deterioration. Such tax incentives should not be limited to low income housing, or even to low and "moderate" income housing, but should be available for all types of both residential and non-residential development necessary or desirable to rebuilt and revitalize our cities. We must be able to build housing for all income groups and for all segments of the market, and we must also be able to encourage investment in factories -- and

stores -- and office buildings -- if we are going to keep businesses, and jobs, downtown where they belong.

Unless we stimulate the kind of broad economic basis that would be encouraged by the 10% investment tax credit that NHC recommends, our cities will continue to deteriorate at an alarming rate; with their increasing demands for services and declining tax revenue to support those services.

CHAPTER II. COORDINATION OF HOUSING WITH COMMUNITY DEVELOPMENT

The coordination of providing an adequate housing supply with meeting overall community development needs is fundamental to the viability of any community. The existing vehicle, the Housing Assistance Plan (HAP) as approved in the 1974 Housing Act and subsequently implemented with regulations by HUD, has proven to be unworkable and unwieldy. There is an immediate need for a new and effective method for achieving this coordination. We call upon HUD, the Congress and involved agencies and organizations in the public and private sectors, to take action as soon as possible. NHC regards this as a matter of great importance and pledges its complete cooperation and resources toward achieving a revision of the statute and new regulations so as not to interrupt ongoing community development and housing assistance programs.

CHAPTER III. ORDERLY COMPLETION OF URBAN RENEWAL PROJECTS

Congress, HUD, and local communities share an interest in completing existing urban renewal projects as fast as possible. Yet, there is no realistic system for accomplishing this goal. In most instances an urban renewal (U/R) project cannot be done under the CD program.

The scope of the U/R plan and its boundaries cannot be changed and thereby reduce costs. In many cases, the Federal Government guaranteed a temporary loan which cannot be fully repaid from renewal grant funds due from HUD. Reducing the scope and size of the project could open HUD and the LPA to law suits from developers and occupants who invested or made important decisions based on the U/R plan. It can only be amended with their approval, and they cannot agree to revisions that might hurt their economic interests.

HUD has been encouraging communities to allocate 75% or more of their CD funds to U/R project completion. This is unrealistic. The local governing body may refuse such appropriations to the LPA carrying out the U/R project. The 1974 Housing Act provided that the HUD Secretary can at most require an allocation of 20% of CD funds for completion of U/R projects. A community may allocate this 20%, which would not pay off temporary loan notes and interest, and the LPA would then have to make good on the notes.

Land disposition has been most difficult particularly in this period of economic recession. Steps need to be taken to help LPAs complete the rebuilding process.

NHC proposes that:

1. Congress should authorize and appropriate during Fiscal Years 1978 to 1980 a total of \$700 million in urgent needs funds to financially settle and complete urban renewal projects.

2. During 1977, HUD should require each community to advise HUD of the current estimate of amounts needed to complete U/R projects, meeting all objectives of the approved plan, and effecting all possible economies.

3. HUD should transmit the results of this completion survey to Congress, which should adjust its funding accordingly.

4. That the Section 220 program be revived and expanded to include a broader range of uses in order to accelerate the land disposition and rebuilding process.

CHAPTER IV. SECTION 701 COMPREHENSIVE PLANNING GRANTS

Funding for the Section 701 program is necessary. The CD block grants are not intended for the preparation of comprehensive plans, as provided in the 1974 Housing Act. Lack of funds may also deprive smaller communities of the opportunity to pre-plan future CD activities.

The former Administration requested an annual appropriation of only \$25 million. The new Administration raised the request to \$62.5 million. Congress authorized \$100 million for Fiscal Year 1977, which represents a 33% reduction from the Fiscal Year 1976 authorization of \$150 million. It is essential that the program be funded at a minimum of \$125 million level for Fiscal Year 1978. As a result of the combined pressure of underfunding and inflation, as was the case in the recent past, most of the available funds are proposed to be directed toward the support of area-wide planning organizations that have few resources of their own and to the States. This substantially deprives the smaller localities of assistance; yet the original intent of Section 701 was to provide help to them, in order to enable such localities to develop comprehensive planning framework for their community development and housing programs.

Congress should mandate that at least 50% of such funds as may be actually appropriated for the 701 program be made available to localities of under 50,000 population.

Longer Term Programs for Consideration by the Administration and the Congress^{*/}

CHAPTER V. NEW BOLD PROGRAM TO PRESERVE EXISTING NEIGHBORHOODS AND TO ELIMINATE ABANDONED HOUSING; PROGRAMS FOR HOUSING REHABILITATION

Preserving Neighborhoods; A Comprehensive Neighborhood Improvement Program

NHC recommends a comprehensive program to coordinate all efforts to preserve existing housing in neighborhoods and to eliminate the waste of abandoned housing.

We recommend that as a first step, a program be authorized for selective neighborhoods in different cities. Each program should cover an entire neighborhood. An initial three year program authorization of \$600,000,000 is suggested with \$100,000,000 to be made available in the first year.

As a first step, the program should contemplate the preparation of neighborhood plans and long term budget requirements. Some action should be funded early so that residents and property owners will have confidence that the program is for real. The plans should be prepared within the context of a process that involves local residents, businesses and institutions, planning professionals, elected officials and representatives of the labor, real estate, financial and development community.

Among the activities which should be included in the program: Low interest loans for rehabilitation grants for low income home owners; working with financial institutions to structure "green-lining" programs which will make possible sound investments, rehabilitation and a fluid local mortgage market; involvement of neighborhood organizations; funds for quick public acquisition of abandoned buildings and their early rehabilitation; improvement of recreational facilities, traffic patterns; removal of blighting influences; concentrated code enforcement; and adoption of property maintenance ordinances.

The program should allow for local innovation in the use of program tools such as: Combining of public and private financing for rehabilitation; working with public interest groups and neighborhood organizations towards promoting economic, racial and ethnic integration; urban homesteading and other sweat-equity approaches toward rehabilitation; use of local housing authorities and public-private non-profit management companies to provide efficient maintenance services; neighborhood group operation of public facilities; among others.

The program needs to be carried out within the context of a community-city institutional framework capable of carrying out a long-term plan over a period which might transcend local municipal and federal administrations.

The program to improve housing and physical conditions in the neighborhood needs to be accompanied by a parallel coordinated system of improved public, social and community services such as: Better police protection, drug treatment and prevention programs; superior school systems; adequate community facilities; adequate health services; day care, senior citizen programs; job development and counselling, etc. These activities should be coordinated with the physical improvement program, but their funding should come out of the various D.H.E.W., Department of Labor and Department of Commerce programs.

Once the initial three year Comprehensive Neighborhood Improvement programs are advanced sufficiently to enable them to be evaluated, the Congress should enact a multi-year (perhaps 10-20 year) funding program completing activities and for improving all such neighborhoods in our older cities.

CHAPTER VI. AN URBAN ECONOMIC DEVELOPMENT AREAS PROGRAM

Cities must be given a dramatic financial tool to be used in bringing about economic revitalization. It is becoming increasingly clear that, with some minor exceptions, private investment capital will not alone undertake significant development projects within most of our older American cities. Such projects are essential if the cities themselves are to remain viable and are to be able to compete with their more affluent suburbs. Economic regeneration is vital if the cities are to be able to provide the jobs needed for their citizens and if they are to have a fiscal base which will enable them to continue to provide adequate municipal services. National environmental and energy conservation goals would appear to dictate that

development within cities be encouraged because it is most efficient in terms of transportation services, providing necessary power and in avoiding adverse environmental impacts. In terms of economic efficiency, urban development often takes advantage of an awesome array of local and city-wide facilities and infrastructure and thus its long term gross capital requirements are far less than what would be needed in order to replicate the support systems in a completely new or growing area.

Significant urban economic development projects cannot be accomplished quickly. They will require a multi-year process and a long term requirement for loans, grants and other financial and technical assistance. They will require the patient support of the local elected officials and civic and business community as well as long term assistance from the federal government. The details, scale and emphasis, of the required program will need to vary from city to city. Federal legislation and funding mechanisms will undoubtedly have to evolve over a period of years and will become more sophisticated as a result of early experiences and also as an outgrowth of changes in local and national economic conditions.

Secretary Harris has proposed a program which is consistent with these objectives. She has suggested initial funding from the Community Development program. Regardless of the funding mechanisms, we suggest that the essential elements of such a program ought to include:

A. The delineation of Urban Economic Action Areas.

These would be blighted, deteriorating or underutilized areas or other areas where there is significant potential for economic improvement. They should be areas large enough in scope so that they can be planned as one entity and where their improvement would not impact upon, or be adversely affected by, adjacent areas.

B. Economic Revitalization will Require a Broad Range of Permitted Physical Improvement Activities.

These should include: A mixture of clearance and rehabilitation of existing uses; improvements to the mass transit and vehicular service systems; provision of a high level of municipal services and amenities; improvements to the utility service system; channeling of major public investments and new uses to these areas. Activities not within designated areas, but directly benefitting them and related to their improvement, should also be permitted. The funds for such activities will require significant grants and land write-downs. There will also be a requirement for relocation funds for any residential or business displaced. This need not all come out of HUD funds. A coordinated use of HUD, Department of Transportation, Commerce-E.D.A. Army Engineers - Public Works; Environmental Protection Agency funding as well as participation by various state entities, all under one umbrella program, can provide the level of support systems necessary to make the program work.

We suggest the possibility that a joint special committee of the Congress and an inter-department committee of the cabinet might be established for the purpose of coordinating legislative and administrative activities so that a proportion of the funds in each of the existing domestic programs is set aside to be channeled in an efficient way towards the carrying out of these local programs.

C. Initial Planning Advance Funds need to be made Available on the Basis of Established Priorities.

Since the supply of funds, under the best of circumstances, will be limited Congress and HUD will need to establish priorities for funding of local programs.

Among the criteria to be utilized might be: Potential effectiveness and relative feasibility of program proposed; degree of economic problem of the city as measured by employment conditions, changes in its fiscal base, population loss, trends in construction activity, median incomes; extent of deterioration; degree of local support for program; effectiveness of proposed local institutional mechanisms for carrying out the program.

We suggest that the legislation should provide that HUD may not approve programs where they find the economic feasibility (based upon the plan proposed) to be seriously deficient.

We do not believe that this program lends itself to a rigid arithmetic formula for distribution of funds. Subjective evaluation of how proposals meet the criteria might be institutionalized through establishment of regional inter-agency review committees (perhaps including state representatives). There could be an initial allocation of funds to each HUD region and state to assure an equitable national distribution, but beyond this, it is suggested that priorities be established based on a variety of objective and subjective criteria.

D. Local Continuity of Program Direction and Operations must be Encouraged.

Any such program, under the best of circumstances, will take a number of years to carry out. This will often transcend the term of office of a given local and even federal administration. Therefore, the program must be carried out locally under the administration of a development corporation or local public agency so constituted as to assure continuity in the execution of the program. It must also be within the framework of a system whereby local elected officials do have some assurance of responsiveness on the part of the development entity.

Similarly, it is necessary that there be a long term federal commitment to the program and that this be in a contractual form not subject to frequent changes as a result of legislation or new administrative regulations.

E. Development Financing Assistance is Necessary.

One of the major problems of the urban renewal program was the difficulty in securing risk type financing for the redevelopment of cleared land sites. The FHA 220 program was a step in the right direction but its use was limited by legislative and administrative constraints. Any development program in older cities is likely to be a relatively high risk investment. Accordingly, if development is to be made feasible there will need to be a variety of financial tools made available. These include:

1. Federal mortgage insurance for a broad variety of uses.
2. Long term and construction financing at reasonable interest rates which can come about either through use of tax free bond devices, a Federal Development Bank, GNMA, FIMA purchase of mortgages (for a broad variety of residential and non-residential uses) at favorable interest rates, direct interest subsidies...or a combination of these tools.
3. Federal income tax incentives should include those suggested for the Community Development Program in earlier sections of these resolutions. It could also include provisions for favorable tax treatments to financial institutions channeling capital into such programs.

F. Federal Facilities must be Channeled to Urban Economic Development Areas.

For too many years there has been a channeling of federal facilities to rural areas and suburbs and a conscious effort made to avoid the development of new installations in urban centers. Military installations, research centers, IRS processing facilities, federal sub-contractor installations...are the kinds of investment that federal executive policy could channel to our urban areas. To the maximum extent possible these should be developed as facilities that will pay local property taxes or make payments in lieu of taxes. Such a policy will expedite redevelopment programs, provide long term urban jobs, and improve the local fiscal base.

G. Long Term Loans for Municipal Infrastructure.

Any such program will inevitably require significant municipal investment. Most cities are in dire financial straits and would be unable now to raise sufficient capital without in turn raising local property tax rates to a level which would drive away investment. Thus, a required element of the program would be the availability through federal guarantees or direct federal loans of necessary long term investment capital. These could be repaid out of a tax increment system whereby a proportion of the tax increments from a redeveloped area would be set aside in a loan repayment fund.

H. Funding Requirements.

It is not possible, given the differing sources and types of financial assistance suggested to give a specific suggested price tag for this program.

We propose that the Congress appropriate \$400 million for each of the first two years for meeting planning and start up costs. This is consistent with Secretary Harris' proposed initial level of funding for the Development Action Grant Program. During this time period better estimates of long term program needs will emerge. The Congress could then authorize funding over a subsequent ten to fifteen year period so that the annual draw down from the federal budget would be within a feasible range and yet local programs would be assured of available financing within perhaps a biennial budgeting process.

*/ This material added to resolutions as the result of the work of a committee authorized for this purpose by the Board of Directors and the general membership at their joint, March 6th meeting. The committee chairman was Jack Herrington. Its members were: Murray Bisgaier, Carl Coan, Jr., Charles Farris, Edwin Finder, Morris Fleissig, Robert Maffin, David OrNSTein, Nat Parish and Albert Walsh.

IN MEMORIAM

Assembled in Washington, D.C., on March 7, 1977, the members of the National Housing Conference paused in their deliberations to pay tribute to those whose deaths were reported since the last annual meeting and to express their gratitude for the service they rendered to the nation and its communities.

CARL A. S. COAN

Carl A. S. Coan, Sr., Staff Director of the Senate Committee on Housing and Urban Affairs and recipient of NHC's "Man of the Year" Award in 1973, died December 21, 1976, as a result of complications occurring during minor surgery.

Mr. Coan spent most of his professional career in the Federal government. In 1939 he joined the Works Progress Administration and specialized in economics and housing research for the WPA, the Bureau of the Census and the Public Housing Administration. In 1957 he joined the staff of the Senate Subcommittee on Housing and Urban Affairs as research director and in 1961 became its staff director.

As staff director, Mr. Coan played a major role in the development of housing and community development legislation and in the committee's oversight of its administration. He was responsible for advising and assisting the committee on all aspects of its work and his office was a primary source of information on housing and related matters for all members and staff of the Senate.

Mr. Coan actively sought opportunities to exchange views with others, in Washington and during working field trips which he frequently took during Congressional recesses to observe housing conditions and to monitor the results of the legislation he had helped to enact. NHC remembers particularly his easy access for consultation, his informative legislative briefings before members of the Board and its Legislative Policy and Resolutions Committee and his regular appearances at annual conferences.

His peers regarded Mr. Coan as one of the most effective staff aides on Capitol Hill. His death prompted tributes from members of Congress and many other organizations and individuals with whom he had worked. NHC President Weiner said he had dedicated himself to "helping to achieve decent housing for all Americans" and announced that NHC would establish an annual public service award in his honor.

REPRESENTATIVE WILLIAM A. BARRETT

Another Congressional loss was the death last April 12 of Rep. William W. Barrett (D-PA), Chairman of the housing subcommittee of the House Committee on Banking, Currency and Housing.

Representative Barrett had been a Member of Congress for 30 years and chairman of the housing subcommittee since 1965. He played a major role in the drafting and enactment of much of the major housing legislation of the last decade, including the acts of 1965, 1968, 1969 and 1970 and the Demonstration Cities and Metropolitan Development Act of 1966. In 1974 the subcommittee was the focal point in the negotiations which broke the deadlock between Congress and the Nixon Administration and resulted in the Housing and Community Development Act of 1974 creating the new Section 8 housing program for low and moderate income families and the block grant program absorbing the urban renewal and related programs.

REPRESENTATIVE WRIGHT FATMAN

Representative Wright Fatman (D-TX), the Dean of the House of Representatives, died March 7, 1976 in Washington.

Representative Fatman had served 48 years in the House, during most of which he was a member of the Banking, Currency and Housing Committee which handled housing and community development legislation.

As third ranking Democrat on the committee, Congressman Patman was influential in the passage of the Housing Act of 1949, which reactivated and expanded the low rent public housing program suspended during World War II and established the urban renewal program, the first major attempt of the Federal government to deal with urban problems.

As committee chairman from 1963 he had overall leadership responsibility for legislation enacted during the Johnson and Nixon administrations. This legislation included the Model Cities program and new private housing subsidies for low and moderate income residents and the new community development block grant program.

Many remember Congressman Patman's speeches at annual NHC conferences which usually included vigorous attacks on high interest rates and Federal fiscal policy.

GEORGE E. STEPHAN

George E. Stephan, for 29 years executive director of the Paso Robles, CA, Housing Authority and since 1971 executive director and consultant of the Pacific Southwest Regional Council of NAHRO, died January 11, 1977. He was a member of NHC, a local civic leader and, in NAHRO, a former member of the National Board of Governors, vice-president of the Southwest Regional Council and president of Central California Chapter.

WILLIAM DENNE

William Denne, who died early in 1976, spent 23 years as a housing and urban renewal official in Western New York until his retirement in 1970. He was director of the Buffalo office of the Federal Housing Administration and later became director of the city's urban renewal program. He became director of Rochester's urban renewal program in 1962 which under his leadership became the nation's 13th largest, with \$155 million in federal, state and local money earmarked for various projects. He was a former NHC member.


JOHN WAVERCAZAK

John Wavercazak served as executive director of the Morristown, NJ Housing Authority for more than 21 years until his death early last year. During his tenure the authority's program increased from 96 to 400 units. He was an NHC member.

DAVIS W. SNOW

Davis W. Snow had a varied career as a Federal Housing official, public relations executive and builder. From 1946 he directed the public information staff of the Public Housing Administration. Later the National Association of Home Builders and the National Housing Conference were among the clients of his public relations firm in New York.



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LEON N. WEINER
President

(The following section is inserted as an introductory section prior to Chapter I of Part B of NHC's 1977 Resolutions)

REVITALIZING OUR CITIES: AN AGENDA FOR THE NEXT DECADE

In earlier sections of these resolutions we proposed short and longer range targets for a comprehensive national housing program. This is a sine qua non of any effort to improve the living conditions of the millions of Americans still living in poor housing in all of our older urban areas. Such a housing program cannot succeed in the absence of a parallel and coordinated attack on the problems of blight, deterioration and obsolescence which characterize too great a proportion of American cities. If we do not approach the problems of our cities with a massive and carefully planned program, we shall soon find ourselves to be a nation of suburbs and rural areas—with our old urban centers relegated to the role of caretakers for the poor and the elderly, and interest in them confined to the historians and archeologists.

Any program for improving cities must address itself first and foremost to restoring the economic vitality of the city and to improving housing and neighborhood preservation, rehabilitation, new construction...all performed in a partnership of the local community, the public sector and the private sector. City revitalization means that central and neighborhood business districts must be improved; cultural, recreational and educational facilities enhanced; and new job and business opportunities encouraged. There must be social, health, incomes, employment and educational programs that become part and parcel of the total commitment to make our cities blossom again.

We have learned through painful experience that completely scrapping old programs before we are ready to embark on new ones is a most frustrating way to improve cities. For this reason our resolutions address themselves first to short range goals for improving our existing programs; and then to our proposals for longer range approaches that should be considered by the Administration and the Congress. Once the longer range programs have proved themselves, it might at that time be desirable to revise or phase out some of the older less effective programs.

(The following material is added following Chapter IV of the NHC 1977 Resolutions)

Longer Term Programs for Consideration by the Administration and the Congress

Chapter V: New Bold Program to Preserve Existing Neighborhoods and to Eliminate

Abandoned Housing; Programs for Housing Rehabilitation

Preserving Neighborhoods; A Comprehensive Neighborhood Improvement

NHC recommends a comprehensive program to coordinate all efforts to preserve existing housing in neighborhoods and to eliminate the waste of abandoned housing.

We recommend that as a first step, a program be authorized for selective neighborhoods in different cities. Each program should cover an entire neighborhood. An initial three year program authorization of \$600,000,000 is suggested with \$100,000,000 to be made available in the first year.

As a first step, the program should contemplate the preparation of neighborhood plans and long term budget requirements. Some action should be funded early so that residents and property owners will have confidence that the program is for real. The plans should be prepared within the context of a process that involves local residents, businesses and institutions, planning professionals, elected officials and representatives of the labor, real estate, financial and development community.

Among the activities which should be included in the program: Low interest loans for rehabilitation grants for low income home owners; working with financial institutions to structure "green-lining" programs which will make possible sound investments, rehabilitation and a fluid local mortgage market; involvement of neighborhood organizations; funds for quick public acquisition of abandoned buildings and their early rehabilitation; improvement of recreational facilities, traffic patterns; removal of blighting influences; concentrated code enforcement; and adoption of property maintenance ordinances.

The program should allow for local innovation in the use of program tools such as: Combining of public and private financing for rehabilitation; working with public interest groups and neighborhood organizations towards promoting economic, racial and ethnic integration; urban homesteading and other sweat-equity approaches toward rehabilitation; use of local housing authorities and public-private non-profit management companies to provide efficient maintenance services; neighborhood group operation of public facilities; among others.

It is important that the program be sufficiently flexible to permit each community to use those tools that will be most effective in meeting the unique array of problems and needs of each neighborhood.

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The program needs to be carried out within the context of a community-city institutional framework capable of carrying out a long-term plan over a period which might transcend local municipal and federal administrations.

The program to improve housing and physical conditions in the neighborhood needs to be accompanied by a parallel coordinated system of improved public, social and community services such as: Better police protection, drug treatment and prevention programs; superior school systems; adequate community facilities; adequate health services; day care, senior citizen programs; job development and counseling, etc. These activities should be coordinated with the physical improvement program, but their funding should come out of the various D.H.E.W., Department of Labor and Department of Commerce programs.

Once the initial three year Comprehensive Neighborhood Improvement programs are advances sufficiently to enable them to be evaluated, the Congress should enact a multi-year (perhaps 10-20 year) funding program completing activities and for improving all such neighborhoods in our older cities.

Chapter VI An Urban Economic Development Areas Program

Cities must be given a dramatic financial tool to be used in bringing about economic revitalization. It is becoming increasingly clear that, with some minor exceptions, private investment capital will not alone undertake significant development projects within most of our older American cities. Such projects are essential if the cities themselves are to remain viable and are to be able to compete with their more affluent suburbs. Economic regeneration is vital if the cities are to be able to provide the jobs needed for their citizens and if they are to have a fiscal base which will enable them to continue to provide adequate municipal services. National environmental and energy conservation goals would appear to dictate that development within cities be encouraged because it is most efficient in terms of transportation services, providing necessary power and in avoiding adverse environmental impacts. In terms of economic efficiency, urban development often takes advantage of an awesome array of local and city-wide facilities and infrastructure, and thus its long term gross capital requirements are far less than what would be needed in order to replicate the support systems in a completely new or growing area.

Significant urban economic development projects cannot be accomplished quickly. They will require a multi-year process and a long term requirement for loans, grants and other financial and technical assistance. They will require the patient support of the local elected officials and civic and business community as well as long term assistance from the federal government. The details, scale and emphasis, of the required program will need to vary from city to city. Federal legislation and funding mechanisms will undoubtedly have to evolve over a period of years and will become more sophisticated as a result of early experiences and also as an outgrowth of changes in local and national economic conditions.

Secretary Harris has proposed a program which is consistent with these objectives. She has suggested initial funding from the Community Development program. Regardless of the funding mechanisms, we suggest that the essential elements of such a program ought to include:

A. The delineation of urban economic action areas.

These would be blighted, deteriorating or underutilized areas or other areas where there is significant potential for economic improvement. They should be areas large enough in scope so that they can be planned as one entity and where their improvement would not impact upon, or be adversely affected by, adjacent areas.

B. Economic revitalization will require a broad range of permitted physical improvement activities.

These should include: A mixture of clearance and rehabilitation of existing uses; improvements to the mass transit and vehicular service systems; provision of a high level of municipal services and amenities; improvements to the utility service systems; channeling of major public investments and new uses to these areas. Activities not within designated areas, but directly benefitting them and related to their improvement, should also be permitted. The funds for such activities will require significant grants and land write-downs. There will also be a requirement for relocation funds for any residential or business displaces. This need not all come out of HUD funds. A coordinated use of HUD, Department of Transportation, Commerce-E.D.A. Army Engineers - Public Works; Environmental Protection Agency funding as well as participation by various state entities, all under one umbrella program, can provide the level of support systems necessary to make the program work.

We suggest the possibility that a joint special committee of the Congress and an inter-department committee of the cabinet might be established for the purpose of coordinating legislative and administrative activities so that a proportion of the funds in each of the existing domestic programs is set aside to be channeled in an efficient way towards the carrying out of these local programs.

C. Initial planning advance funds need to be made available on the basis of established priorities.

Since the supply of funds, under the best of circumstances, will be limited Congress and HUD will need to establish priorities for funding of local programs.

Among the criteria to be utilized might be: Potential effectiveness and relative feasibility of program proposed; degree of economic problem of the city as measured by employment conditions, changes in its fiscal base, population loss, trends in construction activity, median incomes; extent of deterioration; degree of local support for program; effectiveness of proposed local institutional mechanisms for carrying out the program.

We suggest that the legislation should provide that HUD may not approve programs where they find the economic feasibility (based upon the plan proposed) to be seriously deficient.

We do not believe that this program lends itself to a rigid arithmetic formula for distribution of funds. Subjective evaluation of how proposals meet the criteria might be institutionalized through establishment of regional inter-agency review committees (perhaps including state representatives.) There

could be an initial allocation of funds to each HUD region and state to assure an equitable national distribution, but beyond this, it is suggested that priorities be established based on a variety of objective and subjective criteria.

D. Local continuity of program direction and operations must be encouraged.

Any such program, under the best of circumstances, will take a number of years to carry out. This will often transcend the term of office of a given local and even federal administration. Therefore, the program must be carried out locally under the administration of a development corporation or local public agency so constituted as to assure continuity in the execution of the program. It must also be within the framework of a system whereby local elected officials do have some assurance of responsiveness on the part of the development entity.

Similarly, it is necessary that there be a long term federal commitment to the program and that this be in a contractual form not subject to frequent changes as a result of legislation or new administrative regulations.

E. Development financing assistance is necessary.

One of the major problems of the urban renewal program was the difficulty in securing risk type financing for the redevelopment of cleared land sites. The FHA 220 program was a step in the right direction but its use was limited by legislative and administrative constraints. Any development program in older cities is likely to be a relatively high risk investment. Accordingly, if development is to be made feasible there will need to be a variety of financial tools made available. These include:

1. Federal mortgage insurance for a broad variety of uses.
2. Long term and construction financing at reasonable interest rates which can come about either through use of tax free bond devices, a Federal Development Bank, GNMA, FNMA purchase of mortgages (for a broad variety of residential and non-residential uses) at favorable interest rates, direct interest subsidies...or a combination of these tools.
3. Federal income tax incentives should include those suggested for the Community Development Program in earlier sections of these resolutions. It could also include provisions for favorable tax treatments to financial institutions channeling capital into such programs.

F. Federal facilities must be channeled to urban economic development areas.

For too many years there has been a channeling of federal facilities to rural areas and suburbs and a conscious effort made to avoid the development of new installations in urban centers. Military installations, research centers, IRS processing facilities, federal sub-contractor installations...are the kinds of investment that federal executive policy could channel to our urban areas. To the maximum extent possible these should be developed as facilities that will pay local property taxes or make payments in lieu of taxes. Such a policy will expedite redevelopment programs, provide long term urban jobs, and improve the local fiscal base.

G. Long term loans for municipal infrastructure.


Any such program will inevitably require significant municipal investment. Most cities are in dire financial straits and would be unable now to raise sufficient capital without in turn raising local property tax rates to a level which would drive away investment. Thus, a required element of the program would be the availability through federal guarantees or direct federal loans of necessary long term investment capital. These could be repaid out of a tax increment system whereby a proportion of the tax increments from a redeveloped area would be set aside in a loan repayment fund.

H. Funding Requirements.

It is not possible, given the differing sources and types of financial assistance suggested to give a specific suggested price tag for this program.

We propose that the Congress appropriate \$400 million for each of the first two years for meeting planning and start up costs. This is consistent with Secretary Harris' proposed initial level of funding for the Development Action Grant Program. During this time period better estimates of long term program needs will emerge. The Congress could then authorize funding over a subsequent ten to fifteen year period so that the annual draw down from the federal budget would be within a feasible range and yet local programs would be assured of available financing within perhaps a biennial budgeting process.



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"NEW PRIORITIES IN 1977"

KEYNOTE ADDRESS

by

LEON N. WEINER, PRESIDENT
NATIONAL HOUSING CONFERENCE

46th Annual Convention
March 6, 1977
Washington, D.C.

In June of 1975, in Miami Beach, Florida, I sat on the platform in the Americana Hotel Ballroom and, for the first time in my life, I listened to Jimmy Carter. It was an eloquent and knowledgeable speech - it dealt with housing and the way people live - it was a major address before the South-eastern Regional Convention of the National Association of Housing and Re-development Officials - and, sitting in the audience was W. D. White, Director of the Americus, Georgia, Housing Authority, who later confided to me that "Jimmy was once one of my tenants."

That same day in June, I first met Jody Powell and he gave me his card - and I guess that really marks the time when I began to believe and to try to convince others that Mr. Carter did indeed have a real sense of understanding about housing, about our cities, about our urban conditions.

In January of 1976, as President of the National Housing Conference, I invited all presidential candidates in both political parties to appear before our Convention in March or to submit position papers on housing and community development. The statement we received from the Carter Headquarters was the best of all those who responded - and is exactly the same statement distributed throughout the campaign - through the primaries and the general elections.

It is now one year later. Mr. Carter is now President of the United States and the time has come to examine the nation's policies on housing and community development - to assess where we are and to see where we are going. But to do this meaningfully, we must recognize that there is a time bomb ticking under the American Economy. It is the hidden crisis of the '70's - the major shortage of housing needed to provide for the post-war baby crop now coming of age.

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In the decade of the sixties the number of people between 30 and 40 declined by 860,000. In the seventies that age group will increase by some 8 million - 2½ million of that increase came in the first half of the decade - nearly 6 million will come during the second half.

This age group - the 30 to 40 year olds - is the family-forming, child-rearing, home-seeking age group. They are creating the highest housing demand in our history - with new families being formed at a rate some 40% higher than ten years ago - at precisely the time housing production is struggling to recover from 1975's low production level - the lowest in 30 years at 1,160,000 dwelling units.

In 1976, while the median price of new sales housing rose to record heights - over \$45,000 per unit - and production of new sales housing rose to record annual levels - multifamily production remained severely depressed the only bright spot occurring when HUD put on its big push in late August - which caused housing starts to spurt forward strongly in the last four months of the year.

There is already a critical shortage - and the crisis is deepening. Soon, five families will be competing for every four apartments and homes available in many cities - driving up home prices and rents. We must both repair and maintain existing homes and apartments, and build each year a steady flow of new dwellings. Only such steady production will bring cost-saving, price-reducing efficiencies in our building industry. Stop and go policies, with associated unemployment and bankruptcy, ultimately drive up costs and prices.

As a result, we are short-changing our children who will under present conditions not have the same housing opportunities we ourselves had.

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We are short-changing the elderly. We are short-changing the poor. We are short-changing America and thwarting the American Dream. We still have a housing depression. We cannot solve a housing crisis of the kind now in prospect by the policy of not building housing, a policy or rather a nonpolicy we seem to have fallen into in recent years.

We are failing as a society to meet our responsibilities to our children and our parents. And we are failing to meet our responsibilities to ourselves.

Our central cities all over this land reflect neglect and decay. We have failed to encourage the investment needed to conserve, preserve, restore or rehabilitate the great resources that should center in those cities.

Beyond this we are learning again what we should have known from the past - that no economic recovery is possible without a housing recovery. Every 100,000 units of new housing provides over 150,000 jobs and \$2 billion in wages. Every 100,000 units of new housing generates over \$410 million in tax revenues - \$300 million in Federal income taxes, \$35 million in State income taxes and \$75 million in local real property taxes. Every 100,000 units of new housing results in expenditures of \$350 million for new appliances, furniture, drapes, garden equipment and other decorating items.

We are learning the high costs of instability in housing - not only in higher housing costs but more particularly in loss of jobs. Construction unemployment today is close to 15 percent nationally - up to 40 percent in many areas - all of it reflecting the vicious ups and downs of the housing cycle.

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There is a theory among some economists, particularly at the Federal Reserve, that housing is a "postponable" item, that there is a value in using housing to balance other areas of the Economy - regardless of the effect such wide swings in production have on housing itself.

And finally there is the matter of housing cost increases, intensified by land and development costs - frequently reflecting unwise moratoria, no growth policies and excessive zoning, planning and environmental requirements and made worse by monetary and mortgage credit policies resulting in interest rates too high for all but a small portion of our population.

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And the short fall in production of both sale and rental housing in itself has contributed to the large inflation we have witnessed in the price of existing housing -- up 53% in the last five years.

If we are to reverse these trends before the housing crisis of the seventies overwhelms us we need to move boldly in new directions.

First and foremost we need to give the housing of our people the same priority attention President Truman gave it in 1946 with his Veterans Emergency Housing Program. At the end of WW II we had some 13 million returning veterans, millions of whom were immediately in the market for a place to live. They came back to a country which for 15 years had built virtually no housing -- the consequences of a depression and a war. All of this reinforced the wisdom of giving housing top priority in the nation's postwar recovery -- and it worked and worked well.

To solve the housing crisis of the seventies we need the same sense of urgency we displayed in the late 1940's. Without it we will merely be putting band-aids on the concerns that plague our cities and the way our people live.

We know there is no single nor simple solution to these complex problems. We must be willing to innovate, to try to save what can be saved from current programs by sound administration -- but above all we must display the will to solve our housing problems and the wisdom and strength to give it the top priority it deserves.

The role of government in this housing future is vital. Government must create the positive economic and political climate in which a partnership with private enterprise can function so that our people can be properly housed in

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good neighborhoods. Government must stimulate and administer programs for those people whose economic status does not allow them to participate fully in the free market. And finally government must in the last analysis be the provider of subsidy, of financing and of mortgage credit when and if the free market is unable to respond.

Our basic objectives must include:

- 1) A stable and achievable housing target -- a minimum of two million units a year, and more as our resources are developed to achieve levels more nearly matching our annual needs.
- 2) Mortgage credit, financial institution structure and monetary policy which make for a stable flow of funds for housing and community development at reasonable interest rates.
- 3) A restoration of the traditional partnership between government and industry which served us so well in the past. A restructuring of government housing agencies to permit the Federal Housing Administration -- the linchpin of Housing policy ever since 1934 -- to function effectively once again..... and the revitalization of the public housing programs which have been so badly maligned and undermined so that the relatively few failures have been magnified and distorted while the many successes have been ignored and demeaned.
- 4) Policies and programs which encourage housing investment, particularly inner-city restoration and rental housing.
- 5) A better balance between the housing needs of our people and government policies at federal, state, regional and local levels.
- 6) Encourage innovation in developing new forms of financing and subsidy which will reduce monthly shelter payments for young families as well as for the elderly.

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7) Encourage realistic and achievable technical innovation, particularly in energy conservation and environmental protection.

We need to develop adequate training programs to provide the skilled work force that will be needed; we must revise local building codes to reflect technological change and we must be willing to experiment in the full knowledge that there will need to be many answers as indeed there are many housing problems.

It is said that on the whole our people have been better housed than the people of any other nation in the world. But we all know that we are a long way from achieving a decent home in a suitable environment for every American family - There are still millions of Americans living in slums - in our cities as well as in our rural areas. If we continue on the path we have been following these past four years, it may well be that we would no longer be able to lay claim that, on the whole, we are the world's best housed nation.

The advent of a new Administration in the White House presents all of us committed to constructive housing and community development programs, regardless of political affiliation, with a great opportunity.

We can expect within a year a thorough review of the effectiveness of current housing programs as well as the consideration of new directions.

The National Housing Conference as the public interest "umbrella organization" representing all elements of the housing field must take a major responsibility in participating in this review of the existing, as well as the new.

We must work with the Carter Administration, with HUD and with the Congress to make programs work, develop modifications and additional programs and to cut red tape and enable this vital industry to move forward so that decent housing for all Americans does not remain an impossible dream.

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This will not be an easy task, but what worthwhile achievement ever is? While we must reaffirm our goals - - we must reach agreement on the methods and tactics needed to achieve them.

I should like to single out three issues which will require special attention and consideration in the days ahead.

First, the need for adequate funding.

While we share with all Americans a deep concern for the financial condition of our nation--and are aware of the budgetary constraints within which we must operate, we are strong in our belief that we must reorder our priorities--that the resources of this nation must be reshaped to deal with the crisis in our cities, with the need to provide that quality of life which has become our national goal and policy. We cannot be content nor complacent about the level of funding necessary to achieve these objectives. Housing and the improvement of our cities cannot and must not be relegated to the back burner and we must be prepared to fight vigorously for full and adequate funding. Far too long a time we have seen programs for housing and our cities short changed and under funded--we have seen funds impounded, programs suspended and studied and restudied and then new programs introduced only to be ham-strung and frustrated because of a lack of consistent determination to establish and maintain the critical level of funding priority needed to achieve our goals.

Second, we have seen new attention focused on the problems of the inner cities. Many of us in the National Housing Conference have been deeply involved for many years in programs and activities focused on improving our cities. The issues of adequate mortgage credit for all neighborhoods--the fight against blight--the need for rehabilitation and conservation--problems

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of abandonment--renewal of community facilities and the myriad of other problems are not new to us. We welcome the new attention and emphasis, but are concerned with the possibility of over simplification in the search for solutions to the complex problems involved.

Several things must be borne in mind--no two cities are absolutely alike. No one program can ever hope to be universally applicable. There are no panaceas. Inner city programs must be part of metropolitan planning and solution--since we must not forget the critical importance of opening up the exclusionary noose surrounding most core areas. Maximum equality of opportunity for all our citizens must exist, not only in the inner city but throughout the metropolitan areas. In our deepening concern for the inner city, it really needs to be noted that there is a critical concentration of housing and community deprivation in our rural areas.

Any program for improving cities must address itself to improving housing and neighborhood conditions for the poor, for the middle income groups and even for the well to do. It must encompass neighborhood preservation, rehabilitation, new construction...all performed in a partnership of the local community, the public sector and the private sector. City revitalization cannot ignore the economic and cultural needs which are essential for municipal survival. This means that central and neighborhood business districts must be improved; cultural, recreational and educational facilities enhanced; and new job and business opportunities encouraged. There must be social, health, welfare, employment and educational programs that become part and parcel of the total commitment to make our cities blossom again.

Third, the gap between incomes and increasing rents and mortgages payments has been seriously widening. This places fantastic new pressures on the required subsidies necessary to bridge that gap. We have seen a budgetary process used in calculating run-outs of subsidy costs which distort the real

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picture. No other on-going Federal program is calculated in a similar fashion--a fashion which will ultimately destroy support for a reasonable level of assistance for low and moderate income housing and not especially new construction .

Unless there is an adequate subsidy program, the gap will not be bridged for our low and moderate income families and no program of reshuffling the poor in the slums will alleviate that problem.

And so, when Mr. Carter won the election...I, along with so many others were once more hopeful and optimistic about the future attention that would be given to this all-important aspect of our lives...our shelter...our cities...our communities...and to the unemployment in the construction trades...and to the stimulation of our economy...and that producing housing and building better cities was not really inflationary...that it was not investment in a throw-away economic program...but that it is stable and long-term in its impact...that it would produce jobs and that the huge sections of unemployed in the industry would at last stop being a drain on the economy through unemployment benefit costs, and so on.

In late December, 1976, we presented Mr. Carter with a suggested course of action. We said, "First, what becomes most important, and as quickly as possible, is that we have professional and experienced persons for the position of Under-Secretary, for post of General Counsel of HUD, for the various Assistant Secretaries, and for the various HUD Regional and Area personnel who will be appointed. In addition, we must have professional and experienced leaders in governmental finance agencies, such as the Home Loan Bank Board, GNMA, the Federal Reserve Board, and others who affect housing and community development financing."

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From our observations to date, based on the nominations we have heard of so far President Carter and his new Secretary of HUD, Patricia Harris, have certainly followed our advice.

Second, we said "that the HUD Under-Secretary and other HUD Assistant Secretaries be given strong operative support and authority to bolster the morale and improve the performance of the entire Department, if we are to achieve either our economic or housing and community-development goals. Most specifically, it means strong and immediate administrative action to give the Assistant Secretary for Housing (the old FHA post in HUD) line authority to accomplish results through decision-making powers."

It is obviously too early to report progress on our second recommendation.

Third, we said then and we now reiterate that, "there is a need for knowledgeable input in the economic discussions with regard to the immediate steps to be undertaken in restoring the economic health of the nation. While this is not a plea to eliminate any type of tax rebate, nor a diminution of the constructive effect of public jobs, it does mean a much more serious consideration of the dramatic, long-range and constructive effect of new housing production and major rehabilitation programs...with the job training, the utilization of the unemployed, the encouragement for plant expansion for building material manufacturers and the far-reaching multiplier effect of the much needed new housing on the nation and on our communities.

Please, Mr. President, let us all reread your position paper on housing...on the need for reliance on the "professionals" as you so well described it...on the jobs for unemployed construction workers...on the greatest need for housing for the low and moderate income families...and on effective action to provide the much-needed mortgage funding at reasonable interest rates, so that the young and the old...and everyone in between may have a decent home...in a decent community.

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This is ever so important as we face the rest of the world in proclaiming that in our society, our economic way of life can provide the quality of life so much better than any other system man has devised to date. Mr. President, your eloquent statement on this in the third debate during the elections can come to pass!" Working together, we can make it a reality.

The theme of this 46th Annual Convention of the National Housing Conference in 1977 is "New Priorities".

We sincerely hope that at our 47th Annual Convention in 1978 we will be able to report back that our third recommendation and our convention theme began to be realized in 1977.

Mr. AU COIN. Thank you, Mr. Weiner.

Mr. Landine of New York, who is an attorney, has left. I don't know whether this was because of the comment you made about attorneys.

Mr. WEINER. I hope not.

Mr. AU COIN. Let me ask you a couple of quick questions before turning it over to my colleagues.

I compliment you, first of all, for pointing out your disappointment with the proposed reduction in new construction activity under section 8.

Throughout the last Congress I repeatedly tried to make the point that unless we put a greater focus in section 8 on construction and made it contribute to the increase of housing supply in communities across the country that not just those who are eligible for section 8 will pay the price, but that all will pay the price.

Because in many major urban centers the vacancy rate in rental housing is extremely small.

In Portland, the major city in Oregon, there is less than a 1-percent vacancy rate. Whenever you have that kind of a crunch everybody pays through higher prices.

Mr. WEINER. Right.

Mr. AU COIN. Even though I recognize the budgetary impact and the pressures internally through the contract authority you have referred to, it just seems to me that this subcommittee and your organization—and everyone else who cares—ought to press for the greatest amount of focus on new construction and rehabilitation, so we can increase the supply of housing stock and section 8 should not be exempt from this effort. It should be one of the tools we use to do so.

And I compliment you for pointing that out.

Let me ask you this, there have been claims by some that working through State housing finance agencies is one of the most expensive ways to deliver subsidized housing. Others dispute that. I wonder how you and your organization feel about the question?

Mr. WEINER. OK.

First let me open up by saying that I am building section 8. It happens that in my role as president of the National Housing Conference, Inc., I am wearing the hat of a broad coalition.

In my private and business life I am not an attorney, my partner is an attorney. So, that is how closely I feel about it.

[Laughter.]

Mr. WEINER. But I think that I would like to step out of the shoes in which I am testifying and talk as a builder, developer of low-income housing.

I am now involved in providing section 8 housing, new construction, and the only way I could get it done was through the State housing finance agencies. Yes, there are some that has been done through the modification of using the FHA programs and there are some places where it has been done conventionally.

But if you would compare the question of cost between doing it through FHA or doing it conventionally with the fact that the State financing agency has really been able to process it with about one-third of the paperwork, about three times as fast. If you simply took the

time saved from when you start the process to when you finish it, and you look at the inflationary increase in the cost of construction it suddenly gets cheaper to do it the way that gets that building into the ground while you are still at last year's cost instead of the cost 2 or 3 years down the road. So that cost they have not measured.

I think there is a question about establishing market rents so that the State financing agencies can go out and use the 30-year lease which will obviously bring a lower cost if you are going to compute it.

But as I said before, if you take a 20-year contract, what are we going to do with the people at the end of the 20 years? You are going to renew it.

Now, if we want to delude ourselves by believing that if you have a 40-year runout and use 40 years for the calculation and, on the other hand, use the 20 years because it says 20 years, I think we are really kidding ourselves.

Let me point out one other thing, that our experience in the single-family house business is that with a 25-year mortgage, the average length of the mortgage in real life is somewhere between 10 and 11 years. It gets turned over, it gets sold, it gets refinanced and so on. And I would suggest that most housing utilities built under section 8, even those with 40-year contracts, are going to end up getting refinanced because of the ownership relationship that exists, tax structure and other reasons.

So, I am not so sure that there really is that much difference between the forms of financing if you take all the factors into consideration.

Mr. AU COIN. In making section 8 work do you think this committee would make a mistake in not providing for a specific set-aside of section 8 funds for State housing financings?

Mr. WEINER. Well, I have been ambivalent on this question for a long time. Sometimes I am for them and sometimes I am against them. And sometimes I wish I had the authority to be for or against them at the moment that the situation arises.

If we are going to have set-asides for section 8, and it looks like in the past the policy has been to set certain things aside, then I think we have got to make a designation of some Federal set-aside for State agencies.

I notice that Mr. Hance of the Council of State Agencies is testifying this afternoon. I think defensively his position would be, that they are going to need set-asides.

We have set aside section 8's for major rehabilitation, and we have started the program of setting it aside. And I think we are going to have to continue if we are going to make it work.

Mr. PARISH. The New York State housing finance agencies are not in very good shape right now and they would have a tough time using a set-aside. So, we need to enable these agencies certainly in some of the States to be able to finance housing and thereby use the section 8 set-aside. If we set it aside and they can't do the financing, we are setting it aside and it can't be used. So, you would have a double problem then.

Mr. AU COIN. Mr. Lundine?

Mr. LUNDINE. Mr. Parish, I was very interested in a couple of comments you made on your resolutions. In one instance you indicated

that you proposed an increase in the amount of discretionary funding under the community development program and then toward the conclusion of your statement you said that you supported the proposal of Secretary Harris for a development action grant program. May those two not correlate? In other words, will the action grant program be an answer to the kind of discretionary community development authority that you are seeking?

Mr. PARISH. I think it may be. We have not seen the full details on that yet. But I might comment on that, Mr. Lundine, that the problem with the discretionary grant program has been that communities get a fairly small grant on a 1-year basis. They have no way of staffing up, of assuring any continuity because they don't know if they are going to get it the second year. They cannot plan ahead.

It has not been possible for the discretionary communities to have the kind of process that is needed to undertake a meaningful program of significant scope.

I think some of the things I have seen written on Secretary Harris' proposal may get around this or at least be a better system for assuring the better use of those funds.

Mr. LUNDINE. You may be interested that she told me when she testified at these hearings, that that was precisely her intention. By proposing the action grant, to allow for multiyear commitments, and not this idea of spreading the money out a little bit to every jurisdiction, but really concentrating.

I would like to turn to the section 312 loan program.

You recommended activity of \$150 million annual authorization.

If my recollection serves me correctly, HUD is proposing no new appropriation or authorization for the section 312 program. But it alleges that they have \$70 million left over from last year's funds or the current year's funds that would be adequate.

If we continue the rehabilitation loan program at this rate, in your judgment will this allow for the continuance of an effective program?

Mr. PARISH. Well, to the extent that any funds are available, I think it is going to be effective. But the problem is that when there are very little funds and HUD decides to give some out a little bit at a time, the communities need some leadtime to work with the owners, to prepare the applications, to get them into the offices and get them processed. If the area offices don't know that they have adequate funds and can't encourage these applications then on the delivery side you get the communities saying, "We can't put them in."

Now, the question you raised about the funds that they have now, the reason that they have those funds now is because the processing of the applications had been so inadequate and they have not been able to get the loans out.

But, Mr. Lundine, I can assure you that there is a fantastic amount of interest and demand for this type of program and it is very consistent with the neighborhood preservation objectives that this subcommittee has voiced.

And, if only we could get the processing improved, get more self-approval in those communities with expertise. I am sure that the rate of utilization of the funds could far exceed even the \$150 million, and the only reason we have limited ourselves to that is because we wanted to appear reasonable.

Mr. WEINER. It is part of a "Catch-22," I think.

One of the reasons they have not been able to process the money that they have authorized and available now is because the program has been choked off over a period of time and they lost the staff to do it with.

Then, they fund it, and they can't rebuild the organization to process it, and then we say, "Cut off the funds" because they couldn't use all of the funds. You keep on this stop-and-go stuff, you will drive them paranoid, and you will not get any rehabilitation. There is no sense talking about the inner cities and preservation of the existing stock and rehabilitation and all the magic code words without giving them the level of funding with some consistency so they can build up and reach that level and get it done.

And incidentally, I must ask you one other question, what was HUD's original proposal to OMB? Or was this OMB's proposal to HUD that finally came to you? I must continue to ask that question every time.

Mr. LUNDINE. I had the mistaken notion that we were to ask the questions here.

[Laughter.]

Mr. LUNDINE. Although I must admit that some of my colleagues lose track of that, too, it seems to me.

Could I just ask you one other question?

I am not going to answer your question. I am with you 100 percent.

Mr. WEINER. All right.

Mr. LUNDINE. I have suffered under that problem.

Mr. WEINER. Yes. That is right.

Mr. LUNDINE. I would like to ask you about the section 202 program. Really neither of you testified directly to this point.

But here is a proposal, as you undoubtedly know, to decentralize the administration of the senior citizen or elderly housing program authorized by section 202. I would be interested in your comments on what that is going to mean to the viability of elderly housing.

Mr. WEINER. It will destroy it. If we are going to try to train every office how to process the section 202 applications, it has already been April when they authorized it a year ago.

I know of no section 202 application that is ever going to be done because the clerks or the people who are operating the program now are sitting in the area office reading the manual and saying, "I got to put a dot over here, and a period over there," and they have never run it.

I believe part of the restructuring of HUD has got to go back to the assumptions that certain centralized authority has to remain within a regional or central office basis. Certain authority ought to be line authority going right down to the insuring office under the old traditional methods, what we use for FHA and you don't need either regional or central expertise.

The section 202 program is fated for absolute dragging out over a period of time unless we recognize that we have got to get processing procedures in a centralized fashion so we can get the new units funded, something like 12,000 units that were originally proposed in the Housing Act in August of 1974, and we still have not got one of them near construction.

And incidentally, I think the new staff in HUD is aware of that problem and has that under some serious discussion. That is the only way it is going to work.

Mr. LUNDINE. My time has expired.

Mr. AU COIN. Mr. Blanchard?

Mr. BLANCHARD. Let me follow up on the point you make, about the affordability of housing for anyone, not just low income or moderate income. But certainly most people in the middle-income category are faced with that problem. What is it you specifically think the Congress ought to do to minimize the problem of the skyrocketing cost of new housing or even existing housing? To combat the phenomenon exhibited in the MIT study?

Mr. WEINER. First, traditional wisdom and understanding of our economic system says that where you have shortages prices are going to get pushed up. We have tremendous shortages in housing. We have tremendous shortages in materials for building those houses, and we are again in a "catch-22" because of the demand for some of those materials, and some of that labor comes on us in a rush, it is going to get scarce and the prices will go up again and we are going to have that continual fight against inflation because of shortages, not because of just runaway prices. That is No. 1, the fact that we have not kept up an adequate supply.

Second, and incidentally, the tight money policy of the Federal Reserve Board is one way of fighting inflation by raising the price of money, which is inflationary in itself. So, No. 2 is that we are proposing programs which will close the gap between incomes and the cost of housing, section 235 from 5 percent down, tandem or Brooke-Cranston funding from, let us say, 2 points below FHA on upward, and this will, we think, be very helpful in bringing housing within the— for sales housing within the cost range of more families in the moderate- and in the middle-, lower middle-income brackets.

We also think this is important in the multihousing family field. And we are not talking about the subsidy for the very poor and for the moderately poor.

Third, we think that there are a whole series of things that need to be understood. We have trade-offs in our society now between the environmental concerns on the one hand and the concerns that we have of providing housing.

We have the problems of sewer moratoriums, we have the problems of our clean water and clean air legislation.

And we think we need a balanced approach. Not pose one against the other in the way that unfortunately we have been doing.

We also think that there is one good way of providing costs from running away on us and that is getting a rate of production so that we can have an experienced labor force because what has been happening to us in this whole period is that each time we go down, trained mechanics and others leave the field, middle management breaks up, capital investment bankruptcies begin to appear. Then, as we come up with our demand or stimulation of the economy, we have to go through the costly process of starting from scratch. And every time you start from scratch, you have added to the cost of the unit.

There is not a simple answer to this. It is a question of a consistent housing and community development policy at a level, and over a longer range period than we have been willing to do.

Mr. BLANCHARD. Let me explore that a minute. I think most of our subcommittee agrees with you on this. We have tried to do something about it; we have not been too successful, but we have tried. And also that we would support programs to subsidize the difference between the market interest rate and some arbitrary figure for different income categories.

Also an appreciation of the fact that sewers and water and gas connections, things like that, are a real ingredient in this.

Beyond those things which are very difficult to control increasingly, you are saying that if we merely increase the supply that would be a good step to reducing costs because of competition?

Mr. WEINER. Yes.

Well, if you increase the supply, and I don't care what your product is, you can increase the supply without providing a reasonable amount of income to the persons who need to purchase or to acquire those units or to rent them. If you increase the supply in that fashion you are just going to have a lot of vacant overbuilt housing. I recognize that.

But one of the reasons existing housing has spiraled upward in the last year or so is because of the shortage. It used to be we had a trickle-down theory, that if you, if you built houses for the rich and they passed on their used houses down the line until finally it got down to a poor family when it was about to fall apart and the roof was leaking, they got it.

But what happened is, because of the shortage you can't even buy those houses for a decent price.

Mr. BLANCHARD. I follow you.

It is an unbelievable problem in my area, suburban Detroit.

Mr. WEINER. That is right.

Mr. BLANCHARD. Even if we increase the supply, which I know classically would tend to support your thesis, aren't the costs of raw materials, and labor, of just putting up the new house, plus the cost of property taxes, which will not go down, plus the cost of the utilities such that we are still talking about housing no matter what the income category, becoming a much greater percentage of a person's income than ever before? I mean what—you know, people I talk to, and I have bought two homes in the last 5 years, look at how much they have to come up with as a downpayment and what their monthly payment will be, and then they look at what the property taxes will be prorated over the year, and now the utility bills. And the figure, no matter how you slice it, the figure is a very high figure and it has got to be fairly high for the builder too, just to make a profit. Builders are not in the business of charity.

I really think, aside from the Community Development Act, which is really related but a separate matter, this is the \$64 question for the average family today. What are your costs to put up a structure?

Mr. WEINER. They are double what they were 10 or 12 years ago and one of the reasons is the cost of lumber.

Now, I think, I will get for you, I will get for you a copy of Mr. AuCoin's speech to the National Housing Conference on Sunday in which he traced the problem of the supply and the cost of lumber.

Mr. BLANCHARD. That if there was a consistent supply that was really available with an expanding or, at least, an assurance of mar-

kets that are out there, that the timber manufacturers and the processing so forth that takes place would proceed at a level, which would bring the costs down even though the demand for that lumber was going up; but one of the reasons it is so high now is the stop-and-go process, the fact that the availability of timber supply from the national forests and so forth has been restricted because the man has not been in there pushing on it, and as a result when we do get some recovery we find the price of lumber jumping way out of sight.

Nobody is going to invest in a new plant to make toilets if the level of housing starts is 1.1 million or 1.2 million or 1.5 million. And in 1972 when we began to achieve a level of housing that was beginning to approach our housing goals, 2,200,000 or 2,250,000 we ran out of toilets. We built houses with two and three bathrooms and we would take the hopper from one house to another so we would have enough toilets, to have one to a house so a family could move in.

Maybe we need to talk about our aspirations, and whether we need more than one toilet in a house.

But we have told the American people that it is un-American to have a quality of life less than a certain standard. You can't unteach them overnight. You can't tell them that because the economy is moving this way, you will have one toilet for one person or six people.

So, I think if you were a toilet manufacturer you would have real problems about investing your capital in an expanding production. That is one of the real—incidentally—

Mr. AUCOIN. I did not get into that in my speech.

Mr. WEINER. No; you stayed with splinters.

Take property taxes alone. Property taxes are rising in relationship to the population, but the revenues from taxes are down because we have not had the increased productiveness.

Now the costs for putting in community facilities, which is one of the things that those taxes are supporting, has not been spread out over a large enough number of units, so a smaller number of people are carrying the burden. It is amazing how the law of supply and demand works as you tear it apart and look at each part of it. It is part of the overall planning process we need to go through.

Mr. BLANCHARD. I thank you for your answers and request, if you could, if you could submit to us some rough calculations of the costs of putting up a house and then keeping someone in it.

Mr. WEINER. OK.

Mr. BLANCHARD. And how they have changes in the last 10 years. I think that would be very helpful. And it affects the bottom line, the inflation issue.

[At the time the hearing went to press, no information had been received from Mr. Weiner.]

Mr. AUCOIN. I thank you for your testimony.

And I think that after analyzing the length and breadth of it, I think the subcommittee will have a number of specific questions to submit to you in writing. If you would be willing to answer those for the record the subcommittee would appreciate it very much.

Mr. WEINER. We will be happy to.

[At the time the hearing went to press, no information had been received from Mr. Weiner.]

Mr. PARISH. I just want to take a second to note that the mayor of the city of Poughkeepsie is here. And he very much supports the position we took on the community development, he would like that to be noted, particularly to his former fellow mayor, Congressman Lundine.

Mr. LUNDINE. I was just going to note that.

Mr. AU COIN. Let me conclude with one more question. You indicated that you had supported the concept of a neighborhood commission, which would have a period of time in which it would study the problems of neighborhoods and report its findings to the Congress.

You also made a very deliberate point that no such commission should delay an action program in the meantime.

I am wondering if you fear, as I do, that perhaps the creation of such a commission might paralyze any congressional activities if it were put in place.

Mr. PARISH. We have that concern, but we would hope that there would be a way that the Congress could see that, while a commission is conducting an on-going study, action programs could occur and some of the techniques could be refined later, as a result of study commission findings.

But we think we know enough now and we have had enough experience, and the questions about the section 312 program bear this out, that an honest-to-goodness neighborhood preservation program can be undertaken at an early date and perhaps will be refined later on as a result of any sophisticated findings from such a commission.

But we hope that that would not be used as a delay mechanism for undertaking the kind of action that is needed.

Mr. AU COIN. I thank both of you gentlemen for your excellent testimony this morning.

Mr. WEINER. Thank you, Mr. Chairman.

Mr. AU COIN. We have now a panel of three, Gordon Cavanaugh, Clay Cochran, and Ms. Cushing N. Dolbeare.

Before introducing the three witnesses, I am trying to locate the written testimony of the two gentlemen who are here. I have only one set of testimony.

I guess we do have it now.

The chairman wishes to welcome each of the three of you to the continuation of the hearings. With the apology of any butchering I may have done in the pronunciation of any of your names, and I sense that I perhaps have.

I don't know which of you prefers to go first or whether you have organized this presentation in some sequential way. I will defer to you in that.

Mr. Cavanaugh, would you prefer to go first?

Mr. CAVANAUGH. Yes.

Mr. AU COIN. Let me welcome you and let you proceed with your testimony.

I do want to say to all three of you that we have, we are now under a time problem. We have until approximately noon. And I believe the House goes into session today at 11 a.m.

Is that accurate?

STAFF. I believe so. I will check on that.

Mr. AuCOIN. We may have a quorum call. So perhaps you ought to submit your written testimony for the record and then summarize in detail, summarize the statements that you have.

Mr. Cavanaugh.

Mr. CAVANAUGH. Thank you, Mr. Chairman. And we shall, we would like now to offer our full testimony for the record.

**STATEMENT OF GORDON CAVANAUGH, EXECUTIVE DIRECTOR,
HOUSING ASSISTANCE COUNCIL**

Mr. CAVANAUGH. I want to thank the subcommittee for inviting the housing Assistance Council to present testimony this morning. As you may know, the Housing Assistance Council is a federally funded organization that was established by the Government in recognition of the inequitably small shares that the rural communities were receiving of Federal resources.

Before beginning this morning, I just want to—

Mr. AuCOIN. Excuse me, Mr. Cavanaugh.

Could we have a little more quiet in the back of the room? It is difficult to hear the witness' testimony. If you have to have a conversation, the Chair would appreciate it if you would leave the room.

Mr. CAVANAUGH. It is from those perspectives that we are testifying this morning. In view of time, I would like to move right to the point, if I may.

The first issue we would like to address is the administration's recommendation for an increase of a half billion dollars in the community development block grant program. We feel that such an increase is warranted.

Small communities have made good use of these grants. And they have used them for very basic community purposes. Of the moneys, 17 percent have gone for housing activities, 33 percent of the money has gone for water systems; 7 percent for waste systems.

However, we make our endorsement with the reservation that changes must be made in the way the moneys are to be applied. As described in Secretary Harris' budget of the half-billion-dollar increase, less than \$10 million is assured for the known metropolitan communities of this country.

We believe that such an allocation of this increase in funds is unbelievably unfair, indeed it raises the question of how all of the block grant funds in this country are allocated between metropolitan and nonmetropolitan areas.

The 1974 Act was a welcome shift in clarification of national policies in that it provided at least a minimal 20-percent share of the community development funds for nonmetropolitan areas.

The theory of the act was that henceforth, there should be a division of community development funds across the country on the basis of need, and not on grantsmanship that had led to a distortion in the grant programs. We feel that the 80-20 split, in fact, does not reflect an allocation based on the needs among the American communities.

As you may know, that figure was reached during passage of the legislation largely just looking at what, in fact, had been the relative use of categorical programs in metropolitan and nonmetropolitan

areas. So from the outset, the act was hatched with somewhat of an artificial split between those sectors of the country.

We feel that that takes the act away from its purpose of responding to needs. Many of us argued in 1974 that the split left rural areas on the short end and that our arguments were often cast aside as being simple advocacy. Now we have a thorough study done by the General Accounting Office which has concluded that if all of the community development fund in the country were split equitably between metro and nonmetro areas, the nonmetro would get a share of 34 percent.

I think the figures bear out the fact that citizens of small towns and rural areas in this country have been badly shortchanged under this program. The 50-million nonmetro population receive only \$9.06 as contrasted with the \$14.54 per capita share that their city cousins have received. If you look simply at the nonmetro discretionary grants, it comes out to \$4.90.

I think it is timely for the Congress to review those allocations. There is precedent in the act itself; almost all of the divisions of community development funds are made on a needs basis, and if those formulas were applied at the initial split, you would have a fairer share going to small towns and rural areas in the nonmetro part of the country.

It seems hard to believe that we can continue that split without some congressional explanation of why rural areas are to be so denied a fair share of the funds. It leaves us in a position of really having moved from grantsmanship to formulaship, it seems to me.

All of this goes directly to the heart of the proposal of HUD, namely that to increase the half billion dollars in community development authorizations, most of which would go to the urban development action grants.

As I have indicated, under HUD's budget, the formula, in effect, descends to 2 percent with rural areas only being assured of \$10 million of that half billion. We believe that Congress intended when it initially established allocation formula between metro and nonmetro, that the formula would continue to apply as the funds increased.

There is no objection to ascribing major portions of the community development block grants to the most distressed communities. Our fear is that when these moneys are administered, they will go primarily, if not exclusively, to the very large cities of the country; notwithstanding the fact that small communities in the United States would certainly qualify under HUD's criteria for the action grants. High unemployment, loss of population, excessive poverty, these are factors involving all communities, small and large.

We urge very strongly on you that you should approve the increased authorization, that you see that nonmetropolitan areas of the United States receive their equitable share of those funds.

We agree with Secretary Harris' concern which she has argued under the small cities strategy in her proposal to you. Namely, that a major problem with community development block grants for small communities has been the short-term nature of the funding. It is just not possible for a community to mount serious ongoing renewal programs on a one or one-half year basis.

And something must be done to adjust that situation and to allow longer term funding. We have attached to our testimony a proposal

that at least up to 50 percent of the nonmetro discretionary funds should be made available for funding on the basis of up to 5 years. And with the balance being for the shorter term grants for those communities that really have only short term or small project needs.

We feel that if HUD were to properly involve itself, it could make the long-term commitment and then periodically review performance and future plans during the course of the longer period. Only in that fashion can we really expect small towns to be able to develop the capacity to make full use of the Federal programs as well as to be able to undertake those that have a longer term to accomplish rehabilitation, code enforcement and other matters that you are familiar with.

I would like to turn at this point to the housing needs as they relate to small communities and the matters that are before you. It is our view that the present programs are adequate to serve most needs if we could get a period of steady administration of those programs that you have legislated.

First, I would like to turn to the public housing program which has shown itself, particularly in the rural areas to be the most useful and flexible program for serving very low-income housing needs.

The Congress is to be congratulated for its vigilance in this program over recent years. As you know, there have been many attempts to distort it, to impound it, all of which have resulted in a drought in any kind of really deep subsidy housing production in rural areas.

And we are most gratified to see that Secretary Harris has proposed resuming the program at a 50,000-unit-level. But we think that level is inadequate, really, to compensate for our current needs and we would recommend that the program be taken up to its premoratorium level of 100,000 units.

As you may or may not know, there are many small communities in this country that have made quite successful use of low-density public housing and it has served people whose incomes would not have allowed them to get decent shelter in any other fashion.

Were the 50,000-level pursued under past distribution formula, that would mean as little as 10,000 units for rural areas. When you start dividing that among the States, it comes out in many States to just a handful of units and nothing that represents a return to an ongoing program.

HUD itself—incidentally, section 8, we have all seen and discussed that at great length. Whatever its merits, it has not been a program that has been bringing about new construction in rural America, nor has it in any significant fashion served other than the smallest family units. HUD itself recognizes it has had to turn to the public housing program to see that large families were served.

A phenomenon that some of you have referred to this morning has been very sharp in the rural areas, namely, the leaving out of increasing percentages of those whose incomes fall in the lower levels in rural areas. They have just been priced out. All of the escalating costs that you have described that prevail in urban areas, prevail in rural areas as well.

As recently as 1969, the average Farmers Home loan was at \$10,000 which meant that income, adjusted incomes, as low as \$3,000 could be served. In the years that have passed, when we get to 1976, we find that that average loan has doubled to around \$21,500. And the effect of that,

of course, is to leave out those millions of people who have really not had any increase in their incomes commensurate with rising costs.

I think unless Congress is to rule out serving such low-income people in rural areas, there is a strong need for some new program. What has happened is that as costs of housing have gone up, Farmers Home has met that cost not by adjusting its programs to serving the lower income people, but rather by just raising the income eligibility limits. In the past 5 years, those limits have made jumps that have brought them up from \$6,000 to a current level of \$10,000.

As the Congressional Research Service has pointed out to you, the effect of that has been to continually move the focus of Farmers Home to the upper range of those eligible incomes and to leave everyone else houseless.

Mr. AuCOIN. Would you repeat those figures, the definition of low income?

Mr. CAVANAUGH. When they were settling income eligibility standards for their interest credit homeownership program, they varied among the States. But they were as low as \$6,000 adjusted income. Then they set a national figure of \$8,500 adjusted income and more recently have moved that availability up to an adjusted income of \$10,000, which means, in terms of gross incomes, incomes are at \$12,000 or \$13,000.

Mr. AuCOIN. On page 20 of your testimony, I note that you point out that Farmers Home's new standard of low income is twice that of the Census Bureau. I think that is the point you are driving at.

Mr. CAVANAUGH. Right. Exactly.

And the Congress has been good about that. The Appropriations Committee has insisted that 60 percent of the Farmers Home interest programs go to low-income people. But Farmers Home has got the game under its own control. When it can't meet serving low-income people, it just changes the rules and moves the income level up so that it can accomplish meeting what it would say the major purpose is.

Some might argue that rental housing is a substitute for low-income people, and while it may well be in some areas, it just is not generally available as a housing device in any small town. They don't have effective housing authorities. They frequently don't have available multi-family or rental housing sponsors.

Farmers Home itself would rule out many. If they are not in an established place or town, they can't even get subdivision assistance from Farmers Home.

All of that, I think, leads to a real question that is before this body, and that is, are we to consciously rule out those people whom the interest credit program has left behind, or are we instead to do what I would hope we would all be concerned about; namely, adjusting the program to fit the needs, rather than vice versa. And to that end, we urge that consideration be given to a deep subsidy homeownership program for rural low-income people.

The outline of the program is simply that eligible low-income people would pay 15 percent of their gross income—and other formulas would be available—and that the subsidy would carry the difference between that and the costs of carrying a 1-percent mortgage, real estate taxes, utilities, and insurance on the property. Only in such a fashion

can we expect to get the 1.8 million people that the Congressional Research Service finds as being too poor for this program out of this housing and into something decent.

Mr. AUCOIN. I am going to ask you to quickly summarize the balance of your testimony, because the other two witnesses have yet to be heard from, and I think both members of the subcommittee have several questions of all three of you.

Mr. CAVANAUGH. I would like to end on that note by saying that when you propose these programs, some people blanch for a moment. But if you compare what we are willing to spend on private rental housing where we provide tax expenditures in the way of special depreciation allowances to the owner to stimulate development; we will give mortgage insurance and pay the billion or so losses that you will have to appropriate for it, as well as real estate deductions, which mean very little to low-income people.

What we are suggesting in taking the gap between 1 percent and the expenses and the gross income formula I have suggested to you is really a very modest amount but will have very useful and very profitable purposes in these areas for the low-income people in rural areas.

Thank you.

[The prepared statement of Mr. Cavanaugh, on behalf of the Housing Assistance Council, along with attached appendixes, follows:]

Statement of the Housing Assistance Council
presented by Gordon Cavanaugh,
its executive director,

Before the

Subcommittee on Housing and Community Development,
Committee on Banking, Finance and Urban Affairs
United States House of Representatives

On Housing and Community Development Programs

March 8, 1977

Mr. Chairman and distinguished Members of the Subcommittee:
Thank you for inviting the Housing Assistance Council to present testimony on the authorizations and improvements needed to make the nation's housing and community development programs effective in small communities and rural areas.

Before beginning, I want to congratulate the Subcommittee for its increasing interest in reviewing the needs of rural areas. Small towns and rural communities have special problems which often involve considerations different than those for central cities. Accordingly, we have urged that rural housing subcommittees be established in both Houses of Congress. We were pleased to learn last week that the Senate Committee on Banking, Housing and Urban Affairs had created such a subcommittee. We recommend that the House consider a similar action.

As President Lyndon B. Johnson observed almost a decade ago:

"History records a long, hard struggle to establish man's right to go where he pleases and to live where he chooses...We lose that freedom when our children are obliged to live some place else, if they want a job or if they want a good education.

"Not just sentiment demands that we do more to help our farms and rural communities. The welfare of this Nation demands it. And strange as it may seem, the future of the cities of America demands it

too...The cities will never solve their problems unless we solve the problems of the small towns and rural areas..."

The Housing Assistance Council, as many of you know, was created in 1971 out of the federal concern that rural housing and community development needs have been long overlooked. Aided by the Congress, and funded through HUD's Office of Policy Development and Research, HAC provides analyses of the impact of national programs on small rural communities as well as direct assistance to local groups in the use of those programs. From those perspectives, we are here today to urge: (a) extension and increases in the authorizations for the basic programs; (b) a more equitable allocation of community development resources to non-metropolitan areas; (c) Congressional insistence on full use of your legislation; and (d) changes necessary to make homeownership possible for low-income rural people.

We recognize that these hearings take place against the backdrop of urgent and broadly-reported cries for help from the leaders of our major cities, whose problems are serious and whose poorer citizens surely suffer. The Congress should answer. However, it should not find the answer at the expense of other Americans - those in non-

metropolitan areas - whose problems, if different, are as bad, but whose voices are weaker. (The TV cameras rarely get to Jonestown, Mississippi, where 84% of the people live on meager welfare assistance and non-salary income.) As President Johnson's above-quoted statement clearly implies, a citizen enduring inadequate shelter, inadequate basic community facilities, inadequate income is entitled to his share of government assistance wherever he lives.

INCREASED CDBG AUTHORIZATION IS NEEDED

We applaud the Administration's request to extend and increase the authorization for the Community Development Block Grant program by \$500 million to a total of \$4 billion.

Small communities have made good use of the program for very basic purposes: 33% for water systems; 17.0% for housing activities; 16% for public facilities and 7% for sewer systems over the past two years.

Our endorsement is predicated on the assumption that HUD will insist that the funds be used in accordance with the priorities for low and moderate income families which the Congress established in the Housing and Community Development Act of 1974 and that meaningful fulfillment of housing assistance plans will be required. Most important, the \$500 million increase must be shared equitably with non-metropolitan communities. Under the Administration's proposal non-metro communities would be assured of only \$9.8 million of the half-billion dollar increase. This is patently unfair. The major problem that non-metro communities have had with the CDBG program is getting any of it. In its first two years, only 16% of the funds sought by non-metro discretionary communities was provided - and only a fraction of such communities were able to apply.

The Unfair Share

The Housing and Community Development Act of 1974 was a welcome change from past federal policy because it, for the first time, recognized the tremendous unmet needs of small communities and assured those in non-metropolitan areas of a stated share of the nation's community development funds. However, the 80%/20% metro/non-metro split, provided in section 106 of the Act, was not based on relative needs, but merely reflected relative use of the categorical grant programs which the CDBG replaced. While it may have been acceptable to use such a handy formula in the hubbub of new legislation, now is the time to revise it to fulfill one of the purposes of the CDBG programs - namely, to allocate assistance according to community needs and not according to grantsmanship. Since most non-metro communities were not equipped with the skills to compete with large metropolises for a fair share of the categorical grant program funds, it would be unjust to perpetuate the inequities caused by a decade of HUD neglect of small towns and rural areas.

That the split between metropolitan and non-metropolitan areas should be based on need should warrant little argument. Not only do the national equities call for it,

but the Act itself recognizes such a basis for decision. Both the metro entitlement formula and the formula for distributing the non-metro share among states are so calculated.

The correctness of revising the 80%/20% split has recently been confirmed by the General Accounting Office's study of the CDBG program, entitled "Why The Formula For Allocating Community Development Block Grant Funds Should Be Improved", issued on December 6, 1976. Based on the needs formula used for the allotment of metro entitlement funds in 1975, non-metropolitan areas should receive (and should have been receiving) thirty-four percent of the CDBG monies!

One need look only at the population count to see that the non-metro areas are getting far less than their fair share. For the more than 50 million people living in non-metro areas are getting only \$9.06 per person, while their 150 plus million city cousins are getting 60 percent more, or \$14.54 per person. In non-metro discretionary areas, the per person share of CDBG is a piddling \$4.99. (These are Year Two CDBG figures.)

An argument often raised in defending the 20% unfair share to non-metropolitan areas is that non-metro communities have access to certain categorical programs of the Farmers

Home Administration such as water and waste treatment grants and this increases the non-metro proportion of the federal aids in community development. It is absolutely wrong to assume that Farmers Home is an exclusively non-metro oriented agency. Farmers Home serves small towns in both metro and non-metro areas. In fact, metro areas received 32% of FmHA funds for water and sewer in FY 74, the last year data was available. (And while we are on water and sewer, one of the biggest categorical grant programs of them all - EPA's \$2.8 billion program of Waste Water Treatment - distributed more than 83% of its grants to metro areas in FY 74.)

Moreover, the Carter budget projects only \$200 million for FY 78 for the largest FmHA community development type grant program - water and sewer. Not only will this money be used in metro and non-metro areas, but FmHA grants are currently restricted to 50% of the total development costs. In fact, it generally makes grants of 20% to 30%. HUD CD grants on the other hand, are 100% grants, the only ones available to small communities for community development purposes.

Nor can it any longer be argued that non-metro areas are losing population to the cities. Recent studies from the Economic Research Service of the Department of Agriculture describe that non-metro areas are gaining population at a faster rate than metro areas. This growth demands necessary community facilities and development assistance - housing rehabilitation, building sites, municipal buildings, water, waste, transportation and other public systems, as well as housing. The old prescription that we treat rural problems after they have migrated to the cities no longer holds. These problems must be dealt with where they originate.

When you look beyond the mere numbers of persons living in non-metro areas, one sees a sadder picture of deprivation. (For those of you who have heard me testify before, you must be weary of hearing the same shocking numbers - but I beg your attention one more time.) The non-metro areas have a disproportionate share of the nation's substandard housing, poverty families and inadequate water supply and waste disposal systems: There are only 17,000 households in metro New York that have no flush toilet. There are 120,000 households (many elderly) in non-metro Georgia, which has 1/7th the population of New York, that have no flush toilet. There are 34,000 households in metro New York that do not have hot and cold running water. In non-metro Georgia the figure stands at 142,000 households (figures from the 1970 Census).

In conclusion, we urge that you take the occasion of these hearings to amend the metro/non-metro split, in section 106 of the Housing and Community Development Act of 1974, to a fair formula, such as suggested by the GAO study, so that the assistance citizens receive in achieving a decent home and living environment no longer depends upon where one lives.

The Proposed Urban Development Action Grants Should Be Shared With Small Towns

The Administration budget would increase the total funds available for community development by \$500 million, yet only \$9.8 million of that increase would be guaranteed for non-metropolitan areas. Such a proposal is inexcusable. The non-metro share provided in section 106 of the Housing and Community Development Act of 1974 ostensibly was intended to assure that, as the total amount increased, the non-metro amount would correspondingly increase. However, the President's proposed Urban Development Action Grants would not be subject to the formula and, as such, could all go to the major cities.

We do not question the needs for specially-targeted funds for the most distressed communities. However, many of the most distressed communities are in non-metropolitan areas. As HUD itself has stated, in transmitting its proposed legislation to the Vice President "...many smaller communities... have the intensity of physical deterioration and decline associated with central cities." The proposal would not

preclude approvals in non-metro areas. In fact, most of the criteria would favor many non-metro communities - high unemployment, loss of population, declining tax base, and excessive housing abandonment or deterioration. However, based on HUD's usual metropolitan bias and considering the high visibility this discretionary fund would have with the mayors of the major cities, it is highly unlikely that any significant amount of the Urban Development Action Grants would go to non-metro cities.

A share of the \$500 million increase in CD discretionary money should be directed for use in eligible communities in non-metro areas. As noted, applications to fund only 16% of the amount requested were funded in the first two years. To accomplish this, without removing the Secretary's discretion in targeting the money to the municipalities in greatest distress, we recommend that a share of these special discretionary grants be earmarked for non-metropolitan areas in accordance with the non-metro share decided upon for section 106. We also recommend that the word "city" be changed to "local government" or "community" to make clear that rural counties and Indian tribes are eligible for the proposed non-metropolitan share of the Urban Development Action Grants.

Formula Manipulation, Small Town Share and Non-Metro Indifference

While we do not oppose the proposed dual formula approach for allowing higher formula entitlements to the older eastern cities, we are concerned that the excess funds would come from the metropolitan balance. Although most of those funds go to suburbs, many small rural communities also must compete for metropolitan discretionary funds because they are unlucky enough to be located inside the boundaries of metropolitan counties.

The Administration's proposed stipulation that metro entitlement communities could receive their FY 77 hold harmless amount indefinitely, if it exceeds either formula amount, is totally unacceptable. What the provision would do is to reward metropolitan communities because of past successful grantsmanship, not for need. They would be rewarded at the expense of small communities, often with greater need. The intent of the Act is to provide funding according to need, which is a good concept. It should not be perverted by granting indefinite hold harmless status to entitlement communities which can't receive sizable amounts through either formula (i.e., need) determination. Heaven knows, the government has done enough computer acrobatics to protect major cities to warrant removing the 'hold harmless' net. Therefore, metro entitlements should be based only on the higher of the two formulas, without consideration of past funding levels.

It should be noted here that HUD's lack of concern for the operation of the CDBG program in non-metro areas is illustrated by the fact that, to our knowledge, there has not been any effort to review its formula for allocation of non-metro discretionary funds among the states to determine whether it has proven appropriate in serving the neediest small towns and rural areas. Contrasted to this are the elaborate studies on the operation of entitlement formulae for urban areas.

While we do not have the capacity to make those studies, it does seem to us that population, poverty and overcrowded housing are inherently not the best factors for determining the greatest non-metro need. The Department of Housing and Urban Development should be instructed by this Committee to review the present allocation system and to report whether it or some other formula more accurately reflects non-metropolitan need. A non-metro formula could include, in addition to poverty, factors more representative of non-metro needs - units lacking drinking water, or complete plumbing, units heated by only a fireplace or a stove, units where wood is the cooking fuel, units which are not connected to a central water supply or waste disposal system.

HUD's Small Cities Strategy

The explanation accompanying the legislation proposed by HUD indicates the Department's concept of the problem with operation of the CD program in non-metro areas is essentially too little money spread too thin to too many communities. It also indicates that the short term funding is a serious deterrent. "Widespread distribution of relatively insignificant amounts of funds is not responsive to the many smaller communities that have the intensity of physical deterioration and decline associated with central cities" and "limits the ability of ...(these nonmetro cities)...to carry out comprehensive community development programs."

Short-term funding and uncertainty about subsequent grants are, in fact, major problems in non-metro communities. However, HUD's proposal to insert the phrase "comprehensive community development" into section 106(f)(1)(B) would do little to alleviate the problem. In fact, it could potentially make it worse.

The root problem is the short term nature of the discretionary grants, but the proposal would not address this problem. Short term funding commitments insure that only short term purposes can be accomplished with CD funds in non-metro areas. The three year housing plan is rendered essentially meaningless because of the more limited CD

funding period. And citizen participation is generally weak or nonexistent. To a large extent, this is because the institutions necessary to generate significant citizen input-labor unions, civil rights organizations, legal services groups, etc., do not exist or are weak in rural areas. It is also because the opportunity for input is so short that, by the time the citizens understand the process, the opportunity has passed and there probably will not be another for several years.

In order to allow non-metro communities to accomplish longer term community development purposes and to establish an ongoing process to which citizens' groups can relate, a longer term funding mechanism should be established. As an alternative to the Administration's proposal, we recommend the attached amendment be adopted to meet the same goal enunciated by the Administration. (Attached as Appendix A)

The amendment would specifically authorize HUD to approve discretionary grants, out of the 20% or revised non-metro share, for a period of up to five years, if necessary to meet serious community development and housing needs. HUD would be directed to give priority in funding these longer term grants to non-metro communities which jointly apply to meet areawide needs in a program jointly administered by a single agency representing the applicant governments. This should mean significant involvement of non-metro county governments and should meet some of HUD's concerns about too many approved grantees.

The new program would require that, once HUD had made an initial commitment of two to five years, the funds would be disbursed periodically only after HUD approved the previous period's performance report and the grantee's plan for the next period. Approval would also be dependent on regular review and input from citizens.

A restriction that no more than 50% of the funds could be used for either type of discretionary grant would ensure that small communities with only short term community development needs could still obtain short term discretionary grants each year. HUD would have the discretion to allocate the type of grants among the states as it saw fit.

Indian CD Set-Aside

The special CD needs of Indians are also not being effectively met by the CDBG program. Instead Indian tribes have been forced to compete with other non-metro cities in the same state. Because of the extreme poverty on most Indian reservations, a seemingly disproportionate share of some states' non-metro discretionary funds have gone to Indians, to the detriment of nearby non-metro communities. The housing and CD problems on Indian reservations are a national problem and a national disgrace. As such, they should be funded from the total pot, not from a particular state's non-metro share. Therefore, we recommend that a designated percent of the total CD funds be set-aside for Indians and that they be made ineligible for the non-metropolitan funds. The actual percentage should be worked out in conjunction with Indian housing leaders.

Non-Metro CD Administration

An indication of HUD concern for non-metropolitan areas was the change suggested by former Secretary Carla Hills that total responsibility for the administration of the non-metro CDBG program be shifted to the states. Such a suggestion is woefully symbolic of HUD's disinterest in serving the small communities of this country. Instead of looking for ways for the Department to perform its non-metropolitan responsibilities more effectively, the departing Secretary irresponsibly recommended shipping the job elsewhere. We are pleased that the new Administration has not to our knowledge adopted this proposal.

HAC would be concerned with granting states the total responsibility for non-metro CD for several important reasons. First, we believe that national goals, such as equal opportunity, and priority to low and moderate income people, would be diluted. Responsibility for seeing that such goals are pursued should remain in the hands of federal agencies. Second, few, if any, states have demonstrated a capacity to conduct such a program, much less a desire to do so. Lastly, one of the major thrusts of the Housing and Community Development Act of 1974 is to tie housing and community development together. This objective would be made exceedingly difficult to pursue if sources of assistance for these programs were divided.

The new Secretary, Ms. Patricia Harris, said at her confirmation hearings that HUD would show new and responsible interest in small towns and rural areas. As the CDBG is the largest program with which to assist these areas, it would be premature to take the responsibilities for the program away from HUD. We welcome Ms. Harris' statement as a positive response to a problem too long ignored by HUD.

While we oppose the transfer of non-metro CDBG program administration to state government, we do feel that states have an important role to play in the program for non-metro communities. Basically, the states should make up for the lack of local capacity and provide small communities the technical resources and training needed to effectively apply for and use the CDBG program and related housing programs.

This type of supportive state role for state government was described effectively during oversight hearings conducted by this Committee last August. Mr. Joseph G. Anastasi, Secretary, Maryland Department of Economic and Community Development, representing the Council of State Community Affairs Agencies (COSCAA), urged that Congress provide funds to states under the authority of section 811 of the 1974 Housing and Community Development Act. Without this type of technical assistance, many needy communities will continue to go unassisted. We therefore recommend that section 811 be funded at a level to allow significant state technical assistance to small communities.

Eligible Activities

Section 105 (a) (4) and (a) (8) preclude a community from using CD funds for housing rehabilitation or social services unless these activities are "incidental to other activities" or "in areas where other activities assisted under this title are being carried out in a concentrated manner." The notion behind these requirements was that CD money was intended to make a concentrated impact on a neighborhood. Congress did not want streets to be repaired in one part of the city and houses rehabilitated on other streets which were left unimproved. In urban areas, this restriction on the use of CD funds for housing rehabilitation and social services makes sense.

However, in a rural context the restrictions do not make sense, particularly in communities with short term CD needs. In many cases one grant for housing rehabilitation could solve the community's major problem. It should not be penalized because it does not have other pressing needs or because it is precluded from obtaining longer term funding because of the brief nature of the discretionary grants. Similarly limited social service programs can be effective in meeting single objectives, such as child care or health improvement, without necessarily being tied to a comprehensive plan.

Therefore, we recommend that section 105(a) (4) and (a) (8) be amended to allow use of CD funds in nonmetro areas for

housing rehabilitation and social services, without reference to other CD activities.

Citizen Participation

Finally, we propose to set aside at least 10% of the Secretary's discretionary fund (in the range of \$6 million) for HUD to use to encourage citizen participation in nonmetro areas. While the amendment would allow HUD discretion in how to use the funds, one good possibility would be to establish area office equivalents of the central office's Division of Consumer Affairs. These area office Divisions of Consumer Affairs would then be responsible for monitoring and reviewing citizen participation, including handling complaints and affirmatively funding and training nonmetro citizens groups for more effective input into the CD system. Considering the absence of experienced citizen advocate groups in most rural areas, it is imperative that CD money be used to fill the gap which will otherwise continue unabated.

HOUSING RURAL LOW-INCOME FAMILIES: RECOMMENDATIONS FOR
DEEP SUBSIDY PROGRAMS

The decreasing capacity and willingness of FmHA and HUD to serve very low-income families is one of the bitterest and most troublesome legacies with which this Committee and the new Administration must deal. Neither FmHA nor HUD, of course, has the capacity to prevent the increasing construction and land costs that have inflated housing prices. Nor can FmHA be held responsible for the escalating utility costs which have helped price its rental program beyond the reach of the very poor. (In many existing FmHA projects, elderly persons must spend 50% to 75% of their income for rent because there are no alternatives.) Even persons willing to help build their own homes under FmHA's self-help program are victimized by the combination of high utility bills, land costs, and rising taxes, which have put that FmHA homeownership program beyond their reach in many areas of the country.

But FmHA and HUD cannot escape responsibility for decreasing services to very low-income families. For example, in August, 1976, FmHA again raised its income eligibility limits for participation in its low-income programs. FmHA's new standard of "low-income" is twice that of the Census Bureau and nearly twice the poverty standard that U.S.D.A. itself uses for participation in the food stamp program. It appeared to us that FmHA arbitrarily manipulated income

definitions to fulfill the requirement of the U.S.D.A. appropriations acts, which mandate that 60% of rural homeownership funds be spent for interest credit loans to low-income borrowers. Since FmHA evidently thought it could not meet Congress' requirement by serving what other government agencies call low-income families, it decided to serve a higher income group, but call them "low-income". The effect of this redefinition, as the Congressional Research Service has pointed out in its excellent report, Federally Assisted Housing in Rural America, is increased service to higher income families at the expense of lower income people.

Minorities, in particular, because they are disproportionately poor, have borne the brunt of rising housing costs and FmHA's policies: loans to blacks declined 46% between 1971 and 1975. In FY 76, blacks received only 9.5% of rural housing loans although they occupied 25% of all substandard housing in FmHA-served areas. More than 2 million households (blacks, Chicano, and Indian) cannot "qualify" for an FmHA-financed home of their own!

HUD's record is no better. The traditional public housing program, which has the necessary deep subsidies and an impressive track record in rural areas, was effectively

cut off in 1973, as this Committee is so well aware.

Clearly, deep subsidy rental and homeownership programs are needed urgently in rural areas. We are pleased to offer the following recommendations.

A. Rental Program: Rural Rent Supplement, Traditional Public Housing and Farm Labor Housing

(1) Rural Rental Assistance: A Call for Implementation

Congress enacted the FmHA rural rental assistance program in Section 514 of the Housing and Community Development Act of 1974. The program provides a simple, one-agency, efficient system to deliver adequate subsidies for low-income tenants of FmHA's rural rental and farm labor housing programs by authorizing FmHA to pay the difference between 25% of a tenant's income and the project's basic rent, figured at a 1% mortgage.

FmHA, however, never carried out the program despite Congress' insistence that it do so, evidenced in the 1976 and 1977 Agriculture Appropriations Acts. Although rural housing groups sued FmHA to force implementation (Rocky Ford Housing Authority v. USDA), the U. S. District Court for the District of Columbia granted USDA an additional delay. In its decision of January 18, 1977, the Court held that USDA had abused its discretion and exceeded its authority by refusing to carry out the program for budgetary

reasons. However, the Court ordered the Secretary of Agriculture to determine whether HUD's Section 8 rental assistance program would better effectuate the goals of the rural rental supplement program and to report back to the Court within thirty days as to how soon that determination could be made. On February 18, Secretary Bergland notified the Court that he could not make a decision on rent supplements until April 30, 1977. Rather than spend time comparing both programs, we urge that the rental assistance program be implemented immediately. We are not alone.

In a letter to Secretary Bergland dated February 9, 1977, twenty-eight United States Senators recommended that the program be initiated:

"Basic logic dictates that a program administered by one agency must be simpler and more efficient than an approach which requires the cooperation of two separate bureaucracies (HUD and FmHA). In the latter approach, there are bound to be unnecessary delays and resultant higher costs than in a single agency program. Over and above that, the fact is that both approaches can complement each other - in an area where one does not work well, the other may. Far

too many rural families have been deprived of decent housing because of the limited options available to them.

"From its authorization in 1974 through the end of FY 76, FmHA could have assisted over 20,000 families and elderly households in new units, whose rent is excessive in relation to their low income. Congress intended that they, and the other 1.8 million rural households too poor to be assisted by the regular FmHA programs, receive federal assistance which continues to be denied them."

Attached to this testimony as Appendix B is a comparison of the rural rent supplement program with the operation of Section 8 in rural areas.

(2) Traditional Public Housing

In the early 1970s, approximately 40% of public housing funds were going to non-metropolitan areas to provide proper shelter for very low-income families and senior citizens. (This percentage is, in fact, a good approximation of the rural/urban relative needs.) Although HUD cut off the traditional public housing program and circumvented Congress' mandate to revive it, it did at last succumb to the facts and concede the success of public housing in rural areas. Not only were the small scale, often scattered site projects,

acceptable to rural communities, but even HUD came to realize that government-guaranteed financing through local housing authorities was essential in credit-poor small towns.

This nation should be grateful for the unrelenting work of this Committee to restore the traditional public housing effort. Although we congratulate HUD Secretary Harris for proposing 50,000 new units of traditional public housing for HUD's FY 78 budget, we urge that the premeratorium level of 100,000 units annually be reinstated, as it reflects the need for the traditional public housing program among the country's poor. Moreover, to permit public housing to continue to serve low and very low-income people - and not to be sacrificed to inflation - we urge that HUD be authorized to provide an automatic escalator for operating subsidies so that they may cover the rising costs of operation and maintenance.

(3) Farm Labor Housing: Extending and Raising Authorization Levels

In addition to the two deep subsidy rental programs described above, we urge that the authorization for one small but significant grant program for farmworker rental housing be extended. FmHA's Section 516 farm labor grants are used in conjunction with its Section 514 loan program to construct rental housing for migrant and seasonal farmworkers. The

grants provide up to 90% of development costs, while the remaining project costs are generally covered by a Section 514 loan at a 1% interest rate.

Without the grant program, FmHA could not build farm labor housing that farmworkers could afford. In fact, farmworker incomes are so shamefully low that rural rent supplements are also needed on top of Section 516 grants to house very low-income families.

We urge the Committee to expand the current \$80 million limitation for Section 516 grants for the period ending September 30, 1977, to \$230 million for the period ending September 30, 1980. And we recommend an increase from \$25 to \$50 million in the annual authorization level for the accompanying 514 loan program. These increased levels would provide the appropriations committee with sufficient leeway to significantly expand this greatly needed program.

B. Homeownership Choices for Low-Income Families

(1) Deep Subsidy Homeownership Loans

Homeownership has become unaffordable for increasing number of low-income rural families over the last several years. The average initial FmHA Section 502 loan in FY 69 was \$10,083 and at 1% interest required a monthly mortgage payment of only \$30. By 1976 these costs had risen an average of 13.4% per year so that an average initial 502 loan was

\$21,470, requiring a monthly payment at 1% interest of \$64. Taxes and utility costs have increased at an even greater rate in most areas of the country, and the continuing nationwide trend of rising land and construction costs promises to send these figures even higher. For example, in December, 1976, the Pennsylvania State FmHA noted that its borrowers could not buy modest new homes for less than \$28,000 and often had to pay from \$30,000 to \$32,000.

FmHA's own regulations have contributed to these price increases. For example, stringent site requirements, including emphasis on locations with central water and sewer facilities, have brought about a marked increase in the cost of lots. While this site policy was originally formulated to protect communities and individual residents, its unintended effect has been to generate additional costs through additional processing time, more expensive land purchase, more costly site improvements, such as curbs and gutters, and other similar costs. Often, these extra costs effectively preclude purchase by borderline low-income families.

Let me offer a case in point. In 1969, a family with an adjusted annual income as low as \$2,820 could have purchased a \$10,083 house with a fully subsidized FmHA loan (allowing for monthly property taxes of \$15 and monthly insurance costs to be \$6). That same house in 1977, as noted, costs \$21,470.

Assuming the unlikely - that insurance and tax rates had remained constant - a family would now need a \$6,000 adjusted income to afford the same house at 1% interest rate. When utility costs are figured in, especially in the northeastern states, the minimum income increases still further. In those states where monthly utility bills are \$100 or more, homeownership is usually impossible for even moderate-income families.

In short, Section 502 interest credit loans can no longer serve most low-income rural families. In those few instances where they do, it is because of unusual circumstances, such as very low tax and utility costs or use of mutual self-help housing or subsidized manpower programs. However, the impact of these devices is negligible in comparison with the national need.

Congress should provide FmHA with the capacity to house some of the 1.8 million or more rural families who are too poor to qualify for existing FmHA programs but who often have a strong desire to own their own homes. If personal preference for homeownership is disregarded, some could be served through the Section 515 rural rental program in combination with an implemented rural rent supplement program, or with HUD's Section 8 or by the public housing program. However, many others could not benefit from such reforms.

Many small communities are unserved by housing authorities - over 30 million people live in counties without public housing - or lack rental housing sponsors or developers. Rental units which are financed by FmHA usually do not exceed two bedrooms, thus effectively cutting out large families. Furthermore, a family which chooses not to live in an "established place or town" is not even eligible for rental assistance under FmHA regulations. For poor persons in such areas, the only escape from substandard housing is through purchase of a single family home. Yet, without a deeper homeownership subsidy than now exists, there will be no escape.

The Senate recognized this problem in 1974, when it passed an experimental deferred principal payment plan as one type of deep subsidy homeownership program. Unfortunately, after the Senate-House conference the demonstration program was not included in the Housing and Community Development Act of 1974. We urge this Committee to act now, since FmHA assistance to low income families has deteriorated since 1974.

Specifically, we suggest that Congress authorize FmHA to provide a deep subsidy homeownership program to pay the difference between 15% of the annual gross income of a very low-income rural household and the yearly costs of mortgage obligations, property taxes, insurance, utilities, and maintenance. The proposed 15% minimum payment by low-income

rural households is the same as that required by HUD under its Section 8 rental program.

If we are willing to provide direct deep subsidies and tax expenditures through special depreciation rules for private rental units, surely we should be willing to provide financially comparable assistance to homeowners who cannot otherwise obtain decent shelter. To insure the most economical use of such a deep homeownership subsidy program, provisions could be included to recapture a portion of the subsidy from any "windfall" profit resulting from a subsequent sale of the home. The recovered monies could be returned to the Rural Housing Insurance Fund. Thus, the purpose of the program to provide only basic shelter would be clear.

(2) Home Repair

FmHA does conduct a sound deep subsidy home repair program, Section 504, to which we would like to direct the Committee's attention. The program funds low-income homeowners for housing repairs that will remove hazards to health and safety. Section 504 loans carry a 1% interest rate and may be made up to \$5,000. The repayment period, based on the loan amount, may extend to 20 years. In addition, elderly persons may qualify for a grant and/or loan under the program.

Despite the demand for the loans and grants for fundamental housing improvements, including indoor plumbing and energy conservation, and the Section 504 program's heavy use by minorities in comparison with other programs, FmHA consistently turns back from 1/2 to 3/4 of the authorized Section 504 funds every year. This fiscal year is no exception. In the first third of FY 77, only \$1.8 million out of a \$20 million appropriation was obligated.

Reasons for Section 504's underuse abound. One of the most common is that FmHA employees prefer to make Section 502 homeownership loans. Usually in the \$20,000 range, Section 502 loans make an employee's record look better and usually require less time to process, inspect, and service than do the comparatively small Section 504 loans.

We urge the Committee to extend the Section 504 loan and grant assistance to a \$200 million level for the period 1956 to 1980. (See Appendix C.) In addition, we ask also that the Committee investigate the program's underuse, especially in those areas where the low incomes of families make the program the only housing resource available.

STAFFING, RESEARCH, AND EQUAL OPPORTUNITY:
NECESSARY IMPROVEMENTS FOR FmHA

Staffing: Questions of Numbers, Distribution, and Specialization

FmHA cannot meet any set of national goals for subsidized housing production without adequate budget levels; neither can its goals be met if the staff remains overburdened, maldistributed, and untrained in housing and development functions.

Despite the addition of significant new programs and service areas under the Rural Development Act of 1972 and the Housing and Community Development Act of 1974, the personnel level at FmHA is almost identical with that in 1972 - in fact, there were more filled positions in 1972.

Considering the high level of performance of FmHA's personnel, rural housing groups were dismayed by the previous administration's misdirection of FY 76's increased staff appropriations: only 400 of the anticipated 700 new positions were ever filled. We trust that this type of behavior will not be repeated under Secretary Bergland's leadership.

Based on the manpower needs required to carry out FmHA's ever-expanding programs and to maintain a high quality of loan servicing, HAC recommends that FmHA's staff level be increased by 2,000 positions. In addition, we submit the following suggestions for the improvement of staff performance:

First, FmHA must adopt an affirmative action minority hiring program to increase the insignificant levels of minority representation within the agency, currently at 7%, and located disproportionately at the agency's lower level positions.

Second, FmHA must hire and train persons at the local, district, and state levels with skills in the construction and rehabilitation of housing and community facilities. Specialists should be concentrated in district and state offices to handle the more complicated programs - rental, site, construction inspections, business and industry. This would free up the county officials to better process and service the less complicated homeownership and home repair programs. Because such skilled personnel have not been available uniformly in the past, increasing numbers of FmHA borrowers have had to face the expense and anguish of construction defects because of faulty and/or insufficient inspections. Contracting out FmHA's services to private individuals is not the answer. Rather than repeat the scandals that brought the Federal Housing Administration into the criminal courts, FmHA should improve its own technical capability for proper and timely inspection and other aspects of the housing process.

Third, where program under-utilization has been common, the agency should take positive steps to see that both FmHA personnel and local housing sponsors are fully informed about the existence of FmHA resources and how to use them. It has been our experience that where local Farmers Home personnel are not knowledgeable about a given program, its use is suppressed. There is no justification for any rural area not having equal access to all the assistance programs of the agency.

Rural Housing Research

FmHA is now the largest direct federal lender in the nation. It has authority to operate 33 separate housing, farm, community facility, business, and industrial programs in rural areas. Yet the agency has never had its own research capacity to collect data and to conduct the necessary policy and program analysis to operate its programs effectively. Therefore, HAC strongly urges this Committee to direct FmHA to establish its own research division and to increase its never used annual authorization from \$1 million to \$10 million. Furthermore, it should be directed to focus its research upon the special needs of the elderly, the handicapped, farmworkers, and Indians; rural growth patterns; and rural community facilities and services. In addition, we suggest that FmHA emphasize the housing problems of migrant laborers

to determine the type of program and funding necessary to deal with short-term occupancies.

No other federal agency has done FmHA's research for it. Continuing to deny the agency its own research capability will have the increasingly damaging effect on the federal government's ability to plan and evaluate the impact of its rural housing and development programs.

Equal Opportunity Denied

FmHA has been derelict in developing elementary forms of due process and in carrying out and extending the affirmative marketing requirements which would provide greater protection against intended or inadvertent racial discrimination. Certain changes could be made immediately:

- (1) FmHA should be required to market its housing programs in accordance with clear affirmative action guidelines and to review aggressively the pattern of tenant selection in its rental programs. FmHA, itself, as well as sponsors of its rental housing, self-help housing, and site development programs, should be required to advertise their housing and services among minority groups.

- (2) FmHA needs to strengthen its appeals procedures by providing such fundamental rights as on-the-record evidentiary hearings, representation by counsel, the examination of evidence, the cross-examination of witnesses, and the impartiality of hearing officers. These rudimentary protections should be made available to minority and non-minority applicants alike. Currently, only a builder threatened with disbarment has an appeals process available. Moreover, such appeals procedures should be available in FmHA's multi-family as well as its single-family programs.
- (3) USDA should have an additional Assistant Secretary for Equal Opportunity to assist the Secretary in the development and execution of policies and procedures which will implement both the letter and spirit of the Civil Rights Act of 1964 and related Executive Orders.

In short, FmHA's equal opportunity regulations lack effective procedures for uncovering discriminatory practices and policies, correcting such practices and policy if found, providing remedies for the victims of bias, and insuring that FmHA programs are administered in a manner that promotes national civil rights policies in housing.

HAC Proposed Amendment

Section 105(f)(1)(B) of the Housing and Community Development Act of 1974 is amended by inserting at the end thereof, the following: "In allocating the funds under subparagraph (B), the Secretary shall make two types of grants. One type shall be for purposes which can be accomplished in no more than two years. The second type shall be to meet community development needs which are so serious they cannot substantially be eliminated in less than two to five years. Priority in awarding the longer term grants shall go to non-metropolitan local governments which apply jointly for a coordinated community development program which will be administered by a single agency. Any such application which does not address housing needs in a substantial way in its community development plan shall not be approved. Continued funding in each subsequent year of the longer term discretionary grant program shall be dependent on approval of the previous year's performance report by the Secretary. Continued funding shall also be depending on evidence of satisfactory review of the performance report and next year's plan by citizens of the discretionary grantees. No more than 50% of the total funds available pursuant to paragraph f(1) in each year shall be used for the longer term grants. No less than 10% of the total funds available pursuant to Section 107(a) shall be used by the Secretary to encourage the development of active citizen participation in the non-metropolitan community development process."

Can Section 8 Better Effectuate The Goals of The
Rural Rent Supplement Program?

The primary goal of the rural rent supplement program is to hold rents of tenants in farm labor and rural rental housing to 25 percent of tenant income. The exclusive use of section 8 cannot do this because, quite simply, substantial numbers of those who would be served by the rural rent supplement program are not likely to receive section 8 assistance.

This is most obvious in the case where rural rental or farm labor housing already exists. Tenants in these projects will receive rental assistance under section 8 only IF (1) a local public housing agency (other than the owner of the tenant's project) applies for and receives section 8 Existing Housing contract authority from HUD, (2) the tenant becomes aware of section 8 assistance and succeeds in receiving a certificate of participation from the public housing agency, (3) the rent in the unit occupied by the tenant does not exceed the applicable fair market rent authorized by the public housing agency and HUD, and (4) sufficient contract authority is still available when the unit is inspected, approved, the lease agreement approved and the owner and the public housing agency execute the contract.

While it is possible that all of these conditions may be met in some circumstances, it is certain that all these conditions cannot be satisfied for all of those living in FmHA-financed rental and farm labor housing who need assistance. Indeed, it is safe to say that under present regulations very few tenants in FmHA-financed housing

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will receive section 8 assistance within the next few years because of the limited amount of contract authority available where FmHA housing exists. In addition, other factors, such as regulations which limit to 40 percent the number of families in a Section 515 elderly project eligible for section 8 assistance, the statutory fair share distribution formula which applies to Section 8, the public ownership of many of the existing farm labor housing projects, and the difficulty in some cases of meeting the HUD established fair market rents, virtually guarantee that the section 8 program cannot effectuate the goals of the rural rent supplement program.

On the other hand, the rural rent supplement program could be implemented within a few weeks, all owners of rural rental and farm labor housing and their tenants informed of the new program, contracts executed and the subsidies flowing by the end of the year. This would amount to assistance for nearly 33,000 units (50% of the 30,000 elderly units, 50% of the 16,000 farm labor units and 15% of the 65,000 family units).

Besides those tenants in existing projects, some potential projects to be constructed this fiscal year will not receive the rental assistance to which they are entitled if only the section 8 program is used. Under the USDA/HUD Memorandum of Understanding, HUD has agreed to provide section 8 assistance for no more than 10,000 FmHA-financed units this year. FmHA probably will finance more than 30,000 rural rental and farm labor housing units, of which it can be assumed conservatively that about 15,000 could be occupied

by persons eligible for and in need of section 8 or rural rent supplement assistance. Thus, for this fiscal year alone there will be a short-fall of approximately 5,000 deeply subsidized FmHA newly constructed units. Apart from the short-fall, a number of rural rental and farm labor housing projects will not receive section 8 assistance at all because they will be located in areas that already have consumed their share of the new construction section 8 contract authority.

Finally, it should be noted that there is no agreement between HUD and USDA for the joint processing of applications for permanent financing and section 8 assistance for farm labor housing, for substantial rehabilitation or for a set-aside for existing FmHA financed units. Nor is there any understanding of how to resolve conflicts between the two agencies that arise from their continuing responsibilities for rents, evictions, admission procedures, and other aspects of projects receiving assistance from them.

In conclusion, then, unless the rural rent supplement program is implemented, upwards of 35,000 families may not receive assistance to which they are entitled. If it is implemented, those same families could start receiving assistance this year since Congress has appropriated "such sums as may be necessary" to carry out the program.

Farmers Home Housing and Community Facility
Authorization and Budget Levels

All of the rural housing programs authorized under Title V of the 1949 Housing Act, as amended, are within the jurisdiction of this Committee. Accordingly, all expiring authorizations for FmHA housing programs are listed on the following page with recommendations for new authorizations. Furthermore, the Committee will have the responsibility of recommending FY 78 budget levels for housing programs to the House Budget Committee. While many of the Title V loan programs are not subject to budget resolutions, we believe that it is important for the Committee to make its views known.

On the second page following are the FY 78 budget recommendations adopted by the Executive Committee of the Congressional Rural Caucus. While we were pleased that the Carter budget restored the home repair, farm labor housing, and water and sewer grant programs to FY 77 levels, we were distressed that all of the other FmHA housing program cuts recommended by the Ford administration were adopted. In light of this fact, we trust that the Congressional Rural Caucus recommendations will be particularly helpful.

(1) Section 504 Home Repair Loans and Grants

Expand the current \$80 million limitation for the period 1956 through 1977 to \$200 million for the period 1956 through 1980. Only \$26 million in authority currently has not been obligated.

(2) Section 516 Farm Labor Housing Grants

Expand the current \$80 million limitation for the period through 1977 to \$230 million for the period through 1980. Only \$27.5 million in authority has not been obligated.

(3) Section 506 Rural Housing Research Grants

Expand the yearly authorization of \$1 million to \$10 million through 1980. No money has ever been appropriated for rural housing research grants.

(4) Section 514 Farm Labor Housing Loans

Expand the yearly authorization of \$25 million to \$50 million.

(5) Section 515 Rural Rental Housing

Extend the unlimited authorization through 1980.

(6) Section 523 Self Help Technical Assistance Grants

Expand the yearly authorization from \$10 million to \$20 million through 1980.

(7) Section 523 Self Help Site Loans

Expand the yearly authorization from \$2 million to \$5 million through 1980.

(8) Section 525 Technical Assistance Grants and Seed Money Loans

Expand the yearly authorization from \$5 million to \$10 million through 1980 for each of the two programs. The \$5 million authorized in FY 76 and FY 77 for each program also remains available because there has been no appropriation.

Comparison of Farmers Home Administration
Housing and Community Facility Budgets

(Millions of Dollars)

	FY 76 Actual	T. Q.	FY 77 Est.	FY 78 Est. (Carter)	FY 78 Recom- menda- tions (CRC)
A. Subsidized Housing (502)	1,355.8	356.6	1,550.0	1,481.0	3,000.0
B. Unsubsidized Housing (502)	930.8	256.8	1,087.0	901.0	2,000.0
C. Moderate-Income Guaranteed Loans (502)	-0-	-0-	500.0	700.0	500.0
D. Subsidized and Unsubsidized Rural Rental Loans (515)	231.2	268.8	545.0	600.0	1,000.0
E. Farm Labor Housing Loans (514)	0.6	9.5	10.0	10.0	25.0
F. Farm Labor Housing Grants (516)	-0-	10.7	7.5	7.5	25.0
G. Very-Low-Income Repair Loans (504)	5.9	2.4	15.0	15.0	20.0
H. Very-Low-Income Repair Grants (504)	-0-	-0-	5.0	5.0	20.0
I. Self-Help Site Loans (523)	-0-	0.6	0.9	-0-	1.2
J. Mutual Self-Help T/A Grants (523)	0.6	5.5	15.4	-0-	10.0
K. Rural Housing Site Loans (524)	0.6	-0-	3.0	3.0	5.0
L. Mobile Home Park Loans	-0-	-0-	1.0	1.0	-0-
M. Rural Housing Research Grants (506)	-0-	-0-	-0-	-0-	10.0*
N. Rural Rental Assistance (521) (a) (2)	-0-	-0-	-0-	-0-	15.0**
O. Technical Assistance Grants [525(a)]	-0-	-0-	-0-	-0-	5.0
P. Technical Assistance Loans [525(b)]	-0-	-0-	-0-	-0-	3.0
Q. Water and Waste Disposal Grants [306(a)(2) & (6)]	146.9	76.9	266.7	200.0	300.0
R. Water and Waste Disposal Loans	442.6	144.9	600.0	600.0	3,000.0
S. Salaries and Expenses	148.9	44.8	179.7	185.6	225.0

*Needs increase in annual authorization from \$1 million to \$10 million.

**Such amounts as may be necessary, but no less than \$15 million.

Mr. AUCOIN. Thank you.
Mr. Cochran?

STATEMENT OF CLAY L. COCHRAN, EXECUTIVE DIRECTOR, RURAL
HOUSING ALLIANCE

Mr. COCHRAN. Thank you, Mr. Chairman.

I can sum this up in about 3 minutes. Our statement on community development was presented last week by Harriet Barlow, so I won't go into that at all.

I would hope that the members of the subcommittee would take a look at an article in the "Washington Post" this morning by Brant Ayres of Anderson, Ala., in which he is picturing one of the Chicago slums and a dying city in Alabama, because that is where we have been for about 11 years, trying to convince people that the rural areas and small towns can't be a vast poorhouse and the cities look like the Taj Mahal, that we have to work on both of these at the same time.

My statement is brief. First, we must do something about the home-ownership subsidy unless we just want to deny poor people access to homes, and the provision in the bill is the best we could come up with.

Second, it is outrageous that the Federal agencies, and particularly Farmers Home, where our main interest lies, are not insisting on energy conserving construction. In the face of the fact that they have many thousands of foreclosed homes in many States that have been lost primarily because of high heating bills, they go on allowing contractors to build houses that are so expensive to heat and so constructed that they must be heated by a central system, that people cannot afford to live in them. Something must be done.

I want to commend the Congress and urge them to renew their efforts in public housing, because, in my mind, the foundation of a housing program for low-income people begins with the public housing program. When it was gutted in the last 8 years, it was just as though the foundation had been pulled out. We get all of these unsatisfactory substitutes from section 8 up and down. The basic housing program for poor people is a public housing program, and then we move out to take care of people whose needs can be met some other way.

Mr. Cavanaugh, I understand some groups are pushing a quarter-of-a-million units, which ups you by 150,000.

Mr. CAVANAUGH. We will settle. [Laughter.]

Mr. COCHRAN. Another point which is not before you but which I urge you and your colleagues to keep in mind, and that is that unless we can fund the Farmers Home Administration adequately, we are almost at the end of the road on what that agency can do. A lot of the difficulties housing people are running into is the result of the impoverishment of that agency.

The last point is rehabilitation. I don't believe in my lifetime, and maybe yours, that we are going to take care of the needs of a lot of low-income, small-town and rural people unless we can really go for a creative rehabilitation program. It is not only that we are not going to put the money up to build everybody a ranch-style, 1,000 square foot, centrally heated house; they can't afford them anyway. The price

of land is an enormous cost that a lot of people out there would not have to face if they could rehabilitate their existing home.

But beyond that, there is a structure in a lot of those little communities. The people are interdependent. They are dependent on each other. One has a welfare check; another has an old car. If you drag one of these families off to live unhappily without their milk cow in a public housing project, either the gas is gone or the car is gone; so that, socially and culturally, there is a great deal to be said for going into a lot of those small towns and rural communities and doing a decent rehabilitation job, which may involve water and sewage, as well as just patching the floors and the roof.

We have had demonstrations of that, too, notably Pat Gish's project in Kentucky. It can be done. But as a Federal Government, we are doing really nothing about it. I urge your attention to anything like grants for the Farmers Home 504 program for other than the elderly. That will help.

I appreciate the opportunity to be here this morning, and thank you.

[The prepared statement of Mr. Cochran, on behalf of the Rural Housing Alliance, follows:]

STATEMENT OF
CLAY L. COCHRAN
EXECUTIVE DIRECTOR
RURAL HOUSING ALLIANCE
BEFORE
SUBCOMMITTEE ON HOUSING
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
MARCH 8, 1977

Mr. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I WISH TO THANK YOU FOR INVITING THE RURAL HOUSING ALLIANCE TO PRESENT TESTIMONY ON PROPOSED NEW AUTHORIZATIONS FOR HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS. THESE NEW AUTHORIZATIONS, ALONG WITH SOME NEW INITIATIVES, WILL, WE TRUST, ENABLE US TO CONTINUE TO WORK TOWARD THE ELIMINATION OF INADEQUATE HOUSING FOR RURAL AND SMALL TOWN CITIZENS.

THE NATIONAL RURAL HOUSING COALITION HAS ALREADY TESTIFIED ABOUT A SERIES OF AMENDMENTS TO THE PRESENT TITLE 5 RURAL HOUSING LAW, AND I DO NOT WISH TO SIMPLY REPEAT THAT TESTIMONY. WE DO SUPPORT THOSE MEASURES AND URGE THEIR PASSAGE, BUT I WANT TO EMPHASIZE TWO SPECIFIC PARTS OF THAT PROPOSAL.

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INCREASE HOMEOWNERSHIP SUBSIDY

FIRST, IS THE HOMEOWNERSHIP SUBSIDY FOR LOW AND MODERATE INCOME PERSONS. IT IS CRITICAL TO A RURAL HOUSING PROGRAM, AND I URGE YOU TO APPROVE THAT PROVISION IF YOU ACCEPT NOTHING ELSE IN THE PACKAGE. IT NEED COST NO MORE THAN THE SO-CALLED "SECTION 8" RENTAL PROGRAM, AND IT WILL WORK IN RURAL AREAS WHERE RENTAL UNITS ARE EITHER IMPRACTICAL OR IMPOSSIBLE BECAUSE OF SCATTERED LOCATIONS AND THE CONSEQUENT HIGH COST OF MANAGEMENT. IT IS NOT DISRUPTIVE OF THE LOCAL TAX BASE, AND WILL INFAC, ENHANCE IT. AND IT WILL WORK. RURAL PEOPLE HAVE A STRONG PREFERENCE FOR OWNERSHIP.

THIS DIFFERENT KIND OF HOMEOWNERSHIP SUBSIDY WILL PERMIT THE FARMERS HOME ADMINISTRATION TO PROVIDE THE KIND OF ADDITIONAL ASSISTANCE TO LARGE, LOW-INCOME FAMILIES THAT IS IMPOSSIBLE TO ACHIEVE UNDER PRESENT LAW. VIRTUALLY NO FAMILY WITH AN ADJUSTED INCOME UNDER \$5,200 CAN NOW MANAGE, EVEN WITH INTEREST CREDITS, TO BUY A HOME, AND RENTAL UNITS FOR LARGE FAMILIES ARE ALMOST NON-EXISTANT. THE MINIMUM LEVEL OF INCOME REQUIRED FOR HOMEOWNERSHIP IS RISING STEADILY AS THE COST OF LAND AND HOUSING RISES. HOUSING COSTS ARE RISING FASTER THAN THE INCOME OF RURAL RESIDENTS. OF THE FOUR ELEMENTS WHICH GO TOWARD INCREASING THE COST OF HOUSING--LAND, LABOR, MATERIALS AND THE COST OF MONEY--THE PRESENT LAW REALLY ASSISTS FAMILIES ON BUT ONE. A COST OF MONEY THROUGH THE INTEREST CREDIT PROGRAM. THIS PROPOSAL WOULD PROVIDE ASSISTANCE TO LOW INCOME FAMILIES IN ALL FOUR AREAS.

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ENERGY CONSERVING HOUSING

A SECOND PROVISION IN OUR PROPOSAL WHICH I CONSIDER OF PARAMOUNT IMPORTANCE IS THE SECTION ON ENERGY CONSERVATION. IT BORDERS ON THE INSANE (ONE IS TEMPTED TO SAY CRIMINALLY INSANE) TO CONTINUE TO BUILD HOUSES IN THIS COUNTRY AS THOUGH OIL WERE A DOLLAR A BARREL AND ELECTRICITY A CENT A KILOWATT. FARMERS HOME NOT ONLY DOES NOT REQUIRE ENERGY CONSERVING CONSTRUCTION, THERE ARE STILL INSTANCES IN WHICH THE AGENCY BALKS AT THE MARGINAL INCREASES IN COST REQUIRED BY SUCH CONSTRUCTION. (COSTS RECOVERED MANY TIMES OVER DURING THE LIFE OF THE STRUCTURE, AND OF COURSE, RESULTING IN A NATIONAL REDUCTION IN ENERGY CONSUMPTION.) HOUSES ARE STANDING VACANT IN ALABAMA, GEORGIA, VIRGINIA, MARYLAND, NEW YORK, PENNSYLVANIA AND PROBABLY A DOZEN OTHER STATES BECAUSE BORROWERS HAVE WALKED AWAY FROM \$200 AND \$250 MONTHLY HEATING BILLS. IMAGINE! A FAMILY WITH AN INCOME OF PERHAPS \$6,500 AND A MORTGAGE PAYMENT OF \$125 FACED WITH A UTILITY BILL OF \$250.

ONCE AGAIN, LET ME SAY THAT PASSAGE OF LEGISLATION WHICH WILL REQUIRE ENERGY CONSERVING CONSTRUCTION FOR ALL FEDERALLY ASSISTED CONSTRUCTION IS VITALLY IMPORTANT, NOT ONLY TO THE BORROWERS WHO WILL SAVE THE SLIGHT ADDED COST MANY TIMES OVER, BUT TO THE NATION AS A WHOLE.

MAINTAIN AND EXPAND PUBLIC HOUSING

WITH ONE NOTABLE EXCEPTION, HUD PROGRAMS HAVE NOT HAD MUCH IMPACT ON RURAL AREAS. BUT THAT EXCEPTION IS OF THE UTMOST IMPORTANCE. THE CONGRESS AND THIS COMMITTEE IS TO BE COMMENDED

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FOR THEIR INSISTENCE THAT THE TRADITIONAL PUBLIC HOUSING PROGRAM AGAIN BE FUNDED AND MADE AVAILABLE TO THE COMMUNITIES WHO DESIRE IT. MANY PEOPLE, EVEN STAUNCH SUPPORTERS OF PUBLIC HOUSING SOMETIMES FORGET THAT FOR EVERY FRUIT/IGOE OR TAYLOR HOMES, THERE ARE SCORES OF GOOD, SOUND, PLEASANT PUBLIC HOUSING PROJECTS ALL OVER THE COUNTRY. IN THE THREE YEARS PRECEEDING THE MORATORIUM IMPOSED IN JANUARY 1974, NEARLY 40% OF ALL NEW PUBLIC HOUSING UNITS WERE BUILT IN NON-METROPOLITIAN AREAS. THE RESULT WAS THE CONSTRUCTION OF SOME OF THE MOST ATTRACTIVE HOUSING TO BE SEEN ANYWHERE. SMALL PROJECTS SCATTERED SITES, LOWER BUILDING AND MAINTANCE COSTS, AND MOST IMPORTANTLY, ACCEPTANCE AS DESIRABLE ADDITONS TO THE COMMUNITIES IN WHICH THEY ARE LOCATED. WE URGE NOT ONLY THE CONTINUATION, BUT THE EXPANSION OF THE PUBLIC HOUSING PROGRAM.

MORE IS REQUIRED

LET ME ALSO MAKE IT VERY CLEAR THAT EVEN AFTER YOU HAVE PASSED THE PACKAGE OF CHANGES WE ARE RECOMMENDING HERE TODAY, WE WILL STILL HAVE A LONG WAY TO GO IN MEETING THE HOUSING NEEDS OF THE SMALL TOWN AND RURAL POOR. THESE CHANGES ARE REALLY IN THE NATURE OF IMPROVING THE SYSTEM AND CANNOT BY THEMSELVES SOLVE THE PROBLEM; THAT WILL REQUIRE ADDITIONAL MEASURES WHICH WE BELIEVE THE CONGRESS AND THE NEW ADMINISTRATION WILL ULTIMATELY ENACT, BUT PROBABLY NOT IN THIS FIRST SESSION OF THE 95TH CONGRESS. I HOPE YOU WILL PERMIT THE RURAL HOUSING ALLIANCE TO DEVELOP OUR PROPOSALS IN THE GREATER DETAIL AT SOME LATER DATE, BUT FOR THE MOMENT LET ME SUGGEST THAT THERE ARE THREE MEASURES WHICH MUST BE

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UNDERTAKEN BEFORE THE MISERY OF RURAL HOUSING CAN BE SIGNIFICANTLY REDUCED. ONE I HAVE DISCUSSED EARLIER--A MORE REALISTIC SUBSIDY FOR RURAL HOMEOWNERSHIP. A SECOND IS THE ADEQUATE FUNDING OF THE FARMERS HOME ADMINISTRATION SO THAT IT CAN HIRE THE STAFF IT REQUIRES TO DO THE JOBS YOU HAVE ASSIGNED. THE THIRD IS THE ESTABLISHMENT OF A NETWORK OF HOUSING AGENCIES, LOCALLY CONTROLLED BY THOSE WHO NEED HOUSING, WITH ACCESS TO FUNDING FROM THE FEDERAL GOVERNMENT. LET ME TALK FIRST ABOUT THIS NEW HOUSING NETWORK, AND THEN RETURN TO FARMERS HOME.

EMERGENCY RURAL HOUSE ACT

IN 1973 ABOUT 50 MEMBERS OF BOTH HOUSE AND SENATE SPONSORED A BILL ENTITLED THE EMERGENCY RURAL HOUSING ACT. THIS BILL PROPOSED AN EMERGENCY RURAL HOUSING ADMINISTRATION WHICH WOULD IN TURN CREATE THE LOCALLY CONTROLLED RURAL HOUSING DELIVERY SYSTEM ROUGHLY I SUGGESTED. THE BILL WAS NOT PASSED. THAT PLAN, OR SOMETHING ROUGHLY COMPARABLE, MUST BE IMPLEMENTED IF WE ARE TO ADDRESS IN ANY MEANINGFUL WAY THE RURAL HOUSING NEEDS OF THIS COUNTRY. FARMERS HOME ADMINISTRATION HAS AN IMPORTANT ROLE, A MAJOR ROLE, BUT IT CANNOT DO IT ALL.

FUNDS FOR ADMINISTERING FMHA

THE THIRD MEASURE CONGRESS MUST ADDRESS IS ADEQUATE FUNDING FOR THE FARMERS HOME ADMINISTRATION. I'M OF COURSE AWARE THAT I AM NOT NOW BEFORE THE APPROPRIATIONS COMMITTEE, BUT I IMPLORER YOU AS MEMBERS OF CONGRESS TO GIVE FARMERS HOME THE STAFF TO

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MEET THEIR RESPONSIBILITIES. LAST YEAR FMHA HAD ROUGHLY \$159 MILLION TO ADMINISTER ITS WHOLE RANGE OF PROGRAMS. THE CONGRESSIONAL RURAL CAUCAS HAS RECOMMENDED AN INCREASE TO \$225 MILLION WHICH WOULD ENABLE THE AGENCY TO INCREASE ITS STAFF ABOUT 25%--TO 9,000. UNLESS THAT INCREASE CAN BE MADE IN ADMINISTRATIVE FUNDS, I URGE THAT NO INCREASE BE MADE IN OTHER FUNDS OR PROGRAMS. THEY SIMPLY CANNOT HANDLE IT.

I AM MORE CONCERNED ABOUT THE POTENTIAL DESTRUCTION OF THAT AGENCY THROUGH POOR MANAGEMENT (IN THE LAST 8 YEARS) AND INADEQUATE ADMINISTRATIVE FUNDS THAN ANY OTHER THING.

FMHA TRACES ITS ORIGINS TO THE EARLIEST NEW DEAL DAYS WHEN FRANKLIN ROOSEVELT WAS ATTEMPTING TO DO SOMETHING FOR MILLIONS OF DESTITUTE, RAGGED, DEMORALIZED RURAL PEOPLE RANGING FROM THE (NORMALLY) STURDY WORKING FAMILY FARMERS TO THE ENSLAVED SOUTHERN SHARECROPPERS, THE EXPLOITED MIGRANT AND OTHER HIRED FARMWORKERS.

SINCE THEN, FMHA UNDER ITS VARIOUS AGENCY TITLES HAS LED A HAZARDOUS LIFE, CAUGHT BETWEEN THE URBAN BIAS OF OUR SOCIETY AND THAT MAZE OF BUDGET BALANCERS AND DEVOTEES OF THE SO-CALLED PRIVATE MARKET, TO SAY NOTHING OF THOSE WHOSE CHRISTIAN-JUDEO COMPASSION FALLS SHORT OF THOSE WHOM THEY ASSERT ARE ABOUT TO "EAT UP THE SEED CORN", LOW-INCOME PEOPLE OF WHATEVER COLOR.

FMHA IS A VITAL AND UNIQUE AGENCY--THE CLOSEST WE HAVE EVER COME TO A RURAL PEOPLES' CREDIT AGENCY. IT HAS UNIQUE CHARACTERISTICS INCLUDING: (1) THE AUTHORITY TO BORROW MONEY IN THE NATIONAL MONEY MARKETS AND LEND IT LOCALLY AT VARYING INTEREST RATES, ON FAVORABLE CREDIT TERMS AND (2) OUTREACH

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THROUGH ITS 1,775 LOCAL OFFICES, PLACING IT WITHIN REASONABLE DISTANCE OF MANY OF THE PEOPLE IT SERVES AND (3) A HISTORY OF GIVING TECHNICAL ASSISTANCE TO ITS FARM BORROWERS, GIVING THEM THE EXPERTISE THE EXTENSION SERVICE PROVIDES FOR THE MORE AFFLUENT FARM COMMUNITY, AND COUNSELLING AND REPRESENTING ITS HOUSING BORROWERS IN DEALING WITH CONTRACTORS AND REALTORS.

IN RECENT YEARS, THE WILLINGNESS OF THE CONGRESS TO ORIGINATE AND ASSIGN NEW PROGRAMS AND EXPAND OLD PROGRAMS HAS RUN FAR BEYOND ITS WILLINGNESS TO PROVIDE ADEQUATE FUNDING FOR ADMINISTRATION. UNFORTUNATELY, THE CONGRESS DID NOT HAVE THE AUTHORITY TO PROVIDE LEADERSHIP FOR THAT AGENCY OR DIRECT ITS ACTIVITIES,

CONSEQUENTLY, THE AGENCY, HAS BEEN STARVED FOR FUNDS AND THERE HAS BEEN NOTHING APPROACHING CREATIVE ADMINISTRATION--THE PROBLEMS INTERTWINE.

AS A RESULT FARMERS ARE FRUSTRATED WITH THE AGENCY, MEMBERS OF THE CONGRESS ARE FRUSTRATED WITH THE AGENCY, HOUSING PEOPLE ARE RESTLESS AND CRITICAL,--IN A WORK, MANY PEOPLE ARE FRUSTRATED WITH THE AGENCY.

THIS HAS CONTRIBUTED TO A RISING DEMAND THAT THE AGENCY BE DRAWN AND QUARTERED. INSTEAD OF CONTRIBUTING TO THE DISMANTLING OF THIS VERY USEFUL AGENCY, I URGE YOU TO INSIST ON THIS INCREASE IN RESOURCES AND THEN ENCOURAGE THE PRESIDENT AND SECRETARY BERGLAND TO REORGANIZE THE AGENCY STRUCTURALLY (INTERNALLY) TO PROVIDE BETTER SERVICE. ONLY AFTER THESE THINGS HAVE BEEN DONE SHOULD CONSIDERATION BE GIVEN TO DESTROYING ITS INTERGRITY.

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FINALLY, LET ME SAY SOMETHING ABOUT REORGANIZATION, AND WHILE I HAVE FMHA IN MIND, IT WOULD SEEM TO ME TO BE APPROPRIATE ELSEWHERE. WE MUST NOT LOSE SIGHT OF THE BASIC GOAL OF AN AGENCY, THE BASIC PURPOSE FOR WHICH IT WAS CREATED. CHANGE IS NOT NECESSARILY PROGRESS; BIGGER IS NOT NECESSARILY BETTER; CONSOLIDATION IS NOT NECESSARILY CHEAPER. THE FARMERS HOME ADMINISTRATION IS A RURAL CREDIT AGENCY, WHICH IN ADDITION TO HOUSING HANDLES A VARIETY OF OTHER RURAL CREDIT PROGRAMS. I URGE THE CONGRESS TO KEEP IN MIND THE FACT THAT IT IS, AND SHOULD BE, A SINGLE AGENCY WITH A SINGLE PURPOSE--RURAL CREDIT FOR RURAL RESIDENTS. I HAVE YET TO HEAR ANY PROPOSAL THAT OTHER CREDIT INSTITUTIONS BE SPLIT UP OR CONSOLIDATED ON THE BASIS OF THE LOAN PORTFOLIA.

LET ME SUMMARIZE BRIEFLY. IF WE ARE TO PROVIDE ADEQUATE HOUSING FOR RURAL CITIZENS OF THIS COUNTRY THERE ARE THREE MAJOR STEPS CONGRESS MUST TAKE:

1. THE EXISTING FARMERS HOME ADMINISTRATION DELIVERY SYSTEM MUST BE ADEQUATELY FUNDED AND STAFFED,
2. THERE MUST BE A MORE COMPREHENSIVE SUBSIDY SYSTEM MADE AVAILABLE FOR RURAL HOMEOWNERSHIP, AND
3. THERE MUST BE AN ADDITIONAL RURAL HOUSING DELIVERY SYSTEM CREATED TO REACH THOSE WHO CANNOT BE REACHED BY THE PRESENT FMHA, EVEN WHEN ADEQUATELY STAFFED.

Mr. AuCOIN. You are quite welcome. We appreciate your testimony. Ms. Dolbeare, welcome.

**STATEMENT OF CUSHING N. DOLBEARE, EXECUTIVE SECRETARY,
NATIONAL RURAL HOUSING COALITION**

Ms. DOLBEARE. Thank you, Mr. Chairman.

I will try to summarize my testimony and omit parts that have been covered by either Clay Cochran or Gordon Cavanaugh.

It begins with a few statistics that note that, even though rural people are 27 percent of the population—and this is the tight definition of “rural” as used in the census; that is, people living in communities of less than 2,500 or the open country—they have a disproportionate number of key housing problems: lack of plumbing facilities, which is rather obvious; lack of kitchens; overcrowding; lack of insulation. Rural housing problems really are critical and need to be addressed. I am sure you know that.

Most of my testimony is devoted to an explanation of a bill which we would propose and hope would be introduced and considered by the subcommittee. I would like to ask permission, if I may, that the text of this proposed bill, which has been given to the staff, be included in the record along with my statement.

Mr. AuCOIN. So ordered.

Ms. DOLBEARE. I might just mention that the purpose of our bill is not to provide an adequate rural housing program. I wish that it were. I wish that we could come up with, and Congress could consider, a rural housing program that would provide every rural family, or every nonmetropolitan family, with a decent home within a 5- or 10-year period. Our bill does not do that.

Our bill has a much more modest objective, which is just to spruce up a number of Farmers Home programs, to make a number of them comparable with HUD programs and to take a couple of additional steps, most notably the deep subsidy and energy conservation measures which have been referred to already.

Section 1 of our bill deals with housing for the handicapped and would make it clear that Farmers Home could provide housing for the handicapped under its programs, just as HUD does under its programs.

Section 2 notes that Farmers Home is the only major home mortgage lender in the United States which does not provide an escrow service for borrowers. They have not provided one. This provision, in effect, would mandate Farmers Home to provide a voluntary program.

It gets a little complicated. We are not mandating that everybody have this account established. But we are mandating that Farmers Home make it possible for borrowers who wish to do so to put in escrow their money for taxes and insurance. One major reason for the increase in delinquencies is this burden of an annual insurance or tax payment which falls on a family of limited resources that is not able, really, to put that money away and save it for when it is due.

Section 3 would give Farmers Home its own rural housing research program. For a number of years it has been authorized to have a \$1 million program. Those moneys have never been appropriated, nor

requested by Farmers Home. At present Farmers Home has the authority to operate 33 separate housing and rural development programs. It has no capacity to develop its own data on what rural housing needs are, how those programs function, how they might be improved.

This amendment would do a number of things. It would create an in-house research capacity at the Farmers Home Administration and direct it to focus particularly on the needs of special groups, such as rural elderly, rural handicapped, farm workers; and to look at rural growth patterns and services. It would clarify the present provision and make it clear that the Farmers Home research mandate is for rural housing generally, not just for farm housing. It would increase the authorization from \$1 million annually to \$10 million, which would be roughly one-fifth to one-sixth of HUD's budget, and it would require the Secretary to study the problems of migrant farm laborers.

Section 4 of the bill again would provide within the Farmers Home Administration a program which is comparable to a program which HUD now has and has agonized over a little bit, I guess. That is a program to provide owners with compensation or a remedy where they live in houses with structural defects.

Now, I think there is one essential difference that ought to be recognized between the HUD and the Farmers Home programs, and that is that Farmers Home both by law and by tradition is mandated not just to provide financing but also to counsel the purchaser and to inspect the housing and to make sure that it meets a minimum standard. So, in our view, it is far more appropriate for the Farmers Home legislation to have this kind of authority so that the purchaser has a remedy for structural defects, which really is the responsibility of the Farmers Home Administration in the first place.

The proposed amendment would provide compensation for defects for 4 years after the purchase of a new home or for 2 years after the purchase of an existing home. There is also a grandfather clause which gives present homeowners 18 months to apply for assistance if they purchased their homes before that time. However, in that case—that is if this is enacted—during the 18-month period, if a purchaser bought their house new more than 4 years ago or used more than 2 years ago, the burden of proof would be on them to justify the fact that the defect was really there when they moved in.

The section would also provide that the repair be made immediately. If it is later found that the defect was the fault of the purchaser, an additional obligation would be added onto the loan, so that we do not have the problem of determining fault, which would impede the immediate repair.

Section 5 is titled "Foreclosure Prevention." It is a way of protecting not only the rights of borrowers, but also making sure that every Farmers Home person dealing with housing knows what the provisions of the law are.

There is a provision now which provides that, when borrowers are in financial difficulty, Farmers Home may suspend interest and even payments on principal. There are apparently a number of Farmers Home people who do not realize that that provision is there. This provision of our bill would mandate that before Farmers Home proceeds with

delinquency that the Farmers Home agent inform the purchaser of the existence of these moratorium provisions.

Section 6 very simply would provide for an appeals procedure. For every housing loan application that is accepted, another one is rejected, and the basis for rejecting these applications varies very widely.

There is now a procedure only for section 502. If your application is rejected you can ask the person who rejected it to look at it again. There is also a provision for contractors: if they are going to be debarred and not permitted to build for Farmers Home, there is a very elaborate appeals procedure. We think that consumers ought to have comparable procedures. Within the Department of Agriculture, for food stamps, there are appeals procedures.

Our bill would not establish the form of the procedure. It would just say that there needs to be an appeals procedure within the Farmers Home Administration where somebody whose application is rejected can be given an impartial review and a right to appeal.

Section 7 is entitled "Limitation on Administrative Authority." The last administration proposed regulations which would provide for the financing of new subdivisions only when they were immediately contiguous to an existing community with public water, sewer, and other services already in place.

Most new subdivisions would be in those locations anyway. But to prohibit subdivisions in another location means that there are many rural needs which would go unserved. For example, if there are no available sites in those locations, or where zoning requirements preclude development, or where the community does not have the facilities in the first place, or, as you often have in the South, where minority people have been prevented from buying homes within the town and the population is located outside the town. There are other examples in my statement.

Section 8 of our bill is as important, I think, as section 8 to the HUD programs. It would continue the Farmers Home authorizations, all of which expire this year and need to be continued. The section 504 home repair loans and grants would be extended for 3 years at the level of \$40 million a year.

Section 516 farm labor housing grants would be extended for 3 years at the level of \$50 million a year.

Rural housing research grants would be authorized for \$10 million a year.

Section 514 farm labor housing loans, \$50 million a year.

Section 515 rural rental housing does not have a limit on the authorization now. We would propose a simple extension for 3 years, again without limiting the authorization.

Section 523 self-help technical assistance grants, would be extended at the level of \$20 million a year. That is double the current authorization.

The section 523 self-help site loans would be extended at the level of \$5 million a year. That is an increase of \$3 million a year.

Technical assistance grants and seed money loans would be extended at the level of \$10 million a year for each of the two programs. That is double of the present level.

Section 9 would make it clear that Farmers Home can finance congregate housing.

Section 10 deals with a rather insignificant-sounding but important provision on farm labor housing. At the present, Farmers Home requires that priority be given to public authorities for farm labor housing, and with the small level of authorization and appropriation, this really means that only housing authorities can build farm labor housing; that in areas where there are no housing authorities, or the housing authority is not interested, or a farm worker group itself has set up a nonprofit corporation, they cannot build farm worker housing, because of its priority.

We would propose that the law be amended to say that the priority for funding applications be based on need and not on who the sponsor is.

Section 11 would transfer to the authorizing legislation the requirement that 60 percent of all Farmers Home insured loans would go to low-income families.

Section 12 would require the Secretary to allocate funds to assure maximum availability and use during peak construction periods. The practice in the past has been level monthly allocations, which have created all sorts of problems.

Section 13 proposes changes in the guaranteed loan program which are designed essentially to be sure that the guaranteed loan program really functions in addition to, rather than instead of, the direct or insured loans. It would limit the program to people with incomes above those defined as moderate. It would provide that the making and servicing of the guaranteed loans would be handled at the State or regional level rather than by the county office.

It would require that the authority for the guaranteed loans be separate from the insured loan authority. And in that case they might be able to develop an actuarial basis for funding that, rather than the full amount of each guaranteed loan.

Section 14 deals with homeownership subsidies for low-income families. I think it has already been covered adequately, except for one point, and that is that there just is no rental housing being built for large families. So an additional justification for this is to provide housing for low-income families—families of four or more—who just cannot get rental housing under the Farmers Home program or any other program.

Section 16 is a minor amendment to self-help housing. At present, funds are available for optioning land, but not for purchasing land. We think that they should be available for both. Section 16 would broaden the existing site loan program to make it possible for nonprofit corporations to buy sites. This would make possible a cost saving to the purchaser. It would reduce the interest rate from 9 percent to 3 percent for nonprofit developers, and would provide a guarantee program for site purchase for profitmaking developers where they will use the site to provide some low- or moderate-income housing to serve lower income families.

Section 18 deals with title insurance for remote claims or encumbrances. These are a major problem in many parts of the country. There is just no way to get clear title under some circumstances in rural areas. Examples are given on page 16.

It would authorize the Secretary of Agriculture or the Farmers Home Administration to make loans anyway, even though private

title insurance is not available, to assume the risk—which we think is rather slight—in case, at some future date, the title turns out to be defective.

This is done in the section 504 program, and we think it should be done in the section 502 program as well.

Section 19 would create the position of an Assistant Secretary for equal opportunity, and would require him or her to affirmatively enforce the provisions in the Farmers Home housing programs.

Their present record is inexcusable in our view. Minorities have borne the full brunt of the decline from 1971 to 1975. They are affected disproportionately because of their low-income levels by the escalation in the level of income served by Farmers Home programs.

Section 20 deals with sewer and water. It would mandate that grants be a flat 75 percent of the cost of the facility, paralleling the EPA formula. And it would attempt to prevent abuses in the design of both water and sewer systems by prohibiting arbitrarily high and costly requirements.

Section 21 on energy conservation has been dealt with by Clay Cochran. This would mandate that energy conservation techniques be followed in all housing financed through the Farmers Home Administration, and would require Farmers Home, in taking into consideration the borrower's capacity to repay the loan, to calculate the reduced energy costs as a result of the probably slightly higher construction costs of including those standards.

Section 22 would provide for payment of attorney's fees where applicants have been denied loans and believe that they have been treated unfairly.

[The prepared statement of Ms. Dolbeare, on behalf of the National Rural Housing Coalition, along with the previously mentioned proposed rural housing amendments, follows:]

STATEMENT OF CUSHING N. DOLBEARE, EXECUTIVE SECRETARY,
NATIONAL RURAL HOUSING COALITION, BEFORE HOUSING SUBCOMMITTEE,
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS, HOUSE OF
REPRESENTATIVES, MARCH 8, 1977.

The National Rural Housing Coalition is pleased to have this opportunity to testify on pending housing legislation. As our name implies, we are particularly concerned with rural housing programs, both those of the Department of Housing and Urban Development and of the Farmers Home Administration.

Too often, in considering the desperate housing needs of our cities, the equally desperate housing problems of rural areas and small towns are overlooked. But, by most objective measures, the housing problems of rural people are significantly worse than those of urbanites. For example, according to the 1974 annual housing survey, rural areas had only 27.5% of all occupied housing units. But 63.0% of all units lacking plumbing facilities were rural. So were 58.9% of all units lacking kitchens, and 34.1% of all overcrowded units. Significantly, in these days of energy costs soaring out of reach of low and moderate income families, 34.1% of all units without storm windows or other protective window covering and 42.2% of units without roof or attic insulation were rural -- yet rural incomes are lower than urban incomes, and fuel costs are often significantly higher.

Clearly, a balanced approach to total housing needs will place emphasis on both central city and rural programs. To deal adequately with rural needs requires both strengthening HUD's capacity to fulfill its mandated rural responsibilities and, even more important, revising Title V of the Housing Act of 1949 to enable the Farmer's Home Administration more adequately to service low and moderate income families living, or wishing to live, in small towns and rural areas.

The National Rural Housing Coalition proposes a series of amendments to strengthen the Farmers Home Administration housing programs. These are embodied in our recommended Rural Housing Amendments of 1977, the text of which has been submitted to this committee. Our aim is not, at this time, to

propose a fundamental overhaul of the FmHA programs, although we believe that rural Americans will not participate in the achievement of the national housing goal of "a decent home" for every American family until this is done. Our aim is much more modest: it is to make Title V workable, on a relatively modest scale, for the low and moderate income people it is intended to serve. But, as housing costs have escalated, FmHA subsidies have not kept pace. The median income served by FmHA programs has steadily risen, while low income people are virtually precluded from receiving the help they need to obtain decent housing.

Moreover, although the Housing and Community Development Act of 1974 took a number of key steps to provide parity between FmHA and HUD programs, additional legislation is needed to enable FmHA to provide programs comparable in scope and equity to several HUD programs.

To achieve this end, the National Rural Housing Coalition urges that an additional title be added to the Housing Authorizations of 1977, dealing with rural housing. This title should include the following provisions:

Section 1 -- Housing for the Handicapped

Handicapped persons, and families in which there are handicapped persons, while not being explicitly excluded from the Title V, Farmers Home Housing Programs, of the Housing Act of 1949, have not been able to use the programs because their special housing requirements have not been reflected in the legislation and the regulations. Unlike legislation on HUD's housing programs, which mentions "handicapped" as being eligible for certain programs, FmHA programs do not specifically include the handicapped. This amendment would ensure that the handicapped will have full and equal access to the housing programs in Title V of the Housing Act of 1949. Additional incentive for this amendment stems from Section 504 of the Rehabilitation Act, which is intended to ensure nondiscrimination on the basis of handicap.

This section should also expand the definition of elderly and handicapped persons to include single individuals living together or one or more persons living with someone essential to their well-being. In short, it would require FmHA to provide the same benefits which HUD provides to elderly and handicapped families and persons.

Section 2 -- Escrow Accounts for Periodic Payments of Taxes, Insurance and Other Expenses

FmHA is the only major home mortgage lender in the United States which does not provide an escrow service for borrowers.

This amendment would require the Secretary to establish a system of escrow accounts to enable borrowers to better budget for the payment of taxes, insurance, and other expenses. The present authority is discretionary, and FmHA has so far failed to implement it. The amendment would help stabilize home repayment ability and reduce delinquency, foreclosure, and loss of homes. It is a counseling tool consistent with FmHA's own recommendations for more counseling in its "Review of Rural Housing Programs--June 15, 1973".

Unfortunately, during the period since August 1974, delinquency has seriously increased among FmHA borrowers. Continuing inflationary pressures, including those which have resulted in sharp tax increases, have exacerbated the need for an escrow arrangement.

Section 3 - Rural Housing Research

Rural areas and small towns have unique housing and community development problems. Seasonal and migrant farmworkers, mountain people in the Appalachia area, Indians on reservations, and other must primarily rely on FmHA to meet their housing needs. This is why the FmHA, with its locally based direct service and direct loans, is so significant. The FmHA is designed organizationally and programmatically to meet the special needs and problems of rural America.

At the present time, the FmHA has authority to operate 33 separate housing, farm, community facility, business, and industrial programs to meet the broad range of rural needs. The FmHA has grown from a very small farm resettlement program in the early 1930's into the major source of rural credit and technical assistance for rural America. In fiscal 1976 plus the transition quarter (15 month period), the FmHA made 245,436 loans and grants valued at \$7,159,072,521. It is now the largest direct Federal lender in the country.

Despite its role as the major source of rural credit, the FmHA has had to depend on other agencies to conduct research. Although authority to conduct research has existed for some years now at a level of only \$250,000 per year, this miniscule amount has never been used.

As a result, FmHA has had to develop policy with limited data. A research capability is necessary to establish a data base from which to plan adequately.

The purpose of this amendment is to remedy this long-term neglect of research into rural housing and community facility problems and solutions. The amendment would create an in-house research capacity at FmHA, and would direct it to focus on several views which have been largely ignored in the past. These include the needs of special groups, such as the elderly, the handicapped, farmworkers, and Indians; rural growth patterns; and rural community facilities and services. It also would make clear that FmHA's research mandate is for rural housing generally and not just farm housing.

The amendment would increase the authorization for FmHA rural housing research from \$1 million annually to \$10 million. This is a modest amount in comparison to the HUD research budget of \$50 to \$60 million per year, very little of which goes into rural housing research.

Finally, the amendment would require the Secretary to study the housing problems of migrant farm laborers, whose housing problems have received scant attention at the federal, state, and local level. The study would be intended to see if existing programs can be made flexible enough to deal with short-term occupancies or if new approaches are necessary. The Secretary would have to report back to Congress within one year.

Section 4 - Compensation for Construction Defects

The problem of defective structures in existing and newly constructed FmHA units is significant, though its full magnitude cannot be ascertained because FmHA does not keep records of complaints about construction defects. Nonetheless, purchasers of units with defects should be protected.

Sections 518(a) and (b) of the National Housing Act authorize HUD/FHA to reimburse owners for defects in newly constructed units purchased with HUD/FHA guaranteed loans. FmHA should have a similar provision. While owners of newly constructed units are protected by a one-year builder's warranty, they are not always able to have the builder make the necessary repairs. In addition, defects may often not be discovered until after the expiration of the warranty.

The proposed amendment would authorize the Secretary to provide assistance for newly constructed units. The term during which such assistance may be requested in the proposed section is four years, which is identical to the period provided for HUD/FHA borrowers. The proposed section would apply to one, two, three, and four family units, financed with FmHA assistance.

Section 518(b) limits recovery on HUD/FHA existing houses to cases where the defect "so seriously affects the use and liveability as to create a serious danger to the life or safety of inhabitants." This language is not included in Section 518(a), the new construction provision, and has therefore been excluded from the proposed new construction provision for FmHA [Section 509(c)]. The language has also been omitted from the proposed existing housing provision [Section 509(d)], as it is inappropriate when applied to FmHA.

Unlike HUD/FHA's legislation, FmHA's legislation has always required that, in addition to providing FmHA purchasers with decent, safe, and sanitary housing by construction financing, FmHA was to provide its borrowers with "technical services such as building plans, specifications, construction supervision and inspection" (Section 506 of the Housing Act of 1949). Thus the legislation assumed that the FmHA purchaser would not have the ability to assure that (s)he obtained decent, safe, and sanitary housing, and that FmHA should provide that assistance. (See also FmHA regulations at 7 C.F.R. 1802.2.)

To require FmHA to provide its borrowers with assistance in obtaining decent, safe, and sanitary housing, but then to limit the families' ability to insist that the housing meet those standards, by only allowing recovery when the defect creates a serious danger to life or safety, is totally inconsistent.

In addition, the standard is arbitrary, and is likely to be applied very inconsistently by the more than 1,750 offices of FmHA (unlike FHA, which probably has no more than 100 persons administering Section 518).

The proposed amendment would adopt the standards used by FmHA under Section 509(a) to determine whether a structure is decent, safe, and sanitary. Those standards are the Minimum Property Standards, which are published and familiar to every FmHA employee administering the housing programs.

Subsection (d) would authorize the Secretary to provide assistance to borrowers who purchased existing units. The term during which such assistance may be requested would be two years after assistance is provided, which is one year longer than the comparable provision for FHA borrowers.

The amendment would allow all past purchasers of existing and new housing to submit claims to FmHA within 18 months after passage of the Act. [A similar provision is included in FHA's Section 518(b) (existing), but not for 518(a) (new).]

The proposed Section 509(e) would authorize the Secretary to make the expenditure for the needed repair as soon as a determination is made that the defect did, in fact, exist. If subsequently FmHA determined that the defect was not caused through the fault of the builder or the FmHA inspector, the amount of assistance forwarded would be converted to a subsequent loan, to be added to the original mortgage. The government's interest would be protected, since a promissory note and second deed of trust would be executed before FmHA paid for the repair initially. If fault was found to lie with the builder or inspector, repayment of the assistance would be forgiven. If the owner chose not to sign a promissory note and mortgage, (s)he could request that FmHA determine liability prior to advancing funds.

The advantage to owner and to FmHA from this system is clear. Allowing prompt payment by FmHA for repairs assures that a defect - such as no heating, inadequate ventilation, flooded basement, etc. - would not linger and potentially cause additional damage to the house. It would assist the family and protect the government's interest in the house. However, the owner would not be forced to agree to a lien on the house if (s)he preferred to await until a determination about liability had been completed.

During the 18-month period following passage of the Act, for borrowers assisted more than two years ago (on existing units) or more than four years ago (on new units), the burden of proof as to fault for the construction defect would be placed on the owner instead of on FmHA.

Section 509(e) would also authorize the Secretary to enter into agreements with contractors, in addition to sellers, requiring them to reimburse FmHA for expenditures made by the agency under this section. Funding for all compensations would be provided from the Rural Housing Insurance Fund.

Section 509(f) would require the Secretary to: (1) publish regulations to implement the program, (2) provide an appeals and review process for owners denied assistance under the program, and (3) maintain records in the national office as to complaints filed and the disposition of them.

Section 509(g) would make clear that these provisions do not constitute an exclusive remedy for the owner.

Section 5 - Foreclosure Prevention

Although Section 505 was authorized as part of the original Housing Act of 1949, it was not implemented until July 11, 1974, and then with a restrictive set of FmHA instructions. FmHA has since revised the program to make it more workable, but many FmHA county supervisors are not even aware of the existence of the moratorium on payments program.

This amendment would mandate the education of eligible borrowers, so that foreclosure may be avoided whenever and wherever the provisions of Section 505 are applicable.

Section 6 - Appeals Procedures

For every housing loan application which FmHA funds, another application is rejected. The basis for rejecting applications varies widely, inasmuch as FmHA's regulations give wide discretion to county supervisors in carrying the authorized programs. This wide discretion can result in abuse and improper denial of federal assistance. Yet, with one exception, FmHA has provided applicants for its services with no formal opportunity to have decisions denying assistance reviewed. The one exception is an appeals procedure provided to applicants under the Section 502 homeownership program. Even this is inadequate. Applicants for 502 loans who are denied assistance are afforded a series of paper appeals which include review by the very officials making the initial decision denying assistance; which prescribe no time limits in which appeals must be resolved by the agency; which do not limit the review to the basis of the original denial; and which fail to require that the applicant be specifically informed of the reason for the denial.

In response to the 1974 Housing and Community Development Act's requirement that the Secretary issue rules and regulations protecting the rights of grantees under the self-

help housing program, FmHA promulgated regulations allowing grantees to write to the Administrator and request reconsideration of an adverse decision.

Interestingly, contractors and builders who are threatened by FmHA with debarment (i.e. that they will no longer be able to contract for construction financed with FmHA funds) are afforded a significant appeals procedure. FmHA regulations require that any builder threatened with debarment be: specifically informed in writing of the basis and reasons for debarment; given an opportunity to meet with the agency during which any charges may be rebutted; afforded an opportunity to respond to the proposed debarment by filing an answer containing factual or legal arguments. In addition, the regulations require that FmHA finally resolve any debarment proceedings within 40 days of the proposed debarment; that FmHA maintain records of all the proceedings including a synopsis of any meetings; and that the determinations for debarment be supported by and in accordance with reliable, probative and substantial evidence in the possession of FmHA.

Surely, the low income applicant for a homeownership loan or the applicant for a rental project has as significant an interest as the builder who is debarred by FmHA. The builder can seek other business. For the borrower or the tenant, FmHA is the lender of last resort. Therefore, rejections or other adverse decisions should not be allowed without an adequate appeals process.

Many other federal programs require similar types of appeals procedures as those authorized by the proposed amendment. For example, an applicant for the food stamp program, also administered by USDA, cannot be denied assistance without an appeal. The Department of Health, Education and Welfare requires that welfare applicants be afforded an adequate right to appeal before being denied assistance. . The Department of Housing and Urban Development has developed sophisticated appeals procedures for users of its programs.

In short, an appeals procedure is common in other federal agencies, elsewhere within USDA and even elsewhere within FmHA. Applicants, borrowers and tenants deserve similar assurance of their basic right to fair and equitable treatment by FmHA.

Section 7--Limitation on Administrative Authority

This limitation on the Secretary's rule-making authority is intended to eliminate a proposed new policy or any future policy for site development which would preclude FmHA financing of new subdivisions which are not contiguous to an existing community with water, sewer, and other services already in place. While this proposed policy makes sense in a majority of situations, the rule's inflexibility would prevent FmHA from providing assistance in the other situations where FmHA should be permitted to operate. Some examples are:

- (1) where there are no available sites which can be purchased at a price FmHA-eligible families can afford or which will be appraised by FmHA at an acceptable level;
- (2) where zoning or housing size requirements within the municipal limits preclude FmHA activity;
- (3) where the community does not have central sewage facilities, and available sites within that community do not meet FmHA, state, or local health standards for individual septic systems;

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- (4) where minority people have historically been prevented from buying homes inside the town and the minority population is located in areas outside the town;
- (5) where the area's only "growth center" is too large to be eligible to be included in the FmHA service area, but there are no other established communities nearby;
- (6) where building the subdivision on the edge of an established community might lead to "rural sprawl"; and
- (7) where rehabilitation assistance is needed in an existing subdivision which is in open country and failure to provide FmHA assistance would doom the subdivision by preventing any improvement.

Section 8 - Assistance Authorizations

This amendment would extend all expiring authorizations for FmHA housing programs and, in most cases, expand the amount authorized to be appropriated. Specifically, the amendment would:

(1) Section 504 Home Repair Loans and Grants

Expand the current \$80 million limitation for the period 1956 through 1977 to \$200 million for the period 1956 through 1980. Only \$26 million in authority currently remains to be obligated.

(2) Section 516 Farm Labor Housing Grants

Expand the current \$80 million limitation for the period through 1977 to \$230 million for the period through 1980. Only \$27.50 million in authority remains to be obligated.

(3) Section 506 Rural Housing Research Grants

Expand the yearly authorization of \$1 million to \$10 million through 1980. No money has ever been appropriated for rural housing research grants.

(4) Section 514 Farm Labor Housing Loans

Expand the yearly authorization of \$25 million to \$50 million.

(5) Section 515 Rural Rental Housing

Extend the present unlimited authorization through 1980.

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(6) Section 523 Self-Help Technical Assistance Grants

Expand the yearly authorization from \$10 million to \$20 million through 1980.

(7) Section 523 Self-Help Site Loans

Expand the yearly authorization from \$2 million to \$5 million through 1980.

(8) Section 525 Technical Assistance Grants and Seed Money Loans

Expand the yearly authorization from \$5 million to \$10 million through 1980 for each of the two programs. The \$5 million authorized in FY 76 and FY 77 for each program also remains available because there has been no appropriation.

Section 9 - Congregate Housing For Elderly and Handicapped Families

This amendment would make clear that congregate housing for the elderly and handicapped may be built with FmHA 515 funds. Since this had not been expressly provided for in the past, FmHA has refused to allow such housing, often essential to the needs of the elderly and handicapped.

Section 10 - Financial Assistance to Provide Low-Rent Housing For Domestic Farm Labor

The farm labor housing grant program (Section 516) was instituted by Congress to provide low-rent housing for domestic farm labor. Congress recognized that to make this program available to farmworkers, a variety of groups and organizations would have to be eligible to apply for farm labor housing funds including,

"...any State or political subdivision thereof or any broad-based public or private nonprofit organization incorporated within the State, or any nonprofit organization of farmworkers incorporated within the State..."

The intent of Congress to allow private and farmworker nonprofit organizations to apply for this assistance has been subverted by FmHA Instruction 444.6, which gives priority of grant funds to public bodies. Notwithstanding the argument that public bodies such as housing authorities are experienced in management, there are many areas with a need for farm labor housing without a housing authority. There are also housing authorities which refuse to sponsor farm labor housing. Farmworkers who live in areas without a housing authority or with one that refuses to sponsor farm labor housing should not be penalized. The priority for funding applications should be based primarily upon need. Therefore, private and nonprofit organizations should be considered on an equal basis with public bodies in applying for farm labor housing funds. This amendment would accomplish that purpose.

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Section 11 - Providing that 60% of Insured Rural Housing Loans go to low-income families

This amendment would require that no less than 60 percent of all insured Section 502 single family and Section 515 rural rental loans go to low-income families, as defined by the Secretary. Up to this point, the yearly FmHA appropriations bill has contained language to do this. Placing this provision in the authorizing legislation strengthens the intent of Congress that these programs serve those most in need of decent housing.

Section 12 - Availability of Rural Housing Funds

This section would require the Secretary to allocate funds to assure maximum availability and use during peak construction periods.

The Secretary has, at times, used the vehicle of monthly allocations to FmHA, and in turn to the several states, as a means of slowing down the program. While such monthly allocations do provide a controlled and fixed dollar flow, the gains in budget management are offset not only by the effect on the consumer, but upon the housing industry, as well.

During Fiscal Year 1976 the use of monthly allocations was implemented in both the Section 502 and Section 515 programs. It proved totally unworkable in the 515 program was dropped, while continuing in Section 502. The result was chaos. Applicants on long waiting lists were forced to wait longer for processing. Many builders, constructing dwellings under the FmHA conditional commitment program, found themselves with completed units and no way to gain timely processing for potential buyers unable to rapidly advance through a waiting list that had been dramatically affected by monthly quotas.

At issue is whether certain management tools should be employed if they threaten and damage responsible housing production, including the financial resources of small builders. The proposed amendment would assist consumers and builders by assuring that funds are available, to the maximum extent, during peak construction periods in each state.

Section 13 - Changes in the Guaranteed Loan Program

The FmHA is a lender of last resort, whose programs are designed to serve those rural people who cannot obtain credit from other sources, public or private. If there is a lender in a rural community willing to participate in a federal program to assist low- and moderate-income families, it should look to the HUD/FHA guarantee programs first. The FmHA guaranteed loans should only be used when no other resource is available.

The guarantee program should also be limited to those whose incomes are above those defined as moderate by the legislation. These are families not presently served by the direct loan programs of the FmHA and generally not served by private financial institutions. They are the teachers, police

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and fire officers, mineworkers, and others who are essential to the rural economy, but who are often unable to purchase their own homes.

The FmHA programs are uniquely suited to the needs of rural America. The making and servicing of direct loans out of county offices form the key element in the success of the FmHA housing programs. Implementation of the guaranteed loan program weakens the existing efforts by requiring that FmHA county supervisors service guaranteed loans in addition to the regular heavy workloads which most have to bear. This section would place all processing and servicing responsibilities for the guaranteed loan program in the FmHA state offices. This would allow state office specialists to handle the guarantee program and enable the county supervisor to give full attention to the neediest families.

Finally, this section would require that authority for guaranteed rural housing loans be separate from insured loan authority and would prevent the Secretary from commingling funds without specific Congressional authority. This is done to prevent a watering down of the federal commitment to low and moderate income rural families and elderly by shifting funds from the insured program to the guaranteed program or as is the case now, counting guaranteed loans against the overall commitment.

Section 14 - Homeownership Subsidy for Low Income People

Homeownership has become a realistic alternative for fewer and fewer rural households over the last several years. The average initial FmHA Section 502 loan in FY 1969 was \$10,083 and at 1 percent interest required an annual mortgage payment of \$360. By 1976 the average initial 502 loan had risen to \$21,470 with an annual payment at 1% interest of \$765. Taxes and utility costs have increased at an even higher rate in most areas of the country. By FY 1975, the average gross annual income for all 502 recipients had climbed to \$8,741 and the continuing nationwide trend of increasing land and construction costs, promises to send this figure further upward. During December of 1976, the Pennsylvania state FmHA noted that modest new homes could not be bought by FmHA borrowers for less than \$28,000 and that more often the cost was running from \$30,000 to \$32,000.

FmHA's own regulations have caused increasing prices. For example, stringent site requirements, including a priority for centrally served locations have brought about a marked increase in the cost of lots. While the site policy was formulated to protect communities and consumers, the unintended effect has been to generate higher costs.

In short, Section 502 interest credit loans no longer can effectively serve low income rural families. In those few instances where they do it is because of unusual circumstances, such as very low tax and utility costs. Or it is because of some other cost saving scheme, such as mutual self-help housing or subsidized manpower programs. The impact of these devices is almost negligible in comparison with the overall need.

This amendment would provide FmHA with an additional tool to house the estimated 1.8 million or more rural households too poor to qualify for the ongoing FmHA programs. While many can be served through implementation of the rural rent supplement program and through the combination of HUD Section 8 and FmHA 515 rental programs, many others, particularly families of four or more, cannot be assisted through these programs. If there is no available housing authority, nonprofit, limited profit or for-profit developer interested in rental housing, or if large enough units are not available, the rural households too poor for an interest credit home ownership loan must continue to live under substandard conditions. Moreover, people who do not live in an established place or town with adequate water and sewer facilities cannot obtain FmHA rental assistance. In addition, the desire for home ownership is very strong among most rural families.

This amendment would authorize FmHA to subsidize the difference between 15% of annual gross income and the costs of principal and interest, property taxes, insurance, utilities and maintenance.

This minimum payment by the low income household is the same amount as required for very low income households under the HUD Section 8 rental program.

To insure that these subsidy costs are restricted to shelter costs of the family and that the family does not gain a windfall at the expense of the government by selling the house at a substantial profit, this section would allow FmHA to recapture some of the subsidy costs. If the low income family were to sell the house at a profit, a portion of the profit would be provided to the seller to help in relocation. The remainder, up to 100% of the subsidy dollars provided by FmHA over the life of the mortgage, would be repaid to FmHA.

Section 15 - Rural Rental Assistance

The rural rent supplement program authorized in the Housing and Community Development Act of 1974 has not been implemented by the Farmers Home Administration. On January 19, 1977, the U.S. District Court for the District of Columbia held that the Secretary of Agriculture had abused his discretion in refusing to implement the program. The Secretary was given 30 days to report to the Court how long would be needed to determine whether the HUD Section 8 program, which the previous Administration contended was an effective substitute, could better effectuate the goals of the rural rent supplement program. Or, alternatively, the Secretary could simply implement the rent supplement program.

This amendment would require that the program be implemented by inserting "shall" for "may". The amendment would make clear that occupants in congregate and cooperative housing would qualify under the program. It would make sure that the tenant pays 25% of adjusted annual income, as determined for the major homeownership and rental programs. The amendment would clarify that any farm labor housing, financed with a loan or a grant/loan combination, could receive rent supplement assistance in 100% of the units.

Finally, the amendment would increase the percentage of family units which could be assisted, to 40% in any project. For projects in areas with large numbers of very low-income people, particularly in the South, FmHA would be required to provide assistance to more than 40% of the families in an eligible project.

Section 16 - Mutual and Self Help Housing

This amendment would authorize the Secretary to make loans to Section 523 self help technical assistance grantees to enable the grantees to acquire as well as option land. Expeditious acquisition of land is key to the proper and efficient functioning of Section 523 grantees. The efficient use of grant funds is dependent upon a ready supply of available land for families to construct dwellings under the self-help method. When the process is slowed because land cannot be purchased, the grant cost per unit correspondingly increases.

Section 17 - Site Loan Changes

Providing improved sites at reasonable costs has become a major problem in efforts to produce decent housing in rural areas. Section 524 was enacted as a way to make it possible for nonprofit corporations to provide such sites. Unfortunately the program has yet to be used to any substantial extent. Much of this is due to the way the program is being implemented by the agency. However, in addition to the problems of administering the program, cost savings are needed if the overall cost of development is too high to meet the needs of all but a very few people. The proposed amendment is meant to provide a small cost saving to the eventual homebuyer by reducing the interest rate from 9% to 3%.

The amendment to section (b) is to provide for profit and limited profit developers in rural areas access to capital in order to provide desperately needed improved building sites. This is done by extending the guarantee authority to the site development program. It is hoped that private lenders will be encouraged to provide capital for this purpose because of the incentive of grantees. The amendment specifies that servicing for such loans will be made from the state FmHA office to be sure that the main attention of the county offices is focused on the direct loan programs, which serve the lower income families.

Section 18 - Title Insurance for Remote Claims or Encumbrances

This amendment would authorize the Secretary to make loans on land where private insurance companies will not provide title insurance solely because of remote outstanding claims or encumbrances on title.

The revision has particular significance in the following situations: (1) in the southwestern United States where remote land claims, including some title clouds involving Spanish land grants, interfere with title clearance and prevent participation in the FmHA housing programs; (2) southeastern U.S. where remote heir-title problems are prevalent among land owned by lower income families, including lands passed from generation to generation without benefit of title recordation and where family severances have occurred without benefit of formal structure, and the whereabouts of "legal" heirs has become unknown; (3) Alaska, where delays and some uncertainty may prevail in lands included in the Alaska-Native Land Claims Settlement Act. Certain lands have been designated, yet it may be years before the government will have completed all steps necessary to ensure the use of private title insurance, as required by FmHA; (4) in Maine, where litigation by American Indians has made a clouded title of a large amount of land, some of which might normally be involved in the FmHA housing program; (5) other areas, including Appalachia, where certain remote and questionable mineral rights reservations inhibit clear title and mortgaging.

No formal use of the RHIF would be made except in the case of an adverse title finding through the courts. It is anticipated that such findings will be limited. There is precedence in the operation of the FmHA Section 504 program, where lands with such remote title problems are routinely utilized as per 7 CFR 1822 Subpart B 1822.28.

Applicants and borrowers utilizing such lands would not be required to pay for private title insurance policies. The consumer would pay no title insurance fee, and be liable only for normal legal fees required to ascertain a position of land title, which include but are not limited to a title search.

A former chief of Rural Housing for FmHA in New Mexico provided an affirmative response to the proposal, noting it could bring about an increase use of the Section 502 program in that state. The Independent Bankers Association has also endorsed the idea in the past.

Section 19 - Assistant Secretary for Equal Opportunity

The Department of Agriculture should be provided an additional Assistant Secretary for Equal Opportunity.

The Assistant Secretary should assist the Secretary; (1) in administering provisions in the Civil Rights Act of 1964 (PL882-352, 78 Stat. 241, 42 U.S.C. 2000a) and related Executive Orders applicable to the Department of Agriculture and its activities, (2) in the

development of policy and procedure for the enforcement of civil rights legislation and executive orders within the Department of Agriculture and in the implementation of its programs, and 3) in the administration of programs and activities relating to housing and rural development in a manner affirmatively to further the purposes of the Civil Rights Act of 1964.

The Farmers Home Administration's record on civil rights is inexcusable. Minorities are receiving a disproportionately smaller share of the benefits provided by the FmHA's housing programs when evaluated in terms of the proportion of minority families living in substandard housing and, also, when measured by the number who are income eligible. Furthermore, minorities bore the full weight of the decline in the number of FmHA loans between 1971 and 1975. The equal opportunity regulations of FmHA lack effective procedures for uncovering discriminatory practices and policies, correcting such practices and policy if found, providing remedies for the victims of bias, and insuring that the FmHA programs are administered in a manner to affirmatively promote the national housing policies.

The establishment of an Assistant Secretary will elevate equal opportunity and civil rights within the Department of Agriculture from its present lower level spot under an Assistant Secretary for Administration. The new Assistant Secretary would work directly with the Secretary and reinforce a stronger commitment by the Department of Agriculture to civil rights issues.

Section 20 - Water and Sewer

The absence of decent water and sewer resources is very near the top of any list of the most urgent needs in rural America. Over 30,000 rural communities are without adequate water systems, and 44,000 rural communities are without adequate sewage systems. This is an untenable situation which results in serious health problems for rural people. Such inadequate basic water and sewer systems are not only health hazards but also prevent communities from experiencing economic and population growth. It was estimated several years ago, that it would take \$12 billion dollars to correct these deficiencies in basic elementary services to rural communities. The present level of authorized spending is set at \$300 million. Even that level of spending has never been reached, not because rural communities are not interested, but because of administrative actions of the agency. Impoundments, rescissions, deferrals have been all too common.

Even though communities which have received funds have been eligible for grants to cover as much as 50% of the development costs, restrictive formulas have generally reduced the grant to 30% of development costs. In many cases, they have precluded low-income communities from qualifying for assistance at all.

In order to eliminate the confusion over grant amounts and to bring the FmHA program in line with the EPA formula, this amendment would mandate grants to cover a flat 75% of development cost. It also would prevent FmHA from denying assistance to a community, which received a 75% FmHA grant and a 25% grant from another source (e.g., the state), on the arbitrary basis that it was too poor to maintain the system.

Finally, the amendment would attempt to prevent abuses in design of both water and sewer systems but primarily sewage systems. It has often been the case that sewage systems have been proposed for rural communities which are over-designed. This adds to the initial cost and, more importantly, requires high on-going operating and maintenance costs. The amendment is an attempt to make scarce resources serve as many communities as possible and to keep on-going costs as low as possible.

Section 21: Energy Conservation

The need for energy conservation construction methods in residential units is recognized as a prime ingredient of our nation's total energy plan. FEA Director John O'Leary has stated that energy conservation construction methods can save 30% of the nation's home heating bill (which in and of itself accounts for 20% of our energy usage). This section would mandate that the Secretary incorporate energy conservation construction techniques into all housing financed by FmHA, without being constrained by present standards or regulations.

The need for energy conservation techniques must be balanced, however, against the fact that these energy conservation techniques could affect the home's construction cost to the degree that certain families could theoretically become ineligible for such higher priced housing. This is due to the requirements that mortgage payments be a function of income (for subsidized units). To ensure that no families are disqualified due to these costs increases, the Secretary should take into account "life cycle cost" i.e. the home costs more to build, but over the life cycle of the mortgage (e.g. 33 years) the utility savings incurred will more than offset the higher initial costs so that the family can bear the burden. No family, otherwise qualified, would be denied financing, due to their usage of reasonable energy conservation construction methods.

Many areas of the country have readily available home heating methods that are forbidden or disallowed due to minimum property standards or other restrictions by FmHA. Such sources as wood (e.g. Maine), solar (e.g. Florida, Arizona), wind (e.g. New England), coal (e.g. Ohio), heat pumps (nationwide) are readily applicable for supplementary or primary home heating systems. These sources are presently discouraged or forbidden by FmHA practices. The Secretary should ensure that these systems are allowable, where practical; and should remove impediments to their widespread usage in housing financed under the Act.

Section 22 - Attorney's Fees

This amendment would permit the Secretary to utilize funds in the Rural Housing Insurance Fund to pay for the attorney of an applicant who has been denied a loan and believes (s)he has been treated unfairly under the Housing Act of 1949. It would also apply to borrowers who are having some benefit taken away from them. The amendment provides, however, that fees should not be paid under this section to attorneys for services not usually performed by attorneys, such as packaging loans or providing other technical services.

PROPOSED RURAL HOUSING AMENDMENTS OF 1977

Section 1: Housing for the Elderly and the Handicapped

1 (a) Title V, of the Housing Act of 1949 is amended by striking
2 the phrases "elderly persons" and "or elderly persons or elderly
3 families" wherever they appear and substituting therefore the phrase
4 "elderly or handicapped families."

5 (b) Section 501 (b) (3) is deleted and the following substituted
6 therefore:

7 "(3) For the purposes of this title the term "elderly or handi-
8 capped families" means families which consist of two or more persons
9 and the head of which (or his spouse) is sixty-two years of age or
10 over or is handicapped and such term also means a single person who
11 is sixty-two years of age or over or is handicapped. A person shall
12 be considered handicapped if such person is determined, pursuant
13 to regulations issued by the Secretary, to have an impairment which
14 (A) is expected to be of long-continued and indefinite duration,
15 (B) substantially impedes his ability to live independently, and
16 (C) is of such a nature that such ability could be improved by more
17 suitable housing conditions. A person shall also be considered
18 handicapped if such person is a developmentally disabled individual
19 as defined in section 102(a) (5) of the Developmental Disabilities
20 Services and Facilities Construction Amendments of 1970. The
21 Secretary shall prescribe such regulations as may be necessary to
22 prevent abuses in determining, under the definitions contained in
23 this paragraph, the eligibility of families and persons for admis-
24 sion to and occupancy of housing constructed with assistance under
25 this section. Notwithstanding the preceeding provisions of this
26 paragraph, the term 'elderly or handicapped families' includes two
27 or more elderly or handicapped persons living together, one or more
28 such persons living with another person who is determined (under
29 regulations prescribed by the Secretary) to be essential to their
30 care or well-being, and the surviving member or members of any

1 family described in the first sentence of this paragraph who were
2 living, in a unit assisted under this section, with the deceased
3 member of the family at the time of his or her death."

4

5 Section 2: Escrow Accounts for Payments of Taxes, Insurance and
6 Other Expenses

7 Section 501(e) of the Housing Act of 1949 is amended by striking
8 the work "may" the first time it appears in the first sentence
9 and substituting therefore the word "shall."

10

11 Section 3: Rural Housing Research

12 (a) Section 506(b) of the Housing Act of 1949 is amended to
13 read as follows:

14 " (b) The Secretary is further authorized and directed to conduct
15 research, technical studies and demonstrations relating to the
16 mission and programs of the agency (FmHA) and the national housing
17 goals defined in Section 2 of the Housing Act of 1949 (42 USC 1441).
18 This shall include efforts to promote the construction of adequate
19 farm and other rural housing, with particular attention to the housing
20 needs of the elderly, handicapped, migrant and seasonal farmworkers,
21 Indians, and other identifiable groups with special needs, for the
22 purpose of stimulating construction, improving the architectural
23 design and utility of such dwellings and buildings, and utilizing new
24 and native materials, economies in materials and construction methods,
25 and new methods of production, distribution, assembly, and construc-
26 tion, with a view to reducing the cost of such dwellings and buildings
27 and adapting and developing fixtures and appurtenances for more
28 efficient and economical farm and other rural housing use."

29 (b) Section 506(c) of the Housing Act of 1949 is amended
30 to read as follows:

1 "(c) The Secretary is further authorized to carry out a program
2 of research, study, and analysis of rural housing in the United States
3 to develop data and information on-

4 "(1) the adequacy of existing rural housing;

5 "(2) the nature and extent of current and prospective needs
6 for rural housing, including needs for financing, subsidies and
7 improved design, utility, and comfort, and the best methods
8 of satisfying such needs;

9 "(3) the adequacy of the rural housing stock to meet the spe-
10 cial needs of the elderly, the handicapped, farmworkers and Indians
11 and the best methods of satisfying such needs;

12 "(4) problems faced by rural people, including farmers, eligible
13 under Section 501 in purchasing, constructing, improving, altering,
14 repairing, and replacing their housing;

15 "(5) rural growth patterns and the interrelation of rural housing
16 problems and the problems of housing in urban and suburban areas;

17 "(6) the status of community facilities and services in rural
18 areas, problems resulting from inadequate facilities and services
19 and recommendations to alleviate any problems found; and

20 "(7) any other matters bearing upon the provision of adequate
21 rural housing and related community facilities."

22 (c) Section 506(d) of the Housing Act of 1949 is amended to
23 read as follows:

24 "(d) In order to carry out the mandate of this Section, the
25 Secretary shall establish a research division within the Farmers
26 Home Administration, which shall have authority to undertake, or
27 to contract with any public or private body to undertake, research
28 authorized by this Section."

29 (d) Section 506 of the Housing Act of 1949 is amended by adding
30 a new subsection (f) to read as follows:

1 "(f) The Secretary shall conduct a study of the location,
2 numbers, quality, condition and cost to occupants, of migrant farm
3 labor housing units, and report his findings to the Congress, along
4 with recommendations for correcting any deficiencies discovered in
5 location, numbers or condition of the housing available for
6 migrant farm laborers, such report to be made one year following

7 Section 4: Compensation For Construction Defects

8 Section 509 of the Housing Act of 1949 is amended by adding new
9 subsections (c), (d), (e), (f) and (g) to read as follows:

10 "(c) The Secretary is authorized with respect of any dwelling or
11 other structure built or purchased (not previously occupied) with
12 financial assistance authorized by this title which he finds to
13 have structural or other conditions not in conformance with such
14 standards as he has prescribed under subsection (a), to make
15 expenditures for (1) correcting such defects, (2) paying the claims
16 of the owner of the property arising from such defects or (3)
17 acquiring title to the property; Provided, that such assistance
18 is requested by the owner of the property not later than four
19 years after financial assistance under this title is rendered, or
20 in the case of property assisted more than four years prior to
21 the passage of this Act, not later than 18 months from the passage
22 of this Act.

23 "(d) The Secretary is authorized with respect to any previously
24 occupied dwelling or other structure purchased with financial
25 assistance authorized by this title which he finds to have
26 structural or other conditions not in conformance with such
27 standards as he has prescribed under subsection (a), to make
28 expenditures for (1) correcting such defects, (2) paying the claims
29 of the owner of the property arising from such defects, or (3)
30 acquiring title to the property; Provided that such assistance

1 is requested by the owner of the property not later than two years
2 after financial assistance under this title is rendered, or in
3 the case of property assisted more than two years prior to the
4 passage of this Act, not later than 18 months from the passage
5 of this Act.

6 "(e) The Secretary shall make such expenditures as are provided
7 pursuant to subsections (c) and (d) after finding that structural
8 or other conditions not in conformance with such standards as he
9 prescribed under subsection (a) exist. If the Secretary sub-
10 sequently establishes that the defect is one that did not exist,
11 or was not caused by a condition that existed, on the date that
12 financial assistance under this title was rendered and is not
13 such a defect that a proper inspection of the property, or the
14 plans and specifications for construction, could reasonably be
15 expected to disclose, the Secretary may convert the assistance
16 provided into a loan in accordance with Section 502. Alternatively,
17 the owner may request that the Secretary make his determination
18 concerning the defect prior to making expenditures for the purpose
19 of repairing the defect. In the case of assistance rendered under
20 subsection (c) more than four years before the passage of this Act
21 and under subsection (d) more than two years before passage of
22 this Act, the Secretary is authorized to withhold assistance if
23 the applicant for assistance does not establish that the defect
24 is one that existed, or was caused by a condition that existed
25 on the date the financial assistance under this title was rendered
26 and is such a defect that a proper inspection of the property or
27 the plans and specifications for construction, could reasonably be
28 expected to disclose. The Secretary may require from the seller
29 of, or contractor for, any property receiving financial assistance
30 under this title an agreement to reimburse the Secretary for any

1 payments made with respect to any such property under either sub-
2 section (c) or (d). Expenditures pursuant to subsections (c) or
3 (d) of this Section may be paid from the Rural Housing Insurance
4 Fund created by Section 517.

5 "(f) The Secretary shall issue rules and regulations for the
6 orderly processing of applications for assistance under subsections
7 (c) and (d) and rules and regulations providing for due process
8 review of any determination made under the authority of the Secretary
9 denying assistance under subsection (3). The Secretary shall also
10 maintain records in the national office of all requests for assistance
11 filed and the disposition of the requests.

12 "(g) No provision of this section is to be construed as pre-
13 cluding the owner from seeking other remedies."

14
15 Section 5: Foreclosure Prevention

16 Section 510 (d) of the Housing Act of 1949 is amended by adding
17 the following:

18 "Provided further, that no foreclosure or transfer action will be
19 initiated against any borrower without prior notice and consideration
20 of the provisions and availability of the moratorium on payments
21 pursuant to Section 505."

22
23 Section 6: Appeals Procedure

24 Section 510 of the Housing Act of 1949 (as amended by this Act) is
25 further amended by adding a new paragraph (g) and redesignating the
26 existing paragraph (g) as (h). The new Section 510(g) reads as follows:

27 "(g) issue rules and regulations protecting the rights of all
28 persons and organizations applying for or receiving assistance under
29 any of the sections of the Housing Act of 1949, over which the
30 Secretary has authority. Such rules and regulations shall provide,

1 whenever a person or organization who has applied for assistance
2 under any of these sections is denied such assistance for reasons
3 other than the availability of funds, or a decision has been made
4 to terminate or reduce assistance under any of these sections to
5 a person or organization that is already receiving assistance,
6 that such persons or organizations be:

7 (1) given adequate written notice of the reasons why assistance
8 was denied, reduced or terminated;

9 (2) given adequate written notice that they have a right to appeal
10 the decision at a hearing held in accordance with the provisions
11 of this Section;

12 (3) given an opportunity to appeal the decision denying, reducing
13 or terminating assistance to an impartial official who has the
14 the authority to reverse such a decision after having conducted
15 a hearing within a reasonable time after it has been requested by
16 the person or organization affected by the adverse decision, at
17 which hearing the appellant has the right to (a) present evidence
18 through witnesses or otherwise, (b) inspect records and data in the
19 possession of the Secretary which pertain to the appeal, (c) cross
20 examine witnesses, (d) be represented by counsel, and (e) have the
21 hearing officer make the decision on the record, in writing, stating
22 the reasons therefore;

23 (4) given the opportunity to have the decision of the hearing
24 officer reviewed by the Secretary.

25 In addition the rules and regulations shall provide, whenever any
26 person or organization has assistance reduced or terminated and that as
27 a result of an appeal or otherwise it is determined that such assistance
28 was erroneously or improperly withheld, that such a person or organization
29 is entitled to receive retroactively all benefits or assistance that have
30 been withheld as a result of the original decision to reduce or terminate

1 assistance."

2

3 Section 7: Limitation on Administrative Authority

4 Section 510(g) of the Housing Act of 1949 is further amended by
5 adding

6 "provided that he shall not preclude the use of any program in
7 this Title in a place, on the basis of actual or projected popu-
8 lation alone unless those restrictions are contained in the specific
9 provisions of this Title, or are specifically consistent with
10 the Secretary's policy for the preservation of agriculture and
11 forest land."

12

13 Section 8: Assistance Authorizations

14 (a) Clause (b) of Section 513 of the Housing Act of 1949 is amended by
15 striking "\$80,000,000" and substituting therefor/ "\$200,000,000." and
16 by striking "June 30, 1977" and substituting "September 30, 1980."

17 (b) Clause (c) of Section 513 is amended by striking "\$80,000,000
18 and substituting therefor "\$230,000,000" and by striking "June 30, 1977"
19 and substituting therefor "September 30, 1980."

20 (c) Section 513(d) is amended by adding the following: "And not to
21 exceed \$10,000,000 per year during the period beginning June 30, 1977 and
22 ending September 30, 1980."

23 (d) Section 514(d) is amended by striking "\$25,000,000" and sub-
24 stituting therefor "\$50,000,000."

25 (e) Sections 515(b)(5) and 517(a)(1) are amended by striking "June 30,
26 1977" and substituting therefor "September 30, 1980."

27 (f) Section 523(f) is amended by inserting after the words "not in
28 excess of \$10,000,000 for any such fiscal year" the words "and not to
29 exceed \$20,000,000 per year during the period beginning June 30, 1977" and
30 substituting therefor "September 30, 1980."

1 (g) Section 523(g) is amended by adding after "June 30, 1970" the
2 words "and not to exceed \$5 million per year for the period beginning
3 October 1, 1977 and ending September 30, 1980."

4 (h) Section 525(c) is amended by inserting after the first sentence
5 the following sentence: "There are also authorized to be appropriated
6 for the fiscal years ending September 30, 1978, September 30, 1979 and
7 September 30, 1980 not to exceed \$10,000,000 per year for the purposes
8 of subsection (a) and not to exceed \$10,000,000 per year for the purposes
9 of subsection (b)."

10

11 Section 9: Congregate Housing for Elderly and Handicapped Families

12 (a) Section 515(c) of the Housing Act of 1949 is amended by adding the
13 following sentence: "However, specifically designed equipment required
14 by elderly and handicapped families shall not be considered elaborate or
15 extravagant."

16 (b) Section 515(d)(1) is amended by adding the following: "and
17 Congregate Housing facilities for elderly and handicapped families who
18 require some supervision and central services but are otherwise able
19 to care for themselves. Such housing for the handicapped may be utilized
20 in conjunction with educational and training facilities."

21 (c) The existing Section 515(d)(3) is deleted and a new Section
22 515(d)(3) is added to read as follows:

23 "(3) The term 'Congregate Housing' means housing in which (a)
24 some of the units may not have kitchen facilities, (b) there is a
25 central dining facility to provide wholesome and economic meals for elderly
26 and handicapped families, and (c) provision is made for supervisory
27 assistance, including living quarters for limited number of personnel."

28

29

30

- 10 -

1 Section 10: Financial Assistance to Provide Low-Rent Housing for
2 Domestic Farm Labor

3 Section 516(e) of the Housing Act of 1949 is amended by adding the
4 following sentence:

5 "The Secretary shall not give priority for funding under this
6 section to any one of the groups over the others listed in (a) above."

7
8 Section 11: Redefinition of "Low and Moderate Income" in FmHA Programs

9 Section 517(a) (1) of the Housing Act of 1949 is amended by striking
10 the parenthetical phrases "as defined by the Secretary" and "as determined
11 by the Secretary", and adding new subsections (n) and (o) to read as follows:

12 "(n) At least 60 per centum of the loans made pursuant to Section
13 502 and at least 60 per centum of the loans made pursuant
14 to Section 515 shall benefit persons of low income.

15 "(o) As used in this Title--

16 (1) the term "persons of low income" means households with
17 incomes which do not exceed 80 per centum of the median
18 income for the area as determined by the Secretary with
19 adjustments for smaller and larger households.

20 (2) the term "persons of moderate income" means households
21 with incomes between 80 per centum and 135 per centum of
22 the median income for the area, as determined by the
23 Secretary with adjustments for smaller and larger households.

24 (3) the term "adequate housing, modes in size, design, and
25 cost" is to be determined by the Secretary."

26
27 Section 12: The Use of Authorized Rural Housing Funds

28 Section 517(c) of the Housing Act of 1949 is amended by adding the
29 following:

30 "Provided that the Secretary shall allocate funds in a manner to

1 assure their maximum availability and use during peak construction
2 periods."

3
4 Section 13: Changes in the Guaranteed Housing Loan Program

5 (a): Section 517(c) of the Housing Act of 1949 (as amended by this
6 Act) is amended by inserting at the end the following:

7 "Provided that loans guaranteed under this Section shall be
8 limited to persons of above-moderate income."

9 (b) Section 517(e) is amended by inserting at the end of the first
10 sentence a comma and the following:

11 "Provided that the authority for loan guaranteed under this
12 title shall be separate from the insured loan authority and the
13 Secretary may not transfer such funds without prior approval of
14 the appropriate Congressional committees."

15 (c) Section 310(c) (a) (2) of the Consolidated Farmers Home Admin-
16 istration Act of 1961 is amended by inserting after the word "areas" a
17 comma and the following:

18 "which the Secretary has determined to be without adequate credit
19 resources,".

20 (d) Section 310(c) (a) is further amended by striking all of
21 Section 310(c) (a) (3) following the word "shall" and inserting in lieu
22 thereof the following:

23 "be processed only by the state offices of the Farmers Home
24 Administration or such other regional offices as may be designated."

25
26 Section 14: Homeownership Subsidy for Low and Moderate Income Families

27 (a) Section 521(a) (1) of the Housing Act of 1949 is amended by
28 inserting after the phrase "a rate determined annually," the phrase
29 "or more often when warranted and requested by the Secretary."

30 (b) Section 521(a) (1) is further amended by striking the words

1 "less not to exceed the difference bewteen the adjusted rate determined
2 by the Secretary of the Treasury and 1 per centum per annum" and inserting
3 in lieu thereof the following:

4 "Provided that the Secretary shall make available to such persons
5 and families of low and moderate income the difference between the
6 sum of the mortgage payment, including principal and interest,
7 taxes and insurance, and 20 per centum of adjusted family income;
8 Provided that 20 percentum of the families gross income is demon-
9 strably equal to the sum of the estimated costs of property insurance,
10 taxes and utility costs; and provided further, that tax and insurance
11 payments must be escrowed when such subsidy is utilized and the
12 Secretary may make provisions to recapture subsidy payments in the
13 event of profitable sale so long as no such provision will act to
14 inhibit or prevent the affected persons or families from having
15 the resources needed to relocate; Provided further,"

16
17 Section 15: Rural Rental Assistance

18 (a) Section 521(a) (2) (A) of the Housing Act of 1949 is amended by
19 striking the word "may" wherever it appears, except in Section 521(a) (2) (A) (i)
20 and inserting in lieu thereof the word "shall".

21 (b) Section 521(a) (2) (A) is further amended by inserting a comma
22 and the word "congregate or cooperative" where the word "rental" appears
23 the second time.

24 (c) Section 521(a) (2) (A) is further amended by striking the word
25 "income" after "25 per centum of" and substituting therefor "adjusted
26 income (as heretofore defined by the Secretary for eligibility in
27 housing financed under Sections 502 and 515).

28 (d) Section 521(a) (2) (A) is further amended by striking the number
29 "20" where it appears twice and inserting in lieu thereof the number "40".

30

- 13 -

1 (e) Section 521(a)(2)(A)(i) is further amended by inserting "or by
2 a loan under Section 514" after "Section 515 for elderly housing" and
3 before "or by a loan under Section 514 and grant under Section 516."

4 (f) Section 521(a)(2)(A)(ii) is redesignated as Section 521(a)(2)
5 (A)(iii) and a new Section 521(a)(2)(A)(ii) is added to read as follows:

6 "(ii) when market conditions indicate that a substantial need
7 exists for subsidized family housing that cannot be met without a
8 greater per centum of rental assistance, the Secretary shall make
9 such payments without respect to the 40 per centum limitation, and".

10

11 Section 16: Mutual and Self-Help Housing

12 Section 523(b)(1)(A) of the Housing Act of 1949 is amended by
13 inserting after the word "options." the words "and/or land."

14

15 Section 17: Site Loan Charges

16 (a) Section 524(a) of the Housing Act of 1949 is amended by
17 striking the words in the second sentence from "prescribed" through
18 "1 per centum," inclusive, and substituting therefor, "of 3 per centum."

19 (b) Section 524(a) is further amended by adding at the end the following:

20 "The Secretary may guarantee loans made by banks and other
21 public and private lending institutions to limited profit developers
22 at the market rate provided that the authority for loans guaranteed
23 under this section shall be separate from the authority for insured
24 loans under this Section. Making and servicing of such guaranteed
25 loans may only be conducted by the state office of the Farmers Home
26 Administration. At least 50 per centum of the sites developed
27 under the guarantee site loan program shall be used to serve needs of
28 persons of low income."

29

30

- 14 -

1 Section 18: Loans on Land With Remote Claims

2 (a) The Housing Act of 1949 is amended by adding a new Section 528
3 to read as follows:

4 "The Secretary shall make loans on land where the title is
5 otherwise uninsurable by private insurance companies because of
6 remote claims or encumbrances, to enable otherwise eligible persons
7 holding such land to benefit from this Title. In the event of
8 adverse title findings by the courts, the Secretary may use funds
9 from the Rural Housing Insurance Fund for purposes of this
10 paragraph, and any funds so expended shall be reimbursed by annual
11 appropriations."

12 (b) Section 517(j)(3) is amended by inserting after the word "Fund,"
13 the following phrase:

14 "including payments under Section 528.

15 (c) Section 521(a)(i) is amended by inserting after "Section 502"
16 the first time it appears, "528."

17
18 Section 19: Assistant Secretary for Equal Opportunity

19 (a) In addition to the Assistant Secretaries of Agriculture now
20 provided for by law, there shall be an additional Assistant Secretary
21 of Agriculture for Equal Opportunity, who shall be appointed by the
22 President, by and with the advice and consent of the Senate.

23 (b) Section 5315(11) of Title V, United States Code, is amended to
24 read as follows:

25 "(11) Assistant Secretaries of Agriculture (5)."
26
27
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1 Section 20: Water and Sewer Grants

2 (a) Section 306(a) (2) of the Consolidated Farm and Rural Development
3 Act is amended to read as follows:

4 "The SEcretary is authorized to make grants aggregating not to
5 exceed \$500,000,000 in FY1977, \$750,000,000 in FY 1978 and one
6 billion dollars thereafter in any fiscal year to such associations
7 to finance specific projects for works for the development, storage,
8 treatment, purification, or distribution of water of the collection,
9 treatment, or disposal of waste in rural areas. The amount. of
10 each grant made under the authority of this paragraph shall be
11 75 per centum of the development cost of the project to serve
12 the area which the association determines can be feasibly served
13 by the facility and to adequately serve the reasonably. foreseeable
14 growth needs of the area. If the applicant receives a 25% grant
15 from other sources, economic feasibility shall be based exclusively
16 on the applicant's ability to meet normal operation and maintenance
17 costs of the proposed system.

18 (b) Section 306(a) (4) (B) of the Consolidated Farm and Rural
19 Development Act is amended to read as follows:

20 " The term "project" shall include facilities providing central
21 service or facilities serving individual properties, or both. The
22 systems financed under this Section must be the most economic to
23 accomplish the purpose of this Section."
24
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Ms. DOLBEARE. Now, I would like, with your permission, also to make a short statement on behalf of an organization which I chair, the Ad Hoc Low-Income Housing Coalition.

I think I can cover it in a couple of minutes.

Mr. AUCOIN. If you could be brief, because we have many questions we would like to ask, and time is running away.

If you could submit it in full for the record and summarize it in 2 minutes.

STATEMENT OF CUSHING N. DOLBEARE, CHAIRPERSON, AD HOC LOW-INCOME HOUSING COALITION

Ms. DOLBEARE. The coalition is concerned with low-income housing needs and programs. Frankly, we are disappointed that the Carter administration has not increased the budget request of the outgoing Ford administration.

We know that last year Congress didn't provide what the Ford administration asked for, but we hope that the new administration would ask for more anyway.

We point out in the statement that the President's request is really for 600,000 subsidized units, 100,000 through Farmers Home, 100,000 through section 235, and another 400,000 through public housing in section 8. However, one-third of those units are for existing housing, not for new production or substantial rehabilitation.

We have no quarrel with subsidizing existing housing. Indeed, our estimate is that there are some 21 million families that are now being forced to pay more than one-quarter of their incomes for shelter and need a subsidy: 5 million owners with mortgages; 6 million owners, mostly elderly, without mortgages; and about 10 million renters.

This widespread lack of the capacity to pay what housing costs is a basic cause of housing deterioration and abandonment.

But the need for existing housing subsidies still does not negate the need for the 600,000 units, at least, of new construction and substantial rehabilitation which is called for in our national housing goals.

Therefore, we propose that an additional \$700 million be added to the \$1.2 billion of contract authority requested by HUD for public housing and section 8. That would be enough to fund another 200,000 public housing units and would make the total 250,000 public housing units instead of the 50,000 which the administration has proposed.

I know \$2 billion sounds like a lot. But the estimates are that next year \$11 billion in tax expenditures will result from tax deductions by homeowners.

Now, we have no real quarrel with many of these deductions. We simply point out that if it is all right for \$11 billion to go to moderate-income homeowners and affluent homeowners, it is certainly not out of line to provide another \$2 billion in contract authority for people who cannot afford housing and who cannot take tax deductions either.

We recommend a new program for dealing with the need for operating subsidies in section 236 projects—and there are about 400,000 occupied units in section 236. Many of them are in financial difficulties. HUD last year had a bail-out program for this. We think that was a good idea. We just wish it had not come out of the regular allocation.

HUD has provided section 8 assistance when tenants' rents were rising without requiring that the project be in financial difficulty.

We would propose a special authorization of contract authority, to remain available until it is used and not to be subject to the allocation provisions of section 213(D) of the 1974 act, specifically to provide section 8 subsidies or transfer to public housing, if that is more appropriate, for section 236 projects that are in financial difficulties or where tenants cannot pay what it costs to occupy those houses.

Finally, on community development, we had two concerns.

We agree that the formula should be based on need. We think that the new formula proposed by HUD addresses needs far more effectively than the old formula. Therefore, we would urge that only this single formula be used, and that the formula again be reviewed prior to reauthorization at the end of 3 years.

Finally, we recommend the enactment of a proposal which was adopted by the House last year but dropped in conference; the supplemental community development employment assistance proposal.

We would like to see this not looked at as an alternative to other programs, but as a supplement and as a key part of a rounded effort to deal with problems of unemployment.

The Congressional Budget Office recently in a study pointed out that only about 27 percent of people affected by unemployment were counted as unemployed because they were actively seeking work.

Now, we have over 6-million people actively seeking work and counted as unemployed. Most of those not counted live in areas served by community development programs.

This could be enacted quickly. It could be providing jobs within probably 3 to 6 months.

It would create important improvements in communities and it would serve people where they live, where they need work, and it would meet basic community needs.

We have only two problems with the bill that was adopted last year by the House and which I understand has been reintroduced by Mr. Brown.

First, that we wish it authorized more money because we would like to see it at the level which would provide about 1 million jobs. Second, we would like to see it specifically authorize housing repair and weatherization as one of the programs. We know it is eligible anyway. But we think that extra mention would be helpful to focus attention on housing needs and opportunities.

Thank you very much.

[The prepared statement of Ms. Dolbeare, on behalf of the Ad Hoc Low Income Housing Coalition, follows:]

AD HOC LOW INCOME HOUSING COALITION

Chairperson
Cushing N. Dolbeare

March 1977

RECOMMENDATIONS ON HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS

The primary concern of the Ad Hoc Low Income Housing Coalition is to see that adequate programs are provided to meet the critical housing needs of low income families. We have urged that both housing and community development programs give priority to low income people.

We recognize that a growing proportion of Americans has difficulty in obtaining adequate and satisfactory housing. Two decades ago, almost anyone with a steady job who was not discriminated against in the housing market could purchase decent, reasonably priced new housing and finance it at interest rates below 6 percent. A decade ago, when this nation's goals for housing were being formulated, mortgage interest rates of 6 percent were a relatively new phenomenon and were regarded as abnormally high and unsustainable over more than a short time if our housing needs were to be met. It was in this context that the goal of 6,000,000 subsidized units in ten years was set: not to deal with inaccessibly high costs of housing, but to replace the estimated 6 million dilapidated units then in existence and occupied primarily by low income people.

The same forces -- costs rising more rapidly than incomes and low levels of subsidized housing production (including rehabilitation) -- that have operated to broaden the housing problem to include a substantial number of households with income well above the median in many communities have operated to intensify the housing problems of low income people: people at or below the poverty level. At the same time, the focus of housing programs has shifted away from them. For example, the Housing and Community Development Act of 1974 mandates that only 20 percent of public housing tenants and only 30 percent of Section 8 tenants be poor people; the remainder may be drawn from the "upper low income" sector with incomes ranging from 50-80% of median (or substantially higher in the case of public housing).

Similarly, there is considerable evidence that the shift from targeted approaches under Title I of the Housing Act of 1949 to the more diffuse community development program under the 1974 act has similarly shifted resources away from areas with most critical housing problems to neighborhoods with less severe problems -- occasionally with no problems at all.

Our recommendations are based on the premise that the most critical housing and community development needs are still those of low income people and low income neighborhoods and that the shift of program emphasis away from meeting them must be reversed.

Housing Programs

We support the Administration's request for a supplemental authorization and appropriation to fund an additional 165,000 subsidized housing units during Fiscal 1977. This would bring the level of subsidized housing through Section

and public housing up to 400,000 units -- still below the number of units placed under program reservation during the 12 months preceding the beginning of the fiscal year. We also support the request to lengthen the Section 8 contract term for conventionally financed housing from 20 to 30 years, and we urge that this change be enacted immediately so that units already approved can be more easily financed and production can begin.

We are disappointed that the Carter Administration is not asking for additional units for 1978. HUD is proposing only minor changes from the proposals of the last Administration, which we and others frequently criticized for not doing enough. Similarly, the Farmers Home Administration, while reviving and expanding the farm labor housing program, is resting essentially on the Ford Administration program levels.

In all, the Ford Administration proposed almost 600,000 subsidized units for fiscal 1978. One-third of these, however, were for existing units, not new production or substantial rehabilitation. We recognize the need, because of rising housing costs and the obvious virtue of taking advantage of usable housing, of in-place or existing unit housing subsidies. But, while we support appropriations for existing housing, we do not believe that the 200,000 units of existing housing to be subsidized should be counted as part of the national goal of production or rehabilitation. Therefore, the Administration proposal is for only about 400,000 units of additional housing, and is 200,000 units short of the minimum level which should be regarded as acceptable.

The following table details the subsidized units proposed by the Ford Administration. (Comparable data for the Carter Administration revisions are unavailable to us at the present time)

Subsidized Housing Proposed for Fiscal 1978 (Ford Administration)

New construction	
HUD public housing/Section 8	205,000 units
HUD 235 sales housing	100,000 units
FmHA 502 sales housing	33,266 units
FmHA rental housing (515 and farm labor)	<u>29,194 units</u>
Subtotal	367,460 units
Rehabilitation	
HUD public housing/Section 8	23,000 units
FmHA 502 sales housing	4,000 units
FmHA 504 home repair loans	<u>5,068 units</u>
Subtotal	32,068 units
Existing housing	
HUD public housing/Section 8	172,000 units
FmHA 502 sales housing	<u>23,900 units</u>
Subtotal	195,900 units
TOTAL	595,428 units

The Ad Hoc Low Income Housing Coalition recommends that an additional 200,000 new or substantially rehabilitated public housing units be added to the fiscal 1978 proposals. This would require an additional \$700 million in contract authority, assuming a per unit cost of \$3500. (HUD's January budget shows 1977 public housing costs at \$3,422 per unit.)

One major problem which is not addressed in the Administration's proposals is the need for deeper subsidies for the 236 program, in order to reduce intolerable rent-income ratios and to enable the 477,000 236 units which are expected to be in occupancy by the end of 1977 to serve lower income people. The Housing and Community Development Act of 1974 provided both deep subsidies under 236, which have been provided for projects approved since then, and operating subsidies, which have been paid only under court order. HUD has resisted broader implementation of the operating subsidy provision.

At the same time, HUD has implemented a bail-out program, using both Section 8 and public housing, to deal with 236 and other projects in financial difficulty. While the stated intent of this program was to provide succor to projects which might otherwise be foreclosed and vacated, a recent report indicates that HUD has -- rightly in our view -- also used the program to relieve the pressures on tenants which would result from increased rents.

Additional authorizations and appropriations will be needed, in our opinion, to implement the Section 236 operating subsidy provisions as brady as they should be, over a period of years. Rather than doing this, the Ad Hoc Low Income Housing Coalition recommends a special authorization of contract authority, to be available until used, to provide existing Section 8 subsidies to 236 projects, or to convert them to Section 8 or public housing -- as seems most appropriate in each instance. The provisions of Section 213 governing allocation of housing subsidy funds should not apply to this program. The objective should be to make the best possible use of the present inventory of 236 housing to meet the needs of low and moderate income people at rents they can afford to pay.

Community Development

The Coalition welcomes and applauds Secretary Harris' recent statement on the community development program and its relationship to HUD's overall goals:

I will not be an adversary of cities and the Department will not be their adversary. Quite to the contrary, we will become the national advocate of cities. We will insist, however, that any unit of government using funds will use those funds in pursuit of the aims set by Congress.

We will expect communities to accept a fair share of low and moderate income housing and vigorously promote fair housing.

We will expect communities to involve affected citizens in the process of drafting and implementing community development and housing plans.

We will expect communities to direct development and housing programs toward low and moderate income citizens. I do not consider this to be just an objective of the block grant program -- it is the highest priority of the program, and we in the federal government must see to it that the thrust of the program serves that objective.

Even with the increases proposed by Secretary Harris, the resources available to deal with problems of low income and blighted neighborhoods under the community development program are slender indeed. The phase-out of the hold harmless provisions has drawn particular attention to the inadequacy of available funding for areas with greatest need: concentrations of low income people, poor housing, and declining local resources. To meet this need, HUD has proposed a revised formula, allowing entitlement communities to choose between the better of the present formula or one based on age of housing, "growth lag" and poverty. The dual formula approach is clearly designed to provide a kind of built-in hold harmless for those entitlement communities which benefited -- to an unanticipated degree in many instances -- from the formula of the 1974 act, and to add to it a more realistic measure of need in terms of meeting the objectives stated so well by Secretary Harris, cited above.

The Ad Hoc Low Income Housing Coalition urges that a single formula be used: based on need, not 1977 hold harmless. We make this recommendation with full awareness that all of the communities receiving entitlement funds are aware of their own needs, and of the desirability in times of rising costs of using federal assistance in meeting them. But, just as the housing needs of middle income families are less critical than those of low income families, so the community development needs of newer cities and many suburban areas are less critical than those of older, declining areas with large numbers of low income people and declining resources to address their needs.

We therefore urge that the additional formula proposed by HUD, with or without refinement based on careful scrutiny of its adequacy, be used to determine entitlement allocations. Further, because we find the formula review process just engaged in to have been fruitful, we urge that the Congress again provide for review of the formula, both in terms of its adequacy to meet present needs and in terms of changing needs, at the end of each three-year authorization.

Finally, the Ad Hoc Low Income Housing Coalition recommends enactment, in revised form, of a proposal adopted by the House last year but dropped in conference. This is the Community Development Employment Assistance proposal, which we urge be more sharply focussed on housing repair and weatherization. This proposal, which would provide additional grants for job-intensive activities to communities with high rates of unemployment, would in our view quickly provide useful jobs in neighborhoods with high unemployment. It should be considered an urgent addition to the programs presently under consideration by the Congress to deal with unemployment.

Mr. AUCOIN. Thank you.

Mr. Cavanaugh, let me ask you this question. I am wondering if it is your belief that we in the Congress should set a statutory income eligibility level for Farmers Home ownership assistance such as we have in some cases in the HUD programs.

Would that be your recommendation to the Congress?

Mr. CAVANAUGH. It would be my recommendation, yes.

I think that the history of what has happened to the program in veering away from this requires some statutory ceiling on it. —

Mr. AUCOIN. Let me ask you this. I tend to agree with what you say when you say that rural areas have been shortchanged in receiving Federal assistance.

One of the responses I always get when I raise this same concern is the claim that there are several separate rural programs outside of HUD such as the Rural Development Act or Farmers Home Programs to supplement any, or overcome any apparent discrimination against rural areas and HUD programs.

I am wondering now you respond to that.

Mr. CAVANAUGH. The community development money is split, metro/nonmetro. And taking that down to the Farmers Home grant funds, people fail to recognize that almost one-third of the Farmers Home moneys—grant moneys, are going into communities in metropolitan areas.

So that when you start totaling up who is getting what, you can't put all of the Farmers Home activity on the nonmetro side.

There is a big part of it that is going to metropolitan areas.

Second, the level of funding. The grant money that came out of the water and sewer programs, for example, was a level of around \$200 million. A third of that is going to metropolitan areas.

And, also, it is not 100 percent grant money as is the HUD grant fund.

The grants that Farmers Home gave last year averaged about 30 to 35 percent of the project costs whereas in HUD funding you are getting 100-percent grants.

A good deal of the activity is in loan money.

So that I think that that kind of retort to the effort of small communities to get their fair share of the HUD funds is really out of place.

And EPA money, for example, people say, well, there is a program that deals with water and waste problems.

Well, 83 percent of these funds go to metro areas. And I don't think that—

Mr. AUCOIN. The cities would say that those projects have a bias against the cities. And you would reject that.

Mr. CAVANAUGH. I think whether or not I would reject it, the Congress apparently is going to restore that balance in favor of the cities.

As soon as rural areas get a cinch on such a program, the larger communities come in as they have in this session of Congress and are asking for their share of that, claiming that it is lopsidedly rural.

By the time Congress is finished it will not be tilting toward the rural side.

I think it is unbelievable that we have a statute that says that is is distributing funds according to need, that if you take all of the need formulas used in the statute except in the basic metro/nonmetro split, you come out with almost 50 percent higher level that should go to the nonmetro communities.

And that is not a figure made up by those of us who have direct concerns in small communities. It is a figure from the General Accounting Office.

The statute speaks with a forked tongue when it talks about distributing these moneys according to need.

Mr. AUCOIN. Ms. Dolbeare, I want to ask you about the bill that you want introduced. We are looking carefully at the bill, and I think it is safe to say that you will see the bill introduced. I am not sure that it will have all of these provisions.

There are two reasons for that. No. 1, I think there is a real interest on part to include many of the provisions of the proposed bill.

And second, introduction of it would give us a chance to get some concrete feedback from the administrative side, so that we can begin to see where the sparks fly and begin to make some judgments based on that.

Let me ask you a couple of quick questions before yielding in the brief amount of time left available for my colleagues.

On the section dealing with weatherization, and I don't recall what section that is, section 21, does the bill contemplate performance standards for energy conservation or prescriptive standards?

Ms. DOLBEARE. We would contemplate performance standards and we would note that Farmers Home now does not permit, because of restrictive standards, many energy conserving things which should be allowed, for example, using wood stoves or solar heat or heat pumps or whatever.

We would—

Mr. AUCOIN. That is prohibited by the act?

Ms. DOLBEARE. By the standards they are using. We would have a requirement that they permit energy conserving heating systems and that they require performance standards for energy conservation.

Mr. AUCOIN. You have talked also about the deeper subsidy for homeownership, and it is an honorable goal. But I am wondering if you are doing so with full knowledge of HUD's experience under the section 235 program which was not really a success which was a similar proposal, and Congressman Brown here can attest to that.

What makes you think this program would work, given the record section 235 has had in the Department of Housing and Urban Development?

Ms. DOLBEARE. May I answer that, having some familiarity with section 235?

Mr. AUCOIN. Sure.

Ms. DOLBEARE. What Farmers Home now has is analogous to section 235 because that section provided for a reduction of the interest rate to 1 percent.

The owner still had to pay for utilities, maintenance, repairs, taxes and so forth or 20 percent of their income, whichever was higher. So what we are proposing is something which is different from section

235. Part of the problem under section 235 was simply that, even though you had interest reduced to 1 percent, if you had repairs or if you had increases in utility costs or if your taxes went up, if your income did not go up you could not pay for it.

There were some problems with scandals as well, but the basic problem with that program was that it was an effort to serve low-income families without providing deep enough subsidies to enable them to meet their housing costs.

The reason we are proposing this is because of HUD's experience with the section 235 program and because of the subsidy formula which has been enacted in section 8 which we think would be effective for homeowners as well.

It is an additional subsidy which would cover the difference between 15 percent of a very low-income family's income and the amount that the 1-percent loan costs.

So if you want to use it in these terms, it would be a section 8 subsidy on top of a section 235 subsidy.

Mr. CAVANAUGH. There is something else to be added at this point. It deals directly with the consumer and the borrower and stays with that consumer and borrower and aids him in his housing processing and his mortgage payments and generally is directly involved with the production and the overseeing of the mortgaging and financing and collection of the housing.

That is completely different from what happened in many areas in section 235. Where really the program often was in the hands of the scalawags whose only interest was in disposing of the house in a broader market that was aided by deep subsidies, and it was then ended.

And I think that has been the pitfall of many HUD programs. And Farmers Home has a different characteristic which I think is proven by its programs, the programs it now has.

Mr. AUCOIN. There are a number of other questions, and I want my colleagues to be able to ask questions, too.

But let me ask one final question about section 2. Have you contemplated the administrative burden that you would impose on the agency by requiring Farmers Home to set up an escrow system?

It would seem to me that you are really talking about a real administrative burden for an agency that has had no experience. And I worry about that, adding on an administrative burden, unless it is really essential.

I know in parts of my district, county commissioners have had to hire an employee to turn over to the Farmers Home Administration Office to help them meet their local needs. That is how bad it is.

Now, section 2 may not go to that question, but it is part of it. And I am very sensitive to the way we stretch this Agency's responsibilities out.

Mr. CAVANAUGH. I think that that is a fundamental problem independent of escrowing.

We have had the Rural Development Act, the Housing and Community Development Act of 1974, and Congress has responded, it has provided funds to a larger staff of that agency which had been turned aside in the past. And hopefully there will be a change in that.

Mr. AuCOIN. Section 2—

Mr. CAVANAUGH. I think there is a staff saving. If in fact you escrow peoples' payments you avoid the delinquency problems.

Heaven knows what problems we would have if our own mortgages were not regularly escrowing. I shudder to think of the annual day of reckoning. And that is part of the problems that Farmers Home now has, that when there is an economic pinch, if that does not occur at the right time of year somebody is caught very short in trying to come up with the taxes all in one lump sum.

Mr. AuCOIN. We will have other questions that we would like to provide to you and have you respond to them in writing.

Mr. Cochran, did you want to respond?

Mr. COCHRAN. We have never been able to get anything out of Farmers Home except groans at the thought of diverting money to the escrow program.

We don't know how much time county supervisors spend checking records to make sure the taxes have been paid. So that I am not impressed by the argument that this would be a burden on the agency.

They would undoubtedly have to grease their computer up and revise some of their procedures, but if you take a combination of delinquencies, foreclosures, checking on the payment of insurance and property taxes which they have to do anyway, I don't think the net difference in cost would be great.

But it would make a real difference to a lot of poor people who at the end of the year find themselves faced with \$500 in taxes and \$100 in insurance and no money to pay it with.

So they fall into arrears, lose their homes, the staff has to dispose of them. How can we justify giving somebody like me an FHA/HUD loan where the cost of insurance and taxes is tucked away month by month and then tell a family with 15 percent of my income and say, "You be thrifty. You put that money away and get prepared to pay at the end of the year or we will take your house out from under you."

I think it is unwise. I think it is poor economy, and I think it is enormously unjust.

Mr. AuCOIN. And I think I have got your point.

[Laughter.]

Mr. AuCOIN. Mr. Lundine?

Mr. LUNDINE. Thank you.

I am under more severe time restraints than the 5-minute rule. First, I wish to say Ms. Dolbeare, that I would like to be able to ask you specific questions about various sections of your bill in writing, get your response, and make that a part of the record.

Ms. DOLBEARE. I will be delighted to.

Mr. LUNDINE. All right. Thank you.

[The following are written questions submitted by Congressman Lundine to Ms. Dolbeare, along with her answers for the record:]

Question 1. Section 2 Escrow Account. What is your estimate of the additional administrative burden placed on FmHA by requiring them to set up an escrow system? Mr. Halleran has testified before our committee that the implementation of such a requirement would necessitate an additional staff of 300 to 400 persons. Do you agree, and if so, how would you justify this cost?

Answer. The answer is threefold:

1. FmHA personnel currently spend considerable amounts of time checking the status of tax payments and insurance premiums. Establishment of escrow accounts would, through the utilization of regular, systematized procedures, reduce that time significantly.

2. The one-time, year-end imposition of a substantial tax and insurance bill, running in many cases to several hundred dollars, contributes significantly to the delinquency problem FmHA officials say they are constantly fighting. Any reduction in delinquencies and in the time spent by FmHA in dealing with them is a clear saving in manpower.

3. Even if it were to require 300-400 additional staff persons (and we believe the savings postulated in one and two above would cut that figure at least in half) the cost is not exorbitant. The estimated average salary of all FmHA employees in fiscal year 1977 is \$13,902. If it should require 400 new staff at that salary (keeping in mind the huge majority of the jobs would be clerical) the cost would be approximately \$5.6 million. This is less than the amount requested for pay increases (\$6.1 million) for present staff.

We believe a more realistic figure of cost to be about \$2.5 million. It might be pointed out that FmHA requested \$2.3 million in fiscal year 1977 "to implement an Unified Management Information System." The problems and costs are not dissimilar.

Justification for the additional cost we believe is evident in the above discussion—greater efficiency and reduced delinquencies. It should also permit FmHA local professional-level personnel to devote more time to substantive programs and less to clerical tasks.

Question 2. Section 3 Rural Housing Research. Could you expand on the need for this and the appropriateness of having additional research done through FmHA rather than an independent source?

Answer. If there were not significant differences in the housing of metropolitan and non-metropolitan families, there would be no need for a rural credit agency, such as Farmers Home Administration. For example, fire hazards and fire protection differ greatly between rural and urban areas. Central water and waste disposal systems are practical in the cities, but are not in the open country. Individual alternative energy systems, using windpower, methane gas, saw mill refuse or the sun, may be far more feasible in rural areas than in cities, yet the research addressed to these areas tends always to presume the ultimate user to be urban, and hence does not focus on what might well work for 70 million rural residents.

Although HUD has done some research in rural problems—notably in housing discrimination and credit availability—its focus is primarily on urban needs and urban problems. We believe that this is appropriate for an agency with HUD's primary mission. There is increasing evidence that HUD's office of policy development and research is carrying out an effort to gear HUD's research activities into program development and evaluation.

We believe that, to maximize the efficiency and relevance of its programs to rural needs, Farmers Home requires the same capacity. Information on rural housing needs is simply not available, except through the sample surveys of the Bureau of the Census. FmHA has used the same rough estimate of farm-worker housing needs for years. FmHA can provide no solid information on the potential requirements for rehabilitation loans and grants.

FmHA uses HUD's minimum property and site development standards, which leads to higher costs and irrelevant requirements in some instances (for example, FmHA subdivisions have paved sidewalks, even though there may be no others for miles around).

Without an in-house research capability, this situation will continue. Urban standards are often inappropriate for rural areas, and rural residents ought not to be without the resources—through at least a limited research capacity in FmHA—to develop suitable standards. When the soil won't perk, and a traditional septic system cannot be used, a central sewer is not necessarily the best (or cheapest) answer.

The \$10 million FmHA research budget which we propose is, in our view, essential if FmHA is to provide relevant programs and address the most critical rural housing and community development needs in a sound way. It is one-sixth of the HUD research request for the current year. Yet rural areas have close to one-third of the population and more than their share of housing problems and housing needs.

Question 3. Section 4 Compensation for Structural Defects. It is my understanding that a proposal similar to yours has been written into section 518b of the HUD program regarding old construction and has proven impossible to administer. In light of this, what provisions have you inserted to assure that this same failure won't be repeated by FmHA? While I understand that HUD section 518a which has been applied to new construction has been quite successful, what would be the cost of extending such coverage to FmHA housing projects?

Answer. While the proposal for compensation for structural defects is modeled on Section 518(b) of the National Housing Act, there are basic differences between the situation which section 518(b) was designed to remedy and the position of purchasers of FmHA houses.

FmHA operates through a decentralized system, through which county supervisors personally interview the purchasers, deal with builders, and inspect the properties. The responsibility of the FmHA supervisor is to see that the purchaser obtains a decent house, one which meets the standards established by FmHA. Because of this personal involvement, builders are held to higher standards than HUD has, in fact, been able to enforce.

The enactment of Section 518(b) was a response to the abuse and misuse of FHA programs in inner city areas by unscrupulous real estate dealers and absentee owners. Frequently with the active collusion of FHA (and many officials have been indicted or jailed for their involvement), owners or operators of substandard housing dumped it on their tenants, with FHA mortgages under section 221 (no subsidy, but minimal downpayment and 40-year term) or Section 235. In Philadelphia, for example, owners systematically sold their houses upon receiving notices of serious violations from the housing code enforcement agency. FHA's stance was that it had no responsibility to the purchasers. The director of the Philadelphia office personally stated to me and others that FHA appraisers were not building inspectors, that FHA's responsibility was to see that the price was comparable to others in the neighborhood, and that it was up to the buyer to determine soundness of construction.

Thousands of buyers who had purchased homes—some "unfit for human habitation" by housing code standards—had no recourse. It was this situation which Section 518(b) was designed to remedy. Dealing with some houses which never should have been sold in the first place; with other houses which may or may not have been in adequate condition at the time of sale but which because of age or lack of proper maintenance developed defects; with the consequences of internal and external corruption; and having no reliable records on which to rely, HUD and FHA were clearly faced with enormous administrative problems. The gross inequity which has visited upon the buyers who, understandably but wrongly, assumed that the involvement of the federal government implied a kind of warranty, justifies 518(b) and justifies facing the administrative problems which it has created.

There is no reason to think, however, that provision of comparable protection to FmHA purchasers will lead to problems on anything like the scale created by 518(b). There have been abuses, in some instances, and in these instances buyers are, in our view, entitled to redress—particularly in view of the clear mandate of FmHA to see that purchasers obtain housing which meets FmHA standards.

The HUD structural repair program was operated in fiscal year 1976 at a gross cost of about \$7 million. We are unable to determine the offsetting savings accrued by maintaining those homes in the borrowers' hands rather than seeing them abandoned with the subsequent cost of foreclosure, acquisition and disposal. It does seem clear, however, that the costs to FmHA would be considerably less than that—probably a net cost of less than \$2.5 million. Capable staff, on site, should have no problem and of course in FmHA programs it would be handled by the county supervisor who made the loan and is servicing it right along.

He knows the family, the house and the builder. Such a program will give the county supervisor another tool to deal with potential delinquencies. It would not be handled by remote control through banks or fee appraisers.

Question 4. Section 6 Appeals procedure. While I am sympathetic to the problem that loan programs might now be functioning to assist only those persons on the higher side of the poverty scale, categorically denying loans to other more needy families, establishing a mandatory appeals procedure doesn't seem to solve the problem. Specifically, mandatory appeal would appear to be costly without providing any real redress to the person who has been denied the loan.

Any time you have limited funds available, whether it be in the private or public sector, some persons are going to be denied funds. Can you structure a more feasible remedy to distribute available monies—something that would attack the problem more directly rather than just the symptoms? Is this provision really necessary?

Answer. The appeals procedure which we propose is not designed to address the broader problem of FmHA's inability to serve very low income people through its loan programs. It is, rather, an effort to assure that people are not rejected for arbitrary reasons. FmHA's record in serving minorities, for example, is a poor one, and there are frequent allegations of discrimination by FmHA county supervisors. An egregious example was documented some years ago by the Florida Housing Program of the American Friends Service Committee and published by the Rural Housing Alliance under the title, "Abuse of Power." Because of the involvement of two national organizations, this situation was dealt with; but countless others have been victims of arbitrary actions by individual FmHA staff people, with no recourse.

The foregoing is not intended as a blanket indictment of FmHA staff. On the contrary, we are strong supporters of the FmHA structure and delivery systems as one which is truly responsive to rural needs. It does, however, require built-in safeguards against abuse, and the right of appeal is one of these.

We do not suggest, nor does the language of our draft require that every rejected application be appealed; only that the applicant be informed of the reason for the rejection and of the right to appeal. There are sound, legitimate reasons for not making loans spelled out in FmHA regulations. They do not include such reasons as race, sex or marital status.

We recognize that funds are too short to serve everyone eligible. However, I would point out that in fiscal year 1976 (including the transition Quarter) FmHA failed to obligate \$460 million available for home ownership, home repair and rural rental loans. That is about 20,000 loans not made. Many of those loans might have been made to women heads of households, or blacks (the percentage of loans to blacks has been nearly halved in the past 8 years) or even to unmarried parents, had they appealed.

Question 5. Section 8 Assistance Authorization. Regarding the increases in authorizations that are suggested, aren't many of the presently authorized funds unused and wouldn't this funding be adequate?

Rural Housing Programs, with some difficulty, survived the efforts made during the past four years to virtually eliminate housing efforts in rural areas.

Time and again representatives of the National Rural Housing Coalition and others interested in rural housing have gone to the Congress and to the Courts seeking help in restoring or implementing rural housing programs. Congress and the courts have responded with money, injunctions and legislation. But the last Administration acted most reluctantly in actually operating most programs. The \$460 million unutilized in Sections 502, 504, and 515, cited above are illustrative. It is our belief that responsive, sympathetic administration of the rural housing programs by the new Administration will not only use the monies available, but will use them far more effectively and efficiently.

Question 6. Section 13 Changes in the Guaranteed Loan Program. Would you comment on the desirability of eliminating the whole guaranteed loan program in FmHA? Do private sources have adequate resources to treat all or almost all of moderate rural American housing needs?

Answer. The guaranteed loan program clearly cannot assist low-income families and is of dubious value to those in the upper spectrum of moderate-income families. If it were the answer to our rural housing problems county bankers could have been using the HUD guarantee (FHA) program all along. But they have not. The reasons they have not are unclear, but as nearly as we can discern are based upon:

1. The ease with which rural financial institutions can participate in urban lending programs with a relatively high rate of return (a small bank in rural Alabama can through a correspondent bank in Atlanta participate with rural deposits in a development loan in Atlanta, with virtually no risk and no work. The whole deal is handled by the Atlanta bank).

2. The lack of experience with federal programs common to most rural banks; and

3. The general distrust of "red tape" and "the bureaucracy" (not necessarily unwarranted) which surrounds HUD/FHA guarantee programs.

Any guarantee program, including FmHA's, rests upon the assumption that considerable sums of investment money are lying idle, simply waiting to be used in a guarantee program. We do not believe this is the case. Money is, of course, available; but only at a price higher than it currently earns. If a state employees pension system says it has \$8 billion to invest in rural housing, it will make that money available when the return is likely to be greater than the return the system presently enjoys from its other investment opportunities. That is, there is no free money, and a guarantee program must pay a competitive rate of interest. And that irrefutable economic fact makes any guarantee program inappropriate for low and moderate income housing.

In short, private sources do have money available for housing, but it would be at a cost prohibitive to all but those who have an above moderate income.

We see no economic nor philosophical reason to have a guaranteed housing loan program in FmHA; but we recognize that, for those families who do receive an above moderate income, and who need housing, such a program may well be beneficial.

We insist, however, that if a guaranteed program is to be retained in FmHA, that it not detract either financially or administratively from the low and moderate income loan programs which are, and should be, FmHA's principal housing responsibility. It is for that reason we urge the enactment of legislation which would insure administration of the guarantee program be handled at the State Office level; and that guarantee funds be segregated from insured loan funds.

Question 7. Section 14 Home Ownership Subsidy for Low and Moderate Income Persons. Is a subsidized home ownership program really feasible for very low income households? Would such families be able to keep up payments as well as other expenses such as repair, taxes, etc.? Wouldn't this particular group be better helped under a section 8 rent supplement?

Answer. We regard this proposal as the most important of our entire bill. It is based upon three incontrovertible premises:

1. Most families prefer home ownership to renting. For example, the 1974 Annual Housing Survey shows that 89 percent of all households with incomes above \$25,000 are homeowners; these are households who clearly can afford to choose whether to own or rent.

2. Home owners tend to feel a greater stake in their housing and in their community than do renters. This leads to better maintenance.

3. Rental units are generally scarcer in rural areas, partly because home ownership is the normal form of tenure. (78.3 percent of all rural households are owners, compared with 69.5 percent of urban households.) Rental housing is particularly hard to find for families requiring more than three bedrooms.

These premises lead us to the conclusion that home ownership is a more appropriate option than rental housing and probably a less costly option for low income families with children.

In essence, the subsidy which we propose is a Section 8 subsidy; the chief difference is that it would be administered entirely by the Farmers Home Administration instead of requiring joint administration between HUD and FmHA. In proposing a subsidy which would cover the difference between "the sum of the mortgage payment, including principal and interest, taxes, insurance, utilities and maintenance, and 15 per centum of gross annual income," we are proposing precisely the subsidy which Section 8 provides for large, low income families. Furthermore, the section provides that funds for taxes and insurance be put in escrow where this subsidy is used. Thus, there should be no question, with the subsidy at this level, about the capacity of the buyer to meet all of the expenses of ownership. The section is superior to Section 8 in that it contains provision for recovering all or part of the subsidy payments if the buyer sells the property and receives a windfall profit. Under Section 8, on the other hand, subsidy payments, once made, are the property of the owner.

The administrative difficulties, in our view, of tying Section 8 to FmHA 502 would be even greater, because in this instance the federal government would be dealing with individuals and individual properties, not projects and rental housing managers. Therefore, we prefer using the Section 8 subsidy formula, but lodging its administration within FmHA.

It should be noted that Section 8(c)(8) presently permits public housing agencies to use Section 8 subsidies for home ownership, although this provision of the law has not been implemented by HUD.

Finally, as already noted, there is reason to believe that subsidies for home ownership will be less costly than subsidies for comparable rental housing—if only because consumer preferences are being served and maintenance is likely to be better. These are sound grounds, in our view, for instituting a Section 8-type, deep subsidy program for home owners.

Question 8. Section 15 Rural rental assistance. The Ford Administration said that section 8 ties in adequately with section 515 to take care of this problem and that consequently FmHA additional rent supplemental programs involve unnecessary duplication? Would you care to comment?

Answer. We feel constrained to point out that when FmHA officials were asked to respond to this same question, they replied that the matter was in litigation and they might not comment. We do not feel that same constraint. The U.S. District Court for the District of Columbia, in ruling on the plaintiffs request for a summary judgment (*Rocky Ford et al v. Butz*) suggested that the defendant had abused his discretion in refusing to implement the rent supplement program. I shall not try to summarize the Rocky Ford brief here. Suffice it to say, that the Congress in the same Act, at the same time, in the same Bill, from the same Committees, enacted both a rural rent supplement provision and the so-called Section 8 subsidy program. They were neither conceived nor perceived to be one and the same, nor interchangeable. They are separate programs, to meet differing needs, and should be administered as such.

Question 9. Section 17 Site Loans. Doesn't reducing site loan interest rates and providing a guarantee program for site loans for private developers and nonprofit organizations merely subsidize private developers in their acquisition of project sites? What is the rationale behind this proposal?

Answer. The proposed language would not reduce interest rates for private developers, but it would provide a possible source of money at market rate (guaranteed by FmHA) for them. The 3 percent direct loans would be made only to non-profits and limited dividend developers, for whom a subsidy is not inappropriate.

This provision was enacted in 1974, but has been virtually unused. It is our belief that by broadening the eligibility, more borrower/developers may begin to utilize the program.

Question 10. In addition to your questions on specific sections of our proposed bill, you asked about the impact of the proposals on rehabilitation and on housing for the elderly.

REHABILITATION

In fiscal year 1977 FmHA has for the first time since 1965, both the authority and the money to make rehabilitation grants as well as loans under Section 504. While present appropriation language limits the grants to elderly only, it is our expectation that such grants will, coupled with loans, encourage a significant increase in rural rehabilitation. Should we be successful in getting the appropriate language further modified—permitting modest grants to all qualified loan applicants—the 504 rehab program may be expected to grow significantly. That is the principal reason we suggested in Section 8, above, that the authorization be increased to a level of \$40 million per year through 1980.

We would say also, at the risk of repetition, that we believe the new Administration, with new leadership and a new commitment, will attempt to make these programs work.

ELDERLY HOUSING

Several elements of our proposed bill deal with elderly housing needs. Because a large proportion of rural low income renters are elderly people, the rural rent supplement program will benefit them. Because 504 rehabilitation grants are presently limited to elderly owners, expansion of this program will benefit them. The deep subsidy home ownership program could also be expected to benefit elderly owners who wish to sell their homes and move to smaller, rental quarters, by broadening the market. The amendments to clarify FmHA's power to provide congregate housing and housing for handicapped people will also benefit the elderly. So will the allocation of 60 percent of 515 rental loan funds to low income families.

It would be misleading, however, to imply that this bill provides any kind of adequate or comprehensive answer to the critical housing needs of elderly people who live in rural areas. As I noted in my testimony, our bill is not a comprehensive rural housing program; it is not an adequate approach to meeting the

housing needs of rural people, particularly low income people; it is a sprucing up of FmHA's present programs, improving and expanding them to make them more responsive and, in some cases, providing equity between HUD and FmHA program provisions.

Finally, I would note that the only operating program now capable of providing sufficient subsidy to meet the needs of elderly people is the low rent public housing program. (The combination of Section 8 and 202 has, so far as we know, yet to produce its first occupied unit and HUD's proposed new administrative arrangements are regarded by elderly housing sponsors as unworkable.) One major means of assisting low income elderly people would be through expansion of this program (20 to 25 percent of contract authority for public housing is allocated to nonmetropolitan areas).

According to the 1974 Annual Housing Survey, 34.4 percent of all low income elderly renters (incomes below \$3,000 annually) and 53 percent of low income elderly owners live outside metropolitan areas. In all, 1,699,000 of the nation's 3,802,000 low income elderly households live in non-metro areas. In contrast, both the Ford and Carter Administrations have proposed to subsidize 100,000 housing units through Farmer's Home programs in fiscal year 1978. Clearly there is a major gap to be filled. Our proposals are a step toward doing this, but only a step.

Mr. LUNDINE. I would be interested if the other two panelists agree with Mr. Cochran's emphasis on rehabilitation in rural areas. He made a very cogent and appealing statement about rehabilitation. Do you agree?

Mr. ATCOIN. One does.

Mr. Cavanaugh, do you?

Mr. CAVANAUGH. Yes. I agree. All of those approaches fit somewhat in the spectrum of where you are. In some areas of rehabilitation, the structures are too poor to rehabilitate. But where there is such an opportunity, I think it does make sense.

Farmers Home has not used the money you have given it for repair programs. It talks about rehabilitation because it was the vogue to talk about rehabilitation in the past couple of years. But it has done very little to pull off a rehabilitation program.

Mr. LUNDINE. Does your legislative proposal address that, make any change with regard to that?

Ms. DOLBEARE. It does not; it does not really address it adequately. It increases slightly the authorization for the 504 program. I say slightly, although it is a 500-percent increase because the number of loans would increase from 2 to 10 per county office per year. Our bill really does not address the rehabilitation program in Farmers Home. Farmers Home within current legislation could do more. If it devoted the same attention to rehabilitation that HUD has devoted, I think you would see more rehabilitation.

I would add that I think it is unfortunate, if you have to always deal with trade-offs between how much you rehabilitate and how much you construct. There are communities that need new construction and there are places where we need rehabilitation. And we want both, not a switch from new construction to a rehabilitation program.

Mr. COCHRAN. Most of these people are people who are either afraid of debt or just cannot carry it.

Mr. LUNDINE. So, you are not talking about something similar to the section 312 program at all?

Mr. COCHRAN. Well, Farmers Home could no more with the lending program at 1 percent, and if it had grant money to go with it, as it now has for the elderly, you might go to a family and say, "You need \$5,000

and you can't pay but for \$1,000 of it. So, we will make you a grant for the balance and get it done."

More could have been done with that program in recent years. But if a county office is understaffed they would rather take the papers from the contractor than go out and help some poor family work up a loan. And then the family is frightened by the fact that they will have to pay \$40 a month when they can't afford it.

Mr. LUNDINE. Mr. Cavanaugh, I am very sympathetic to your comment that we are making inadequate allocations of community development funds to nonmetropolitan areas. But I really don't understand your solution to that problem.

Mr. CAVANAUGH. The solution would be overall to change the formula to reflect needs as they are defined in the statute. The 80/20 percent split leaves nonmetro areas in the short end.

Importantly in terms of what is now before you, namely, the Secretary Harris' urban development action grants, that you insist that of that 400 million going for that program, that a share be ticketed to communities in nonmetro areas. And I think that is very simple to do in terms of approving the authorizations.

Ms. DOLBEARE. Could I make a slight refinement of that from the perspective of the ad hoc coalition?

Mr. AU COIN. Yes.

Ms. DOLBEARE. In 1974, we urged application of the formula to the metro/nonmetro split, together with enough of an increase in total funds to keep the metro share at the same level. The reason we did that was because it was our feeling then—and it is my feeling now with respect to Secretary Harris' proposal—that it was worked out primarily with the needs of the cities in mind. So, it would be more appropriate to add additional funds for small towns and rural areas than to take money away from urban programs and transfer it.

Mr. COCHRAN. The code word is equity. However you distribute the money, if it is related to need then you distribute it among metro and nonmetro areas in the same way that you divide it up between Los Angeles and Chicago.

Mr. CAVANAUGH. It just confirms the notion that prevails, that they are the only communities where people live that have very sorry living conditions in them. And small towns have still got their citizens living in very poor circumstances that are helped by these programs.

Mr. LUNDINE. I couldn't agree with you more.

But you have prompted me to defend the administration. The example used by Secretary Harris in her testimony before this subcommittee did not involve a large city. It was a community of less than 50,000 that she used as an example, and I think you are making a presumption which may or may not be true.

Mr. CAVANAUGH. We are making a presumption, and it is based on HUD's longstanding preoccupation with large cities.

But there is nothing in HUD's administration of its programs that has shown any concern for small communities.

When Secretary Hills was going out of office, she said, take the whole nonmetro discretionary program and send it to the States for administration. And that is symptomatic of attitudes that tend to prevail in HUD.

Mr. COCHRAN. "By their works shall you know them." Robert Wood, when he was Secretary told me one day, "I wish you luck on rural housing. But as far as I am concerned, I wish all of the rural areas would just drop into the bowels of the earth. I don't even want to think about it."

Mr. LUNDINE. On that note, I thank you all very much.

[Laughter.]

Mr. AUCOIN. Mr. Brown?

Mr. BROWN. Let me ask you all a question that came up the other day in connection with the testimony of Governor Milliken. I want to look at it further, but it appears to me that there is much to be said for having discretionary grants accumulated statewide insofar as metro areas are concerned, and then to have the Secretary's function performed by the State.

I quite agree with Mr. Cavanaugh, that there are many communities in metro areas that are unfortunate to be located there. They just couldn't get away from home plate on any kind of a program because there was no money, because of the number of urban counties which we had not estimated correctly, and then just the complexity and the remoteness of Washington. So, I tend to favor folding the discretionary money into a State pot without talking about how much it is going to be and then having all communities either in metro or rural areas apply to the State for discretionary grants.

Would any of you care to comment?

Mr. COCHRAN. Mr. Brown, in all of the discussions that run to what the Federal Government should do directly, and how much is left to the States, I always ask myself one question: "How will it work in Mississippi?" And if I figure it won't work well there, we can't afford it anywhere else.

Mr. BROWN. In other words, you are saying that there is no way that you can draft a proposal which would necessitate the equitable distribution of the funding if it is done by a State agency. Is that right?

Mr. COCHRAN. I know it is supposed to be a government of laws and not of men, but really it isn't.

Mr. CAVANAUGH. I have got a concern in this area, and part of our testimony suggests that, maybe there will be a day someday when States can take on greater responsibility for handling Federal programs. I think at this time—we deal, incidentally, very closely with a number of States. We feel there should be a resource to small communities, that they can supplement the lack of expertise that many small communities have, and we have pursued that diligently in trying to get greater involvement by States in rural housing efforts and assisting small communities in these efforts.

I think before—if we could get to your proposition. I think we have got to see an increase of skill and commitment and involvement by State government, more so than we have now. There is a provision in the 1974 act that would allow grants to go to States to enable them to assist small communities; but the money, it has never been funded.

I think the first step toward anything like this is just that, let us fund it, let us get—the quality of State government in this field is very uneven. It ranges from negative to, really, baby steps, although I think

it is improving in some areas. But I think that is the start. If you want to see States play a better role, let us give them a role in providing some assistance to the small communities and going to the Federal Government.

I think the second point is, that community development under your act—and I think wisely, in the 1974 act—is hooked to the performance of housing objectives. And it is difficult for me to see how you can—those two things ought to come out of a common pot.

Mr. BROWN. The State housing agency, and the community development agency in our State are very well intermatched, and this would make sure there is a close tie in between the two sectors.

Mr. CAVANAUGH. Our review of most of the State housing development agencies shows that the bulk of their program has gone to more densely populated suburban communities. As of 2 years ago, less than 1 percent of their funds had been put into the small towns. And that tends to prevail.

We have made an effort in our organization to try to adjust the State agencies to remedy that. But most of the money in this program has gone to cities and to suburbs, to middle rather than very low-income people and to very small family units, elderly or small apartments. And there has been little activity by the States outside of those areas.

Mr. AU COIN. Ms. Dolbeare?

Ms. DOLBEARE. There are two separable issues here: allocation of metro balance discretionary funds, and the question of who handles administration. I wonder whether it would make sense to allocate the discretionary funds on a State-by-State basis and not have the special balances. With regard to who administers the funds, since HUD has an area office in every State, I don't think the relationship of communities with HUD is necessarily to Washington. It is with the area office. In some places, that works better than in others. In Wisconsin, for example, the HUD office has administered the discretionary money with a considerable degree of sensitivity for the needs of small communities.

Let us consider seriously moving ahead with the pooling of the funds. But let us take a real look at it before we make any change in where it is administered, to see how those funds can be administered and what additional things need to be built into the program to make it more responsive to rural areas and small towns.

Mr. BROWN. But you would agree that if it appeared that a State had the capability and could provide the technical assistance and was working in these communities, that that function could be assumed by the State?

Ms. DOLBEARE. It might well. And, in fact, I think that is the way it works in Wisconsin. That is, the State agency and the HUD office work very closely together, and it doesn't matter who has—who is doing it when you are working along the same line. And I think that's the objective we ought to have.

Mr. BROWN. You have a statement, Mr. Cavanaugh that says:

The administration's proposed stipulation that metro entitlement communities could receive their fiscal year 1977 hold-harmless amount indefinitely, if it exceeds either formula amount, is totally unacceptable.

My understanding is that the communities would get it on the basis of whichever formula they came out the best with.

Mr. CAVANAUGH. When I prepared the testimony, my understanding was that the metro communities could try either of the dual formulas, and if they didn't produce what they were getting under hold harmless, they could continue with the hold harmless.

Mr. BROWN. But that is my understanding, that the phaseout would continue. In fact, hold harmless would be terminated under the administration's proposal. Communities would get either the present formula amount or the new formula amount based on poverty, age of housing, and growth lag.

Mr. CAVANAUGH. May I double check myself on that? I am not sure.

Mr. BROWN. Yes.

Mr. CAVANAUGH. May I respond to you in writing on that?

Mr. BROWN. Yes; and I quite agree with you, anyway. We should not have a continuation of the hold harmless.

Mr. CAVANAUGH. We have done a lot in keeping the computers working, in coming up with a dual formula; and I think the hold harmless is not necessary at this point.

Mr. AUCOIN. I am going to thank the panel of witnesses for their testimony. We appreciate it. We appreciate your responsiveness to the questions.

And at this time, the subcommittee will stand in recess until 2 p.m.

[Whereupon, at 12:25 p.m., the hearing was recessed, to reconvene at 2 p.m., this same day.]

AFTERNOON SESSION

Mr. MOORHEAD [presiding]. The subcommittee will come to order.

This afternoon the subcommittee would like to hear first from the Council of State Housing Agencies, Mr. Kenneth G. Hance, Jr., president.

Mr. Hance, if you would come forward and please introduce your associate accompanying you, whom we all know.

STATEMENT OF KENNETH G. HANCE, JR., PRESIDENT, COUNCIL OF STATE HOUSING AGENCIES (CSHA); ACCOMPANIED BY CHARLES L. EDSON, LANE AND EDSON, P. C., COUNSEL

Mr. HANCE. My name is Kenneth G. Hance, Jr., executive director of the Virginia Housing Development Authority, and president of the Council of State Housing Agencies.

CSHA is an organization of virtually all of the 35 State housing finance agencies (HFA's) now in active operation, as well as over 75 developers, investment bankers, lawyers, architects, and others from the private sector who have joined us as associate members.

I am accompanied today by Charles L. Edson, of Lane & Edson, P.C., counsel to CSHA.

In my testimony today, I will set forth our position on the section 8 program, generally, the contributions that State HFA's have made to the program and certain suggestions for modifications to and improvements in the program.

THE SECTION 8 PROGRAM

CSHA is and consistently has been a strong supporter of the section 8 housing assistance payments program. We believe that section 8 possesses most of the attributes of an ideal subsidy program:

It can assist families and individuals, no matter how low their income, as a resident is required to pay no more than 25 percent of family income for rent;

It has a broad range of income eligibility within the low-and-moderate-income community, thereby limiting the detrimental impact of the arbitrary cutoff lines of other subsidy programs;

It is unique among subsidy programs in that the subsidy escalates from year to year to account for the inflationary trends within our economy. It is the lack of the escalating subsidy which has caused such problems in the section 236 program;

The program ideally lends itself to cooperation between the public and private sectors. Eligible sponsors include public bodies, nonprofit organizations, and private ventures. Eligible lenders include public lenders, like ourselves, and local finance and housing agencies, as well as the private lending community.

The great weakness in section 8 today has been the inability to secure long-term mortgage financing.

This liability is not applicable, of course, in the case of State housing finance agency projects, as our very purpose is to supply such financing for section 8 projects.

As the following statistics demonstrate, it is a role which State HFA's have performed very well. At the close of my testimony, I will make suggestions to improve the section 8 financing mechanism to assure even greater private sector involvement and to facilitate to a greater extent State and local agency financing.

STATE AGENCY INVOLVEMENT IN SECTION 8

The involvement of State housing finance agencies in the section 8 program has been a proud one. HUD records indicate that, as of December 31, 1976, there have been construction starts on 33,548 new and substantially rehabilitated units in the program, of which State FHA's have accounted for 17,984 or over 53 percent.

In addition, our own survey shows that State HFA's have started construction on 29,122 section 8 units as of February 1, 1977.

Of those units, 10,542 were started between October 1, 1976, and February 1, 1977. This survey included responses from 19 of the 22 State HFA's with known section 8 construction starts.

Equally impressive, State housing finance agencies have accounted for 38 percent of the contract authority now under reservation for newly constructed units and 34 percent of the units under reservation for substantial rehabilitation, for an overall total of 37 percent of the contract authority for new and rehabilitated units. This, of course, is a nationwide figure. When we take into account those States with active HFA's, we find that the State housing finance agencies account for 90-100 percent of the activities in those jurisdictions.

Because of this outstanding record of producing actual construction starts, the administration has included in its fiscal 1977 supplemental budget request 33,000 units for State housing finance agencies.

A survey of our membership indicates that if we know that such supplemental appropriation is a certainty by approximately April 1, 1977, and receive good cooperation from HUD in the processing of the contract authority reservations, construction starts on 28,000 units can be achieved by September 30, 1977.

Accordingly, we believe that State HFA projects should be viewed as an economic stimulus, even though the supplemental appropriation is not in the stimulus package as such.

Let me, at this point, give our thanks to Secretary Harris and her staff at HUD for helping us within the administration to obtain this supplemental request.

However, I must also state our real distress with one aspect of HUD's budget projections. In the fiscal year 1977 supplemental appropriation request, HUD is asking for additional section 8 contract and budget authority to accommodate 20,000 State HFA-financed units.

This number is to be added to 13,000 State HFA units which HUD's budget figures project will be funded from the regular fiscal year 1977 appropriation, in order to aggregate the 33,000 State HFA units referred to previously.

In fact, virtually no new or carryover contract authority has been made available for use by most State HFA's, including mine in Virginia, during fiscal year 1977 to date.

With the exception of some contract authority which may be available for a few State HFA's under the section 8 rehabilitation demonstration program, no contract authority will be available to State HFA's in the current fiscal year, other than through a supplemental appropriation.

Thus, in order to achieve the 33,000 State HFA units contemplated by HUD's budget for fiscal year 1977, it will be essential for State HFA's to receive almost 30,000 units from the supplemental appropriation, rather than the 20,000 units proposed by HUD.

Returning to the subject under discussion here, in light of the excellent track record of the State HFA's and the universal recognition which we have received regarding our ability to perform, we must admit to great bafflement concerning the administration's proposed budget for fiscal year 1978, limiting State HFA's to 20,000 units.

In the fiscal years of 1975 and 1976, State HFA's placed under reservation 34,297 and 44,567 units, respectively, so that the 20,000 units for fiscal 1978 represent a severe drop from performance levels which we have achieved and which we can maintain.

Of even more relevance, a recent survey indicates that our member HFA's can place 70,000 units under reservation during the fiscal 1978 if the funding is available.

State HFA's are business organizations which must be able to gear up to work on rational, planned production levels.

For that reason, the severe cutbacks which the administration proposes for fiscal 1978 would cripple, if not kill, most State HFA's.

It is neither rational nor fair to rely on us as a vehicle when production is needed, such as in fiscal year 1977, only to reduce the contract authority available to us in the next fiscal year in the hopes that conventional financing may be made to work.

If State HFA's are to make a permanent contribution to meeting the needs for low- and moderate-income housing, then we must know

from year to year that we will have a consistent share of Federal housing subsidies.

The on-again, off-again treatment we have been receiving the past few years has made long-range planning, much less long-range existence, near to impossible.

For that reason, we are requesting that the Congress specifically earmark sufficient contract and budget authority for 70,000 units for State HFA's for fiscal year 1978.

We have never been told specifically by the administration why we face such a severe cut in fiscal year 1978.

We do hear talk of studies which purport to show that the cost of State HFA-financed units is higher than those financed through HUD area offices.

Others say that the reason for this treatment is that we require 40 years of budget authority because of our 40-year housing assistance payment contracts, and, therefore, for some reason we are twice as expensive.

We believe such talk to be fallacious for several reasons.

First, the studies by the Congressional Research Service of the Library of Congress, the General Accounting Office and HUD, uniformly fail to take into account several very real costs associated with section 8 projects processed through HUD area offices.

For example, none of the studies attributes any cost to the tandem plan subsidy which is present in virtually all FHA-insured cases. The cost to the Federal Government of tandem plan financing—from \$275 to \$350 per unit per year—more than makes up the difference in cost between State HFA units and HUD units set forth in the studies.

In addition, the studies fail to assign any cost to the FHA mortgage insurance exposure in conjunction with HUD units.

Experience clearly shows that the actual cost of the FHA mortgage insurance exposure is significant.

As this subcommittee is well aware, virtually all State HFA financing is done without FHA mortgage insurance, with the State HFA assuming the entire risk of loss.

The studies also have failed to account for the variance in HUD administrative costs as between State HFA and HUD projects.

The processing and underwriting of State HFA projects is handled largely by the HFA itself, with very limited HUD involvement and thus far less HUD administrative expense than that involved in projects administered directly by HUD.

Second, we challenge the statistics on which these studies were based, and the statistics underlying HUD's conclusion that State HFA-financed units are more expensive than HUD units in terms of annual section 8 contract authority per unit.

HUD will be the first to admit that its statistical capability is sadly lacking.

For example, HUD has announced four separate figures as to section 8 starts in fiscal year 1976: 20,365 units immediately after the end of the fiscal year, corrected to 40,000 units a few weeks later, scaled downward to 34,335 units, as reported in the fiscal 1976 budget.

Now HUD states that only 33,548 units were produced by December 31, 1976.

Certainly, if HUD is so uncertain on section 8 starts, we feel that its statistics would be equally faulty on section 8 costs.

Indeed, we have taken a survey among our agencies and found an average section 8 contract authority cost per unit of \$4,189, instead of the \$4,600 to \$4,800 cost which HUD states that we have.

That such a strong, vibrant, and productive movement as State HFA housing would be ended on the basis of such shallow statistics is nothing less than shocking.

Mr. Chairman, I would like to append to my testimony a copy of the survey which we have concluded which shows the unit starts and the subsidy cost per unit by State.

Mr. ASHLEY. Without objection, so ordered.

[The survey referred to by Mr. Hance follows:]

COUNCIL OF STATE HOUSING AGENCIES SECTION 8 SURVEY

Question 1. Please state your Section 8 new construction/substantial rehabilitation construction starts¹ by units:

- (a) total from the beginning of the Section 8 program to February 1, 1977;
 (b) those started between October 1, 1976 and February 1, 1977.

Answer. See the following table.

SEC. 8 CONSTRUCTION STARTS

[By units]

	Beginning of sec. 8— Sept. 30, 1975	Oct. 1, 1976 to Feb. 1, 1977	Total	Subsidy with FCC	Subsidy without FCC
Colorado Housing Finance Authority.....	77	284	361	-----	\$3,000
Connecticut Housing Finance Authority.....	198	171	369	-----	3,368
Illinois Housing Development Authority.....	4,586	483	5,069	\$4,643	4,137
Maine State Housing Authority.....	399	86	485	4,524	3,840
Massachusetts Housing Finance Agency.....	2,356	958	3,314	5,141	4,969
Michigan State Housing Development Authority.....	1,707	1,297	3,004	4,176	3,825
Minnesota Housing Finance Agency.....	927	318	1,245	3,840	3,540
New Jersey Housing Finance Agency.....	1,785	1,776	3,561	5,408	4,750
New York State Division of Housing and Community Renovation.....	952	622	1,574	-----	5,306
New York State Housing Finance Agency.....	795	-----	795	-----	4,804
Housing Division, Oregon Department of Commerce.....	249	110	359	-----	2,940
Pennsylvania Housing Finance Agency.....	754	2,104	2,858	4,485	4,133
Rhode Island Housing and Mortgage Finance Corp.....	876	785	1,661	4,300	3,910
South Carolina State Housing Authority.....	24	48	72	-----	2,947
South Dakota Housing Development Authority.....	-----	92	92	3,372	3,072
Tennessee Housing Development Agency.....	-----	100	100	-----	2,675
Vermont Housing Finance Agency.....	-----	-----	(1)	-----	-----
Virginia Housing Development Authority.....	845	392	1,237	4,114	3,797
West Virginia Housing Development Fund.....	331	283	614	-----	4,500
Wisconsin Housing Finance Authority.....	1,719	633	2,352	3,600	3,300
Total.....	18,580	10,542	29,122	14,548	4,189

¹ The Vermont Housing Finance Agency started 56 units on February 20. The average annual subsidy without FCC, \$3,650.

² 1 State, \$4,534 19 States.

Question 2. The average amount of subsidy per unit pursuant to Annual Contributions Contract for your Section 8 new construction/substantial rehabilitation projects from the inception of the Section 8 program to February 1, 1977; with financing cost contingency; without financing cost contingency.

Answer. In addition to those State HFAs listed, responses were received from 5 State HFA which have no Section 8 construction starts. The Maryland Department of Economic and Community Development and the Missouri Housing Development Commission both have Section 8 construction starts but no response has been received from either at this time.

¹ Construction starts-initial closing.

Mr. HANCE. As you are well aware, the section 8 contract authority cost of a project on a per unit basis is a direct function of the HUD-approved contract rents, which in turn are limited by the applicable fair market rents.

Thus, in comparing the section 8 contract authority costs of State HFA units with HUD units, it is essential to know the geographic areas—and thus the fair market rent levels—from which the statistics are being drawn.

It is a fact that State HFA activity in many more urban, higher cost areas such as metropolitan areas in New Jersey, Massachusetts, Virginia, Pennsylvania, Michigan, and Illinois is the only section 8 production in those areas. The higher section 8 contract authority costs associated with these areas—and attributable solely to State HFA production—are then included with HUD unit costs in lower cost areas to produce the HUD average costs.

In addition, the contract rents allowed by State FHA's, and approved by HUD, are realistic rents. That is why our projects are getting started. HUD area offices base their rents on so-called comparables with similar projects.

However, these rents, based on older projects facing much lower costs, have been so low that many developers have been unable to succeed.

That is why HUD itself estimates a significant number of dropouts from its area office projects.

In other words, State HFA costs are realistic ones; area office costs are not. State HFA costs also reflect the nature and quality of the project itself. State HFA projects traditionally have had a higher level of amenities than HUD-approved projects.

For example, projects in Wisconsin include community rooms, carpeting, drapes, and larger rooms than are in the normal HUD projects.

Maine requires additional storage areas and/or basements and individual entrances. Examples such as these could be repeated across the board for our State HFA-financed projects.

Third, the shorter processing time for State HFA projects has not been accounted for in the cost figures. The longer time required for HUD section 8 projects not only adds to the basic cost of the project but also makes the project less viable, contributing to the higher fall-out rates.

Finally, the most phony reasoning of them all is the 20-year vs. 40-year budget authority questions. It is most fallacious to charge housing programs with multiyear costs, when this is not done in any other field.

The absurdity of this type of calculation becomes plain, when it is stated that the State HFA-projects are twice as expensive because they take 40-year, instead of 20-year, budget authority.

What all concerned must realize is that at the end of the 20-year contract term on an FHA-insured or conventional project, the contract will be renewed, to prevent the unthinkable alternative of wholesale eviction of the project residents.

Thus, the distinction between 20-year and 40-year terms is meaningless, as virtually all projects will be receiving assistance for a longer period.

If actual experience with mortgage refinancings and ownership changes result in average contract terms being less than 40 years, these factors will be applicable equally to conventionally financed, FHA-insured and State HFA-financed projects.

CSHA supports two changes to section 8 to make the program more financeable. We believe that these changes would generally benefit lenders other than State-FHA's, as all of our member agencies now have ready access to and acceptability in the bond market.

However, CSHA does not believe that State HFA's should be the only lenders; we actively encourage participation by the private lending community and local finance agencies, and we believe that the following changes should greatly facilitate their financing.

First, we support a proposal to assure that housing assistance payments will be paid on the unit in the amount of debt service for the length of the contract.

This, in effect, provides a Federal backup of the mortgage loan debt service to assure lenders that the risk of default will be very small.

Such Federal payment would only be made if the owner is keeping the unit in decent, safe and sanitary condition, and making every effort to rent a vacant unit, thus protecting the Government's interests against payments on uninhabitable housing.

The cost to the Government of this provision would be virtually nothing, as the risk of long-term vacancies in projects with the deep subsidy assistance of the section 8 program is virtually nonexistent.

The Congressional Budget Office, in commenting on a provision adopted by Congress last year extending the payment period for unoccupied units by 1 year, concluded that it would be a nonbudget item based on the vacancy experience of similarly assisted housing.

The benefit to the Government would be great as it would result in more secure loans requiring lower interest payments by the owner.

As a section 8-assisted contract rent is based, in good part, on the interest payments which the owner must pay, lower interest payments mean lower contract rents and thus lower Federal subsidies.

Second, CSHA supports the administration's proposal to extend from 20 years to 30 years the length of the contract term available when there is a private, as opposed to a public, lender.

Such a provision would lengthen the contract term to the usual length of a conventional mortgage loan and should encourage conventional financing.

Let us state, however, that we do not favor such a provision if it is HUD's intent to substitute the conventional lender for State HFA financing, as we believe that both sectors have a real role to play.

Accordingly, we believe that the 30-year term should go hand in hand with our requested earmarking of fiscal 1978 funds for State HFA's of 70,000 units to assure that both the private and public sectors are able to fulfill their proper roles in the section 8 program.

Finally, on a nonsection 8 matter, CSHA supports the efforts of many of our member HFA's, led by the New Jersey Housing Finance Agency, to remove the present limitations in title III of the National Housing Act, which prohibits State HFA's from being direct sellers of mortgages to the Government National Mortgage Association.

Because of this restriction, State HFA's must make the sale indirectly through private lenders, causing great additional paperwork and other burdens, for no useful purpose.

In closing, I wish to thank the chairman, the members of the subcommittee, and your very able staff, for letting us be here with you today, and I would be delighted to try and answer any questions you may have.

Mr. ASHLEY. Thank you, Mr. Hance.

I am going to call on Mr. Moorhead and Mr. Mitchell, in that order.

Mr. MOORHEAD. Thank you, Mr. Chairman.

I think I might say that when the section 8 program was proposed and the only housing program I was not enthusiastic about it and I still am not enthusiastic except for the performance of the State housing agencies. I think that where we have HFA's, section 8 has worked, where we have not, it has not worked.

And it may be that the increase to 30 years may make it possible for private lenders to get into the program, but certainly the experience to date has indicated to me that the State housing agencies have been the only instrumentality that has done the job of making section 8 work at all, and I would certainly not want to put a ceiling on State HFA's, but rather to let you continue to do the job that you have been doing.

At best, as you say on page 5 of your testimony, that all we have is the hope that conventional housing financing may be made to work.

I hope that is realized, too, and I think your statement that you don't want to be the only group in the financing of this program is very wise.

But I think you have got to be kept in the forefront, and I for one think that until we get a better program we had better continue to rely very heavily on the State housing finance agencies to have the program do as much as it can do.

That is the only comment I have to make, Mr. Chairman.

Mr. ASHLEY. You don't want to hear anything beyond that, do you?
[Laughter.]

Mr. ASHLEY. Mr. Mitchell?

Mr. MITCHELL. Thank you, Mr. Chairman.

And I think this was a very cogent piece of testimony.

Mr. HANCE. Thank you.

Mr. MITCHELL. The Secretary at HUD recently requested that this financing be extended, thus permitting long-term financing to 30 years under section 8. As I understand it, from your testimony this extension is generally viewed as enhancing section 8, is that correct?

Mr. HANCE. Well, that cannot be proven at this time, but we share the administration's belief that it will encourage conventional financing. And we support that concept subject only to our concern that it not be a means of undercutting the State HFA's proper role with 40-year financing.

Mr. MITCHELL. I think there are some safeguards to prevent that. My second question is—I am just curious—on page 4 you indicated that the work of your State housing finance agencies should be viewed as an economic stimulus. I agree. But the Secretary took the position, or I think she did, that housing per se should not be used or viewed as economic stimulus.

Could you explain the difference between these two points of view?

Mr. HANCE. I believe the Secretary—

Mr. MITCHELL. May I just add that I don't think the Secretary's position, if I understand it, is a very valid one. I don't know how you

could deal with increasing housing production and not regard it as an economic stimulus.

Mr. HANCE. I think the Secretary is concerned with the countercyclical aspect of the housing industry and the treatment of the housing industry through monetary policy to either heat up or cool down the economy and in effect putting housing which has other needs and other purposes in a role which is not geared to the other purposes or to the needs of shelter per se.

On that score I thoroughly concur with her view. I think the countercyclical housing and use of housing in the economic role has been one of the very real problems with getting any kind of consistent long-range housing strategy or any attempt to meet any national housing goals.

That if it is to be a fiscal device with ups and downs, how can we begin to meet these goals by encouraging industry to operate on a longer term basis? My point here with respect to the economic stimulus is really looking at the employment, the economy in 1977 and saying that to the extent that State housing finance agencies or others can produce housing starts now, that that absolutely is an economic stimulus in the area that perhaps needs it more than any other, in the housing industry, both as a matter of shelter and as a matter of jobs and the immediate monetary impact on the economy.

So I don't think in a sense that they are inconsistent.

Rather, that we are saying we have projects ready to build right now and that that would have an economic stimulus and a positive one.

We would prefer to see our efforts and those of all lenders done on a much more consistent basis, instead of the stop-and-start basis which I believe is the Secretary's position.

Mr. MITCHELL. I have one more question. And it will be very brief.

I must confess to you that with reference to your third recommendation on the last page, I have to indicate that I am just not familiar with the rationale or the justification behind a limitation on the title III which prohibits State HFA's from being direct sellers. I would turn to you or to my colleagues for some enlightenment. I am not aware of what the rationale behind that limitation is.

Mr. HANCE. That provision has been in the law for many years. And in fairness I don't know that anyone really has an answer to why that prohibition is in there. It is not a prohibition against State housing finance agencies as such. It is a prohibition against instrumentalities as such. And it covers any public bodies.

Mr. MITCHELL. Could my distinguished chairman enlighten me on this as to why it is in there, what was the reasoning behind this?

Mr. ASHLEY. I am sorry.

Mr. MITCHELL. I raise the question on his recommendation No. 3, which in effect prohibits HFA's from being direct sellers. And, frankly, I knew it had been argued a long time, but I just don't know what the justification was or is for that limitation.

Mr. EDSON. Mr. Chairman, I asked as late as last year some very knowledgeable people at GNMA and they just said, darned if we know. It goes back at least 10 or 15 years, the pre-1968 splitoff, nobody has been able to explain it. And there is an exception for Farmers Home insured mortgages, and how that got in there I don't know.

I think it was Justice Holmes who said, a page of history is worth a volume of logic. And that is all I can say on it.

Mr. MITCHELL. Am I right in assuming that we have got something in title III that places a limitation on you, and to the best of our knowledge no one has a really cogent explanation or justification for that limitation. Is that correct?

Mr. HANCE. That is correct.

Mr. MITCHELL. That is a strange way to run a shop.

I have no further questions.

Mr. ASHLEY. Mr. Hance, I think you have done well to seize upon that. We will get justification on that forthwith, and will certainly take that into consideration at the time we mark this up.

I think your testimony has done a great deal to clarify the role of the State housing finance agencies, Mr. Hance, and to dispel some of the conclusions that have been advanced based upon data that has been sketchy at best.

I certainly am one that—I think it was what Mr. Moorhead said in regard to being impressed with the track record of State housing finance agencies, with regard to getting our section 8 program functioning.

Can you tell me how many State finance agencies there are, are there 35, is that what your testimony shows?

Mr. HANCE. I will have to answer that in several ways.

First, there are 44 agencies in 39 States that exist on paper right now. Of those approximately 35 are active. And of the 35 approximately 20 are involved in the direct financing of section 8 on a non-FHA-insured basis.

The movement is, each agency is about as different from each other as an attempt by each State to adopt a program that would be responsive to that particular State's needs.

Mr. ASHLEY. Where does Ohio fall in?

Mr. HANCE. Ohio fits into the gap between 44 on paper and 35 active. [Laughter.]

Mr. ASHLEY. I was very much afraid of that.

Mr. EDSON. It is not the State legislature's fault but the courts have struck down, some of its key powers on constitutional amendment to activate the agency was rejected by the voters in the 1974 general election.

Mr. ASHLEY. One of the problems that I do see with regard to your proposed set-aside is that we may be skewing the section 8 units as proposed in the law. That is to say, whether it be Pittsburgh or Toledo or Baltimore, or wherever, cities choosing to participate in the 1974 act are required to come up with a program which defines their housing problems and proposed ways to cure those housing problems. If we begin to set aside increased amounts of section 8 housing, don't we run into a problem when we find that there are only 20 such agencies that are involved in the direct financing of section 8?

Mr. HANCE. Mr. Chairman, I certainly can understand your concern and that of many others with the concept of formal set-asides.

And let me indicate that we come here today not as, necessarily, advocates of the concept of set-asides at all. In fact, we have not specifi-

cally asked for any formal congressional set-aside with respect to the supplemental appropriation for 1977, primarily because we are anxious to work with the new administration and anxious to establish that we can work with them on a cooperative basis and not feel that we need to ask Congress for help in discussing matters with HUD.

Our concern, however, is really two-fold: first, that through a series of actions, both congressional and administrative, particularly in the past, in the year just past, the fiscal 1977 basic allocation did formally or informally get set aside quite a bit, with the result that there was nothing left for the State HFA's. And, thus, the concept of set-asides has sneaked back into the program over the last several years, and that has concerned us.

Second, we are concerned with respect to 1978 because of the low level of allocation that is contained in the administration's budget. In that case, I use the word "administration" intentionally, because it is our understanding that HUD recommended a higher budget level for State HFA's, and that the Office of Management and Budget disagreed, and that the 20,000 figure is, in effect, a compromise of that. So to the extent that we are asking for a larger set-aside and assistance from you in Congress, we are asking you to help us give HUD more leverage to get the kind of production we think is appropriate.

That is a general comment. I have not dealt directly with your point about 20 States versus 50 States, to which there is, obviously, no thorough answer, other than to say that we feel we can give you all sorts of evidence and believe that we can deliver 70,000 units in those States where the programs of State HFA's are active. We think that is justification in and of itself, and that we would hope that there would be other means of delivery within the other States.

Mr. ASHLEY. I see in your testimony that Virginia is one of the States that is solely responsible for section 8 production and that there are others, namely, New Jersey, Massachusetts, Pennsylvania, Michigan, and Illinois.

Suppose that the 20- to 30-year extension brings about greater participation on the part of conventional lenders, and suppose FHA gets interested. And I am talking now about the situation in Virginia.

What is the best way for there to be an allocation as far as Virginia is concerned as among those interested in delivering—those different entities—delivering section 8 housing in your State?

Mr. HANCE. I guess, in a sense, we are dealing with three parts of the same puzzle here. We have the overriding allocation issues, the policies, so the issue of where the housing is to be constructed is not really affected by this discussion.

Mr. ASHLEY. No.

Mr. HANCE. It is a question of who will build it; that is the only issue. And I would say that we have no desire or no intent to be a monopolistic lender in Virginia or in any other State. We would encourage the ability of other lenders to work with the program.

Mr. ASHLEY. Wouldn't that be a start-and-stop situation, though?

Mr. HANCE. I think it would put us in a competitive situation, which we are perfectly willing to be placed in. The builder would be

trying to get a conventional loan or come to us. If we could not offer an efficient, effective delivery system, then we would be disadvantaged, which is where we ought to be if we can't deliver the product.

We are here because we think not only have we been the only lenders around, but because we think we can deliver professionally, promptly, and efficiently, and effectively without insurance and with a very sound track record of delinquencies and defaults.

Mr. ASHLEY. What you are saying, then, is that contract and budget authority for 70,000 units for State HFA's in the year 1978, as a specific earmark, but beyond that with the expectation, perhaps, that there will be greater competition after fiscal year 1978, you might not want this earmarked; is that right?

You mean you really would be content with letting competition determine who delivers the housing?

Mr. HANCE. Certainly. We have no concern with that, Mr. Chairman.

As I said, our reason for the earmarking request this year is because of what we believe is the ill-advised attitude of the Office of Management and Budget rather than any problem in working with the new HUD administration, though our experience there is limited. We would like to think we can work well with HUD.

If any of us fail to deliver, if we were to receive 70,000 units as a group and each of us receive an allocation of that, if we were not able to deliver, believe me, HUD is going to be taking that right back from us in a big hurry, and properly so. We have an obligation to deliver.

What we are saying is that we think we can deliver that much. In coming years if the issues within the administration, with OMB, for example, are less serious, I think we stand ready to work with HUD.

Mr. ASHLEY. What is the average borrowing rate for a housing financing agency?

Mr. HANCE. The borrowing rates on long term, for multifamily rental projects have been in the range of between $6\frac{1}{4}$ and $6\frac{1}{2}$ percent, with the lending rates running at about $7, 7\frac{1}{4}$ percent.

Mr. ASHLEY. It would seem to me that you could compete pretty well on that basis.

Mr. HANCE. Precisely.

[Laughter.]

Mr. ASHLEY. It would seem to me that, clearly, you will be looking for set-asides in 1979 and future years on the basis that, in your position, you are going to have the competitive advantage that just won't quit.

Mr. HANCE. But that advantage works to the benefit of the residents, the Federal Government, in terms of subsidies.

Mr. ASHLEY. I understand that. And I have no feeling at all at this point that this is not a perfectly appropriate and effective delivery system, particularly in the 20 States that seem to be doing a job.

Was there one other proposal that you made?

I think there was, and I can't find it in your testimony at this time. I think it was one that we discussed.

Mr. HANCE. In the latter portion of my testimony, Mr. Chairman, I made recommendations concerning the payment of housing assistance payments to the extent of debt service on vacant units without a limitation on years.

Mr. ASHLEY. What is the limitation now?

Is it 1 year?

Mr. HANCE. At the present time, Mr. Chairman, under the law as amended this past year, here is provision for full payment of housing assistance payments for a period of 60 days against vacant units and an additional 1-year period with a payment limited to the amount of debt service attributable to the unit, on certain conditions.

Mr. ASHLEY. Basically, you want to go from a year and a half to 40 years?

Mr. HANCE. To the length of the contract, whatever that might be in a given case.

Mr. ASHLEY. But that is what—

Mr. HANCE. That is correct, in the case of States, though, again, this is a recommendation which we think is of more use to other lenders.

Mr. ASHLEY. Your testimony is that the State housing finance agencies have not had any problem in selling their paper; isn't that right?

Mr. HANCE. That is correct.

I would say we have to look back at that period. There was a period when the market was in disarray, and it was difficult for these agencies, or the city of New York, or others to raise capital in that marketplace. But in the last year, now, the marketplace has been improved very much, and the agencies have ready access to it at the present time.

Mr. ASHLEY. I suppose you could say that this might reduce the amount you have to pay.

Mr. HANCE. Precisely. And the impact would not be to gain greater acceptance but to make it more attractive and, thus, perhaps produce a lower interest cost to us, which could be passed through to the project.

Mr. ASHLEY. Well, we certainly will have to look at the tradeoff that is involved there.

I just remembered that Mr. Brown sits on this subcommittee, and we had many weeks of discussions with respect to this and the way—the way things occurred in this situation. And we arrived at a compromise. And what you are suggesting certainly lays the groundwork for a compromise. If you are asking to go from 1½ to 40 years, there is plenty of room to compromise there; I will say that.

[Laughter.]

Mr. ASHLEY. I have one other question, and that is: How does a city like Norfolk, or any city in Virginia who comes up with their housing assistance plan, how do they get in touch with you?

Do they ask you to come in and submit proposals?

Do they identify the land that would be involved in the section 8 projects? Just how does this work?

Mr. HANCE. We have worked very closely with a number of cities in Virginia in an attempt to maximize the tying together of title I community development assistance and title II housing assistance. And I guess the forms that that has taken are as varied as the number of cities we have dealt with.

Normally, the plans speak in terms of the obvious issue of needed goals, rather than earmarking specific areas. They may speak to areas of the city rather than specific sites where they believe—

Mr. ASHLEY. By census tract?

Mr. HANCE. That is a common practice, yes. The question is, to what extent is it appropriate to become—how specific should one become and not be bending the intent of the plan concept itself? But we have worked rather closely with the city and with the Redevelopment and Housing Authority in those cities with respect to their section 8 needs and goals, and, in fact, in both Portsmouth and Norfolk, we are working with the Redevelopment Housing Authority. In cases where they are the owner, we are the lender, contract administrator for section 8 purposes.

We also have worked with private developers on urban renewal or redevelopment land in those cities where both the site and the builder/developer has received the blessing of the city through the redevelopment housing program.

Mr. MITCHELL. It is a very interesting inquiry, and I am not at all sure that you got the response that you wanted. Or maybe I didn't understand your inquiry. But I thought the chairman was seeking to find the discrete mechanisms by means of which you get locked into this.

Does the local housing authority call you and say, "Look, we are putting this into our plan. Do you want to take a look at it before we put it in," or are you privy to all of the developments through some sort of a mechanism?

Is that the way it works?

Mr. HANCE. Congressman, I guess in a sense all of the above is the right answer to that.

Mr. ASHLEY. I find in Toledo, Ohio, that there is no discussion between the city council on the one side and our local housing authority on the other at the time the plan was put together.

And this leads to very severe problems downstream. When, for example, the housing authority in effect comes to the city and says, "Please extend some sewer lines for us," and the city throws up its hands and says, "We never knew this was going on."

And yet it is perfectly clear that within the parameters of the plan for the city it was expected that there would be not only section 8, but public housing as well. And I suppose that it is within this context that my question emanates. I am not just curious about that, but I am curious about how a functioning State financing agency becomes aware at the time that a plan is being developed as to how they might participate, the extent to which they might participate and in what ways. Now, in a monopoly State, such as Virginia, perhaps that is easy inasmuch as you indicate that you are the only player, not just on the block but in the entire broader community as far as section 8 is concerned.

There probably is not much problem in communications. Is that right?

Mr. HANCE. I think that that situation does not eliminate the problem of communication of these plans. Again, I guess I can add a couple of thoughts, but I guess in effect the circumstances have been about as different as the number of cities with whom we have dealt.

In some cases we have had developers come to us with proposals. And we have talked with the city, perhaps the planning department, perhaps the redevelopment housing authority over what proposals have come to us for housing in their city.

In other cases, the authority may have come to us with either sites or development proposals of their own.

Mr. ASHLEY. Does your agency ever initiate?

Mr. HANCE. We do that, but in addition, in several areas of the State there are very active regional planning district commissions. And, for example, in southeastern Virginia, the Tidewater area, the southeastern Virginia Planning District Authority has developed an areawide housing opportunity plan, comparable to the one in the Metropolitan Washington area through the Washington Council of Governments.

Again that is an entity with whom we deal and a member of my staff who is here today attends the housing technical committee meetings of that agency regularly.

In that sense we are in regular touch with that staff and with the representatives from each of the jurisdictions, in this case, of course, including Maryland and the District as well as Virginia.

In those cases we keep in very close touch. Sometimes we do the initiating because the developers come to us. In other cases the locality initiates it.

The problem of whether the local housing authority and the city government talk to each other is not a problem that we can either solve or be expected to solve. But perhaps sometimes we are able to facilitate that communication.

Mr. ASHLEY. I quite understand that.

But what I am interested in is more to the direction that you are responsible to. You see we don't really know a whole lot about the operation of State housing financing agencies, and for good reason. Through a recent advent they are just as dissimilar as they can be, some are on paper and some are for real, but we are faced with a request from you which, on its face seems persuasive; namely, for a set-aside, administrative or legislative of a substantial number of units.

And it seems to me that the more that we are able to learn as quickly as possible about State housing financing agencies the better off we are all going to be. And that is why I am interested both as an advocate and as the devil's advocate because I am interested in Ohio getting its proper share of section 8 housing, so that Toledo can receive its proper entitlement.

You suggest that there are 5 States that are in a monopoly position, that there are 20 States that are active, I suppose that there is enough population in those 20 States to determine whether 20,000 units appears to be within the ball park.

Mr. HANCE. Mr. Chairman, on that point, I think that whatever allocation the States receive, whether it was because of a set-aside, congressional or administrative or just in the normal process that that would not affect the allocation to an area or to a State, that HUD has by law the obligation and by law and by policy the obligation to make the allocations nationwide on the fair share basis.

The question then simply is whether the allocation to the State of Virginia, for example, would be 100 percent open ended, whether it would be 100 percent directed through us, 50-50 or some portion of that. But I don't think this would change the amount of dollars going to Virginia or to Ohio.

Mr. ASHLEY. No. I can understand that. I am trying to get at a fuller sense of what is involved, from our standpoint as well as yours, so

that we can treat intelligently the request for a set-aside of 70,000 units. And I must say that you have been helpful in this regard.

I think we are going to have to call on HUD to be forthcoming as well. And I think we are going to have to have substantially more information with respect to the operations of the State housing finance agencies, than we have at the present time.

And I would invite either a further meeting at the time that we mark up or prior to that or an additional submittal that would focus on the areas of interest that have been expressed here this afternoon.

Mr. HANCE. Mr. Chairman, we would be delighted to respond through staff or directly with you, in whatever form you think would be most useful to you.

• Mr. ASHLEY. I want to commend you for your testimony. And I can tell you that this has been testimony that has been most useful and constructive. And I tip my hat off to you as I am sure the other members do, for the really quite remarkable job that has been done in a number of States, a rather large number of States in a short period of time.

The bottom line here, of course, is, how many more families will be housed in decent housing than before we embarked on this approach. And the track record would be completely full rather than only partially so.

Thank you very much.

Mr. HANCE. Thank you, Mr. Chairman.

Mr. ASHLEY. We would like to welcome back the president and chairman of the board of the Federal National Mortgage Association, Oakley Hunter—we are delighted that you are with us this afternoon. Mr. Hunter—a former member and a distinguished one, with a good deal of experience with this subcommittee which we are pleased to be able to call upon.

And you can—I see you have a prepared statement. It is on both sides. So I think what we will say at this time is that—oh, we have an appendix. [Laughter.]

Mr. HUNTER. I have already filed my prepared statement and the appendix with the subcommittee.

Mr. ASHLEY. That was very nicely done.

You are going toward 100 pages here. [Laughter.]

Mr. HUNTER. I ask at this time merely to summarize my statement.

Mr. ASHLEY. That will be granted with alacrity. [Laughter.]

Mr. HUNTER. The appendix contains an account of the stewardship of FNMA since its transition to private status pursuant to the 1968 Housing Act. I hope that you and the other members will have an opportunity to read it.

I will now summarize my statement, and then answer any questions you may have.

**STATEMENT OF OAKLEY HUNTER, CHAIRMAN OF THE BOARD,
PRESIDENT, FEDERAL NATIONAL MORTGAGE ASSOCIATION**

Mr. HUNTER. Most of the various FHA mortgage insurance programs terminate June 30 of this year. FNMA urges that they be extended to June 30, 1978. We believe that such an extension would give the subcommittee and the Congress additional time in which to

make a decision as to the future role of FHA in meeting the Nation's housing objectives.

We strongly believe that FHA can continue to make a very substantial contribution to housing in this country, particularly for those who wish to live in the older urban areas.

With respect to graduated payment mortgages, the administration has asked for some modifications in the section 245 program. FHA is now working on a graduated payment mortgage and we have announced our willingness to begin purchasing these mortgages in the secondary market.

The modifications involve putting the program on a regular base rather than an experimental one, removing the 1-percent limitation, and giving a limited preemption of State restrictions that may apply to the addition of deferred interest to principal or the charging of interest on interest. I think there may be some 30 States involved.

The graduated payment mortgage, as you know, can give those buyers who would not qualify under the regular program of a level monthly payment, fixed interest rate over 25 or 30 years, the opportunity to qualify for home ownership.

The Brooke-Cranston Act, the Emergency Home Purchase Assistance Act, will expire in October, 1977. We recommend its extension until June 30, 1978. This would give the subcommittee time to determine how this program fits into the overall comprehensive national housing policy.

If the subcommittee does recommend the extension of this program, I believe that consideration should be given to amending the law to limit the purchase price or the income of the mortgagor. I don't think it would be administratively too difficult to impose some limitations. The loan-to-value ratios on many of the mortgages originated under this program in the past have been pretty low. That has been due to the fact that people have "traded up." They have had considerable equities in their houses because of the escalation in housing prices. This has enabled them to make a relatively low loan-to-value ratio loans on homes financed under this act and to buy in some cases houses that are in the \$60,000 and over price bracket.

This program, I think, can be of assistance to the young homebuyers—the young families just starting out. Many of these have no significant amount of savings; their incomes are low, and they don't have a house to trade up. They don't have any equity that they can use. I think the Brooke-Cranston Act would provide a realistic method of financing the purchase of a home for those in this income range which is a growing number.

One of the very serious problems we have in this country is the ability to finance housing for the new family formations, for the new households that are coming into the market.

FNMA's conventional mortgage limit today is \$55,000, which dollar limit in general also applies to the Federal savings and loan associations. There is a higher limit for Alaska, Hawaii, and Guam.

The FNMA limit of \$55,000 was set pursuant to the 1974 Housing Act. During the period September 1974 through December 1976, there has been almost a 27-percent increase in the median sales price of new housing, and over 20 percent for existing housing.

So FNMA recommends an increase in the current limitation of at least 25 percent. This would only permit a catching up with the increases in the cost of housing that have already taken place. Also, it is estimated that house prices will increase by roughly 10 percent annually over the next 2 years.

We would also recommend an increase in the FHA section 203(b) limit, now \$45,000. We recommend that this limit be increased by 25 percent which would run it up to \$56,250. In the case of conventional mortgages, the limit would be increased from \$55,000 to \$68,750, and with higher limits in Alaska and Hawaii.

There is no indication that housing prices are going to come down. The best estimate is that the prices will continue to increase at a rate close to 10 percent annually, which is considerably above the estimate of increases in the consumer's price index.

And we are talking here of mortgages which do not involve Federal subsidies. We are talking about mortgages at market rates.

The section 312 rehabilitation loan program terminates September 30, 1977. There is about \$70 million in carryover funds available. We recommend the extension of this program and additional funding, because we feel that that is not adequate to meet the demands for these subsidized rehabilitation loans.

With respect to section 235, FNMA believes that there is a continuing need for a carefully administered program of aid for low income families who can benefit from home ownership.

Section 235 has caused a great many headaches, but there are many examples of success under this program.

I just recently was in Milwaukee and walked around a housing project which was about 60 percent nonassisted, and 40 percent was financed under section 235. It was close to town, very well maintained. From the outside, one could not tell the difference between that part financed under section 235 and that financed under section 203(b) or that conventionally financed.

This project is a case of very successful economic integration. And I think that can be a result of the section 235 program.

I would like now to speak briefly on FNMA's affirmative urban lending program.

This is a program which has been in the making since almost the time that FNMA became a privately managed and privately owned corporation. We undertook investigation and research. We held a number of conferences, nationwide in scope, to determine ways and means to provide housing for middle-income people in the cities without direct Government support.

Now, I said middle income. That does not mean that we are unmindful of the dire needs of the poor or the fact that there are areas within a city that have reached the point of devastation where the only method of retrieval is massive Government assistance at all levels together with very determined efforts on the part of private enterprise.

We cannot forget the necessity of making provisions for financing inner city housing for middle-income families because if the cities are to be brought back—if the deterioration which is now going on is to be arrested and there is to be a reversal, we must have economic integration.

I personally feel that this problem of the deterioration of not only housing, but neighborhood facilities and services in the cities in this country—is, if not the most serious, one of the most serious domestic problems that we face.

There is evidence now that we can realize a measurable degree of success in reversing innercity deterioration if we have the cooperation and the determined efforts on the part of not only the lending institutions, but also the rest of the housing industry, the real estate sector, the home builders together with the executives in local government. Local government is necessary if we are to keep up to standard or bring up to standard neighborhood facilities and services, such as utilities, streets, lighting, schools, fire and police protection, recreational facilities, cultural facilities, and so on. Also, there must be the willingness of the local government to accommodate rehabilitation and new construction by the reasonable application of zoning laws and building codes.

If we don't have this economic mix, I don't think there is any chance of our ever really being successful in bringing back the cities or in arresting the very serious trend toward deterioration.

It goes without saying that the cities were great when we had a good economic and racial mix. They started falling apart with the exodus of the middle class fled to the suburbs and the influx of the poor.

So, as part of the fight against the deterioration and decay of our cities, we need to do something about providing financing for middle-income families who want to live in the older urban areas. This is one activity in which FNMA is making a very determined effort.

I said we are not unmindful of the problems of low- and moderate-income families.

Of our portfolio now, about a quarter of it is invested in section 235 and section 236 mortgages.

As a matter of fact, in the beginning of the program we had committed to or had purchased over 90 percent of the section 236 mortgages. That is down a bit now from that figure. It was our effort to establish the secondary market and prove to some of the lenders that the waters were not quite as perilous as they anticipated at the outset.

So, FNMA has certainly contributed to the financing of housing for law- and moderate-income families.

We are now in the process of an experimental program in St. Louis.

We are experimenting with new techniques of financing, with the graduated payment mortgage, the variable rate mortgage and with deferred interest. We are also considering the possibility of using a second mortgage. This has not been too popular or too successful, but it probably has a part to play in rehabilitation. Also, there is the wrap-around mortgage. There are all kinds of financing possibilities. We hope to learn in our St. Louis experience and to pass that information on to other lenders.

We will and we are investing our own money in urban areas. But we feel that as a catalyst we can induce other lenders to get in. We are not primary lenders, we are in the secondary market. We don't originate mortgages. We don't deal directly with homeowners. We deal with the mortgage bankers, the commercial bankers and others who make the loans. What we do is to commit to buy them when they are

originated. We will buy the loans so as to provide liquidity to the mortgage market.

In recent times we are seeing really the first evidence that there is a growing market for middle-income housing in the older areas of the cities. It shows up in sales. It shows up in the inquiries that we get.

I think this is due in part to the fact that suburbs no longer have the great lure that they once had. Many of the suburbs now require high taxes, they are having problems with police protection. They are having trouble with schools. The cost of commuting has grown considerably. And then there are different attitudes and life-styles and the consumer preferences have changed.

My generation may have preferred the suburbs. Many of the people interested in going back to the city are in the younger group. They might be called the children of the exiles.

To use an absurd example, if somebody said they are going to start a potato chip factory in a quiet suburban subdivision a panic would follow. In the city area, such a proposal would now pass without a ripple.

There is a new generation coming on that likes the hustle and bustle of the city. They don't mind some of the problems involved. We think this should be encouraged and that we should help develop a greater momentum for living in the older neighborhoods.

[The prepared statement of Mr. Hunter, on behalf of the Federal National Mortgage Association, along with an attached appendix, follows:]

STATEMENT OF

OAKLEY HUNTER

CHAIRMAN OF THE BOARD AND PRESIDENT

FEDERAL NATIONAL MORTGAGE ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittee, my name is Oakley Hunter. I am Chairman of the Board and President of the Federal National Mortgage Association. I appreciate this opportunity to appear today before the Subcommittee.

FNMA believes that this Subcommittee and the full Committee will be most active this year and next in matters relating to housing and mortgage finance. FNMA has the capacity, within the constraints of its Charter and the realities of the marketplace, to continue to play a major role in the furtherance of national housing objectives. FNMA also believes that it has demonstrated its commitment to the cause of revitalizing the older neighborhoods in our cities and that housing and the related problems of the cities are the number one domestic problem facing this country. FNMA would like to work with this Subcommittee and the full Committee particularly on matters of mortgage finance, including the problems of urban lending. FNMA believes that it can be of help.

In this statement I outline FNMA's views on the need to extend various housing programs through June 30, 1978 and I ask this Subcommittee to initiate legislation increasing the existing statutory mortgage limits for both FNMA's conventional mortgage program and for the FHA Section 203(b)

insured mortgage program. Also, I comment on FNMA's urban lending program.

Finally, I summarize how in accordance with the legislative plan contained in the 1968 Housing and Urban Development Act FNMA has evolved into the privately owned, financed and managed corporation that it is today and highlight some of its activities. This last portion of my statement is developed much more fully in the attached Appendix.

EXTENSION OF MORTGAGE INSURANCE PROGRAMS

Most of the FHA mortgage insurance programs terminate on June 30, 1977. FNMA urges that they be extended for one year to June 30, 1978. Such an extension would give this Subcommittee and the Congress time within which to come to a decision on the future role of the FHA in meeting national housing objectives.

FNMA believes that there continues to be a most important role for the FHA. As a pioneer in developing the low down payment, long term level payment home loan, the FHA has revolutionized homeownership in this country. FNMA strongly believes that the FHA can continue to make a substantial contribution in helping to provide housing for American families, including those who want to live in the urban areas.

GRADUATED PAYMENT MORTGAGES

The FHA is now working on a graduated payment mortgage (GPM) and FNMA has announced its willingness to begin purchasing these mortgages in the secondary market.

HUD has asked this Subcommittee to amend Section 245 of the National Housing Act by removing the limitation placing the use of the GPM authority on an experimental basis as well as the limitation on the outstanding aggregate principal amount of the mortgages that may be insured under the Section. HUD is also seeking a limited preemption of those State restrictions applicable to Section 245 mortgages since there appears to be a legal question as to whether State restrictions on interest rates apply to the addition of deferred interest to principal, or the charging of interest on interest. FNMA supports these requests because the GPM has the potential of bringing homeownership to some families who otherwise may not be able to afford a home.

ALTERNATIVE MORTGAGE INSTRUMENTS

Much work needs to be done by the mortgage finance industry on the development of alternative mortgage instruments. The fixed interest rate, level monthly payment, fully amortized mortgage has made possible the financing of most of the housing in our nation. It works well in a stable economy, but flounders in times of continuing inflation--even continuing inflation at a modest rate.

How can young people who are just starting out with relatively small incomes and little savings buy a house? They usually are first time home purchasers. They have no equity from the sale of a house; they cannot trade up. Alternative mortgage instruments may help such potential home buyers. We

need to make the effort, and the FHA can be of help in this undertaking.

BROOKE-CRANSTON ACT

The Emergency Home Purchase Assistance Act--the so-called Brooke-Cranston Act--expires October 1, 1977. FNMA recommends that it be extended to June 30, 1978. This would give the Subcommittee time within which to determine how this program fits into an overall comprehensive national housing policy.

If the Subcommittee decides to recommend an extension of the law, it should at the same time consider including either a limitation on the purchase price of the home to be financed or a limitation on the income of the mortgagor. FNMA believes that this program with such a change can provide the first time home buyers--usually the young couple just starting out--with a realistic method of financing the purchase of a home.

The Congressional Research Service of the Library of Congress completed a study of this program in September 1976 and has testified that the price of housing assisted under the program ranged between \$35,000 and \$45,000, with the median being about \$41,500. This, the CRS noted, was somewhat higher than the median of \$39,300 for new housing sold in 1975. The CRS also noted that 5 percent of the mortgages financed under this program involved housing priced at \$60,000

or over, and that about 9 percent of the purchasers under this program had incomes of over \$30,000.

FNMA CONVENTIONAL MORTGAGE LIMITS

Except for mortgages on residential properties in Alaska, Guam and Hawaii, FNMA cannot now purchase a conventional mortgage having an unpaid balance in excess of \$55,000. This ceiling was set in the 1974 Housing and Community Development Act.

From September 1974 through December 1976 the median national sales price for new housing rose 26.8 percent; for existing housing, 20.4 percent. The Consumer Price Index (CPI), however, rose "only" 15.0 percent. On this basis alone, FNMA's conventional mortgage ceiling of \$55,000 at the end of calendar 1976 should have been about \$68,000.

Further, economists expect housing prices over the next two years to rise at a rate of roughly 10 percent annually as compared with a 5 percent annual rise for the CPI. The expectation of a more rapid rise in housing prices is based not only on past performance but on other factors which suggest a continuing strong demand for single-family homes, a continuing rise in construction costs and a continuing strong desire on the part of home buyers for housing with greater amenities.

Accordingly, any increase in FNMA's conventional mortgage limit should take into account not only the price rises which have taken place since the mortgage ceiling was last

changed, but should also reflect the probable future increases in housing costs over the next few years.

Today the simple fact is that in portions of this country --in California and in many parts of the Northeast--FNMA, with its conventional mortgage limit of \$55,000, is increasingly "out of the market."

FNMA strongly urges this Subcommittee to recommend legislation increasing the existing limit on its conventional program by at least 25 percent.

INCREASE IN FHA 203 MORTGAGE LIMITS

The same reasons which support the requested increase in FNMA's conventional limit support an increase of at least 25 percent in the FHA Section 203(b) limit of \$45,000. If the FHA mortgage ceilings are increased, changes should be made in the down payment requirements to facilitate homeownership.

INNER CITY HOUSING

A continuing and serious problem--I believe our greatest domestic problem--is providing decent housing for the poor and reversing the deterioration of housing and of neighborhood services and facilities in our cities. This is not just a mortgage lender problem or a builder problem. It involves everyone who has a stake in housing and in our cities.

Progress will only come through the cooperation and extraordinary efforts of builders, lenders, civic leaders, government and those occupying housing in the cities, both individually and through neighborhood organizations.

It is not enough to merely build or rehabilitate. Streets, sidewalks and utilities must be in good repair. Police and fire protection must be effective. Schools and recreational facilities must be attractive and well run. Local governments must be willing to modify zoning and building codes and other laws or ordinances that discriminate against the rehabilitation of existing housing. Financing must be available on reasonable terms.

SECTION 312 REHABILITATION LOANS

Regarding financing, FNMA believes that a mixture of Federal aid programs, including subsidies, will be needed in the struggle to save the cities. FNMA, therefore, recommends that the Section 312 rehabilitation loan program be extended beyond its present September 30, 1977 termination date. The \$70 million in carry-over funds probably will not be adequate to meet the demands for these subsidized rehabilitation loans. Therefore, an additional appropriation should be forthcoming.

SECTION 235

Also, FNMA believes that there continues to be a need for a carefully administered program of aid for those low-income families who can benefit from undertaking homeownership. FNMA recommends additional contract authority for the Section 235 program be made available through June 30, 1978.

FNMA'S AFFIRMATIVE LENDING PROGRAM

FNMA has embarked on an affirmative mortgage lending program to demonstrate to mortgage lenders that sound loans can be made to qualified borrowers in urban neighborhoods so long as there is evidence of local community and local government support.

This program is directed toward middle income housing without Government subsidy. FNMA is not unmindful of the housing needs of the poor, or the existence of city residential areas where deterioration has reached the point of devastation. Only massive Government action, in conjunction with private enterprise, can retrieve these areas.

A program for middle income city housing is not possible without a market. There is evidence that such a market is developing. The mass exodus to the suburbs has passed. The suburbs no longer have the allure of earlier years. They have developed the ills of the city, e.g., high taxes, school problems, crime--and the cost of commuting rising every higher.

Consumer preferences and people's life-styles have changed. Many people, particularly young people, like the sights and sounds of city living, the hustle and bustle, the mixture of commercial and residential structures, and the racial and income mix of the city.

This does not portend any reverse mass exodus from the suburbs to the cities--suburbs will continue to proliferate,

but there is promise that more people will move to or stay in the cities. And this is good.

The objective of FNMA's new undertaking is to develop home lending policies and techniques which are responsive to today's needs and which at the same time are financially sound. What will be learned here can then be applied by FNMA and other permanent lenders in other cities.

St. Louis was selected as the site for the new FNMA program for several important reasons which are essential to its success. The city has some neighborhood areas which, though suffering past deterioration, have not reached a severe state of blight, and these areas contain a housing stock some of which is good. There are active neighborhood associations in these areas in which the local government is undertaking a systematic program of code enforcement and in which public funds are being used for necessary public improvements and increased municipal services.

The FNMA program will remain flexible. In some cases the regular home mortgage purchasing programs will be used. In others, FNMA may agree to buy mortgages on dwelling units designed for two-to-four families or it may agree, under appropriate circumstances, to buy conventionally financed second mortgages. Also, it may commit to buy conventionally financed mortgages on multifamily units.

The corporation also hopes to be able to use various types of financing plans, including variable rate, "deferred interest", graduated payment and reverse annuity mortgages.

FNMA is considering the issuance of commitments to buy and will buy mortgages on homes being rehabilitated with more favorable terms given when the rehabilitated unit becomes owner-occupied.

FNMA has recently released a film for nationwide distribution suggesting ways in which problems of urban lending can be overcome. The film is being used in conjunction with a series of meetings the company is now holding in various cities around the country which it hopes will encourage local governments, local lending institutions, community groups, home builders, and others to mobilize their resources to save the billions of dollars worth of deteriorating but still sound housing stock in older neighborhoods around the country.

FNMA ACTIVITIES--1969 TO 1976

The Appendix to this statement details how in accordance with the legislative plan contained in the 1968 Housing and Urban Development Act, FNMA has evolved into the privately owned, financed and managed corporation that it is today. Also, the Appendix comments at some length on what FNMA has meant to the mortgage market. Let me briefly summarize the highlights starting with the corporation's purpose and its goals.

FNMA is a stockholder owned corporation chartered by the United States Congress. Its corporate purpose is to help finance housing by supplementing the supply of mortgage funds.

To achieve this purpose, the corporation has the following inseparable goals:

- To generate earnings sufficient to attract the equity and borrowed capital necessary to finance its operations, as required by the Charter.
- To promote the stability of funds available for mortgage investment and to utilize the money and capital markets in such a way as to carry on its activities at the lowest cost to the home buyer consistent with both the corporation's earnings requirement and the prudent management of its business and financial risks.
- To provide leadership in the housing and home finance industry through the development of new programs and techniques for housing finance.
- To maintain high standards of corporate citizenship in the conduct of its affairs.

I believe the corporation has conducted its operations in accordance with its purpose and is fulfilling its goals.

FNMA was organized in 1938 as a wholly government owned and controlled corporation for the principal purpose of developing and supplementing a secondary market for the then new FHA insured mortgages.

Pursuant to the Housing Act of 1954, FNMA became a mixed ownership corporation with stock issued to the U.S. Treasury and to those lenders who sold mortgages to FNMA.

In addition to its secondary market operation, FNMA had two other functions: (1) "special assistance," which entailed financing of selected types of home mortgages at interest rates which usually were below market and required subsidies; and (2) "management and liquidation," which entailed servicing the portfolio of certain government acquired mortgages.

The 1954 Housing Act contained a provision directing the Executive Branch to submit to the Congress recommendations for legislation transferring FNMA's secondary market operations to a privately owned and financed corporation.

This intent expressed in 1954 was fulfilled in 1968 when the Administration proposed and Congress amended the FNMA Charter Act to make FNMA the Federally chartered and privately financed and managed corporation it is today, free of Federal budgetary constraints and with a resulting greater flexibility to meet the financing needs of American homeowners.

The transition to private management was completed in May 1970.

The 1968 Housing Act at the same time created the Government National Mortgage Association (GNMA) to carry on FNMA's "special assistance" and "management and liquidation" functions.

GNMA is a government institution which, pursuant to certain Federal housing programs, purchases mortgages at interest rates below market and subsequently sells them in the market. In recent years these sales have resulted in losses which constitute a housing subsidy and are paid by the U.S. Treasury.

That is why these programs are called "special assistance" programs. FNMA cannot undertake such programs. FNMA's Charter provides that it must operate within the range of the market prices and must be self-supporting.

FNMA was taken out of the United States Government and told to buy mortgages, a business which fewer and fewer investors are willing to engage in. The corporation was also told it was to carry on its business with private funds, with all the risks that private investors normally have and, by implication, the expectation of a commensurate return for the risk assumed.

FNMA was also told that the repayment of the funds it borrowed to finance the purchase of mortgages would not be guaranteed by the United States Government. Furthermore, it would have to pay Federal corporate income taxes at the same rate as other corporations. As a matter of fact, because of various tax deductions and credits allowed to other mortgage investors, FNMA pays an effective tax rate at least twice that of other such investors.

FNMA has 49.8 million shares of stock outstanding and about 35,000 stockholders. Well over half of the corporation's shareholders own 500 shares or less. In addition, many shares are owned by mutual funds which hold FNMA stock for the benefit of additional thousands of small investors. Over 4.5 million shares are held by more than 150 profit sharing, pension and retirement plans covering millions of American workers.

FNMA has gone to the market twice to broaden its equity base in order to fulfill its Charter mandate. It has sold \$50 million of its common stock and \$250 million in debentures convertible into stock. These actions were taken with the strong encouragement of the Secretary of HUD.

FNMA is in every sense of the phrase a "publicly held" company.

As a shareholder owned corporation it purchased from January 1969 through December 1976, 1.5 million home and project mortgages totaling \$38.9 billion. More than two million families live in housing on which FNMA holds the mortgages.

Control of FNMA rests with its shareholders, subject to certain regulatory authority granted in FNMA's Charter Act to the Secretary of HUD and the Secretary of the Treasury. The President of the United States appoints five of the corporation's 15 directors, subject to a Charter Act provision that three of them must be appointed from the housing and home finance industry, i.e., a mortgage lender, a home builder and a real estate representative. Presidential appointments are for a term of one year and expire at the time of the annual meeting of shareholders. Ten directors are elected annually by the shareholders at the annual meeting of shareholders.

Since May 1970, when the corporation's transition to private status was completed, the relationship between the Federal Government and the Federal National Mortgage Association has worked smoothly and effectively.

FNMA's mortgage purchase volume has expanded and contracted in response to the demands placed upon it. On balance, it has experienced substantial growth. As of January 1, 1969 its mortgage portfolio totaled \$7.2 billion as contrasted to the present \$32.9 billion. Serious credit crunches have characterized five of the eight years since 1969.

Since the transition was completed, the corporation's mortgage purchases have ranged from a low of \$3.6 billion in 1976 to a high of \$7.0 billion in 1974. Commitments issued in the years 1969 through 1976 totaled more than \$46 billion, exclusive of those issued on behalf of GNMA. FNMA's biggest year for commitments was 1970 when it issued \$7.6 billion. A FNMA commitment to purchase a mortgage has an importance and an effect over and above the actual purchase of a mortgage. Delivery of a mortgage pursuant to a FNMA commitment is not mandatory. If interest rates drop between the date of issuance and the date of expiration of a commitment, the originating lender who holds the commitment is free, if the opportunity is available, to sell the mortgage to a buyer other than FNMA at a lower rate of interest and a better price. Such eventuality can enure to the benefit of the home buyer. Thus, FNMA provides an umbrella under which the planning, construction and marketing of housing is enabled to proceed because of the assurance that financing on known and fixed terms will be available.

Without the flexibility of FNMA's private status and freedom from Federal budgetary constraints, this support of the mortgage market would not have been possible

Although there will be some year to year variation, FNMA should be expected to show an increase in its mortgage portfolio which generally parallels the mortgage market.

FNMA does not have a fixed, pre-set, inflexible asset growth target. In the process of charting our financial course for the next five years, the corporation has used 10 percent as a likely figure for the average annual growth of the mortgage market and a yardstick by which to measure the market's need for FNMA. On the whole, FNMA's operations are determined by market conditions, but it seeks to control its destiny to the extent necessary to maintain the capacity to meet both the day-to-day and the extraordinary needs of the mortgage market. This requires careful planning and the development of new programs to meet changing conditions in the area of housing and home finance.

During the years 1969 through 1976 FNMA's net pre-tax income was \$1.265 billion. Approximately \$609 million of that amount went to the United States Government in the form of Federal corporate income taxes. \$482 million was reinvested in the business in the form of mortgage purchases.

The remaining \$174 million was paid out in dividends. The significance of this rather modest dividend payout in relation to FNMA mortgage yields is important: If every

dollar paid out in dividends had instead been passed on to the home buyer in the form of lower mortgage rates, the average reduction would have been 6/100ths of 1 percent. Let me illustrate: Assume the rate on a mortgage is 8.75 percent. If we had paid no dividends, it would have been possible to reduce that figure to 8.69 percent.

The investor in FNMA stock has had no appreciation in the value of the stock--the stock price today on an equivalent basis is approximately the same as it was six years ago.

At the current annual dividend rate of \$1.00 per share per year, FNMA pays about 6.25 percent based on the current market price of about \$16 per share.

Profit is important not only because it is the source of our dividend payments, but also because it is a major source of the growth of our equity base. FNMA's ability to respond to mortgage market needs is tied directly to its equity base. FNMA cannot borrow beyond the debt-equity ratio set by the Secretary of HUD. The addition of \$482 million to our equity base because of profit not paid out in dividends has made it possible for us to purchase about \$15 billion of mortgages.

FNMA's Charter Act was amended in 1968 to permit the sale of stock to the public because it was recognized by both the Congress and the Administration that FNMA's equity needs would require support by the investing public.

Payment of adequate dividends is a prerequisite to FNMA's ability to raise capital from the public. In this way, the burden of supporting FNMA's equity requirements is passed on to thousands of public investors rather than concentrated on a relatively small number of mortgage lenders, who as a part of the cost of doing business pass the cost on to the homeowners. The cost to the homeowner of the present form of capitalization is significantly less than any alternative form.

The contention has been made that because FNMA has "agency status," including a \$2.25 billion Treasury backstop, it should be able to operate with a lower level of profitability than other companies.

Agency status (and the Treasury backstop) certainly enhance FNMA's credit standing and enable it to borrow at a lesser cost than otherwise. It is true that the equity market takes this into account to some extent as it grades the risk and price of FNMA's stock.

However, even with agency status and the Treasury backstop, the equity market does not put a high multiplier on FNMA earnings. Last year FNMA earned \$2.62 per share, but recent market prices for FNMA stock have been about \$16, which is below book value. This produces a price multiple about 6 times earnings. Yet, other financial institutions show higher multiples.

Analysts who discuss FNMA stock attribute the low multiple to the fact that agency status has implications for the stockholders different than those for investors.

in debt. It implies to them that FNMA could be subject to various government controls which might limit its growth or its profitability. Though FNMA does not believe that this will happen, the market makes its own judgments and FNMA has handicaps as well as advantages because of its special status. Agency status will not offset inadequate profitability.

FNMA is the largest single provider of funds for residential mortgage financing for low and moderate income families. As of December 31, 23 percent of our portfolio consisted of mortgages on subsidized housing.

Most of our mortgages are in the \$25,000 to \$35,000 bracket--clearly in the range of middle income families.

FNMA's business is directed primarily to existing, older homes. More than one out of every five mortgages we purchased in 1975 was on a house that was built prior to 1950.

FNMA has contributed to efforts to solve our nation's housing problems in a number of other, less direct ways.

FNMA's participation with the Federal Home Loan Mortgage Corporation in the development of standard mortgage documents has made the conventional mortgage a more marketable investment. In the opinion of many conventional mortgage lenders, the success of the Brooke-Cranston program for the purchase by GNMA of conventional mortgages would not have been possible without the widespread acceptance of these uniform documents.

FNMA has provided both manpower and financial support for education and research into urban problems. The institutions aided include the MIT/Harvard Joint Center for Urban Studies. FNMA is also supporting the Commissioners on Uniform State Laws in their work on the development of a Uniform Land Transactions Act.

This concludes my statement, and I will be pleased to respond to questions. Thank you for permitting me to appear.

2311

APPENDIX

TO THE STATEMENT OF OAKLEY HUNTER
CHAIRMAN OF THE BOARD AND PRESIDENT
FEDERAL NATIONAL MORTGAGE ASSOCIATION

BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

MARCH 8, 1977

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Mr. Chairman and Members of the Subcommittee, I am pleased to have this opportunity to report to you on the manner in which FNMA is meeting its statutory responsibility under its Charter Act, since it became a privately financed and managed corporation in 1968.

FNMA'S STATUTORY MANDATE

FNMA's statutory mandate is set out in section 301 of the FNMA Charter Act (12 U.S.C. 1716, et seq.). That section provides:

"The Congress hereby declares that the purposes of this title are to establish secondary market facilities for home mortgages, to provide that the operations thereof shall be financed by private capital to the maximum extent feasible, and to authorize such facilities to ...provide supplementary assistance to the secondary market for home mortgages by providing a degree of liquidity for mortgage investments, thereby improving the distribution of investment capital available for home mortgage financing ..."

FNMA TODAY

FNMA today is a stockholder-owned corporation chartered by Congress. Subject to certain Federal regulation and in accord with the provisions of the Charter Act, FNMA operates in the secondary mortgage market buying, and from time to time selling, residential mortgages.

Using its own funds obtained in the private capital and money markets, FNMA has from January 1969 through December 31, 1976, purchased over 1.5 million home and project mortgages and loans, having an unpaid principal balance of more than \$38.9 billion. FNMA's present mortgage holdings represent housing for more than 2.0 million American families.

HOW FNMA HAS PERFORMED

Without the privately financed and managed FNMA that the Congress provided for in 1968, the problems faced by the housing and home finance industry during recent years would have been much worse. In 1968, FNMA's net new mortgage purchases totaled \$1.6 billion. In 1969, purchases were more than doubled to \$3.9 billion. This increase in FNMA activity alone permitted total net residential mortgage investment to increase to \$20.4 billion from \$18.5 billion the previous year.

In 1970, when the mortgage market was still under pressure of credit shortages, FNMA's net new investment in mortgages was \$5.0 billion, almost 25 percent of the total by all types of investors throughout the country.

Stringency in the residential mortgage market reappeared again in the second half of 1973. That year, FNMA's net new investment totaled \$4.1 billion, offsetting much

of a \$6 billion decline in net new investment by savings and loan associations.

In 1974, net new investment by savings and loans, savings banks and commercial banks fell about \$16 billion. FNMA's net new investment, on the other hand, increased more than 25 percent to \$5.2 billion.

Thus, it is evident from the record that the situation in the residential mortgage market without a privately financed and managed FNMA would have been far more severe than was actually experienced in several critical years.

This Committee, in reporting favorably the legislation (H.R. 17989, 90th Cong., 2nd Sess.) that was later to take FNMA out of the government and give it the private status that it now has, stated "that the privately owned corporation, with its improved financing methods, will add a significant impetus to the flow of funds in the secondary market and the availability of credit in the home mortgage market." (H. Rept. No. 1585, 90th Cong., 2nd Sess., p. 68 (1968).)

FNMA has met this expectation of the Committee.

A BRIEF HISTORY

Chartered in 1938 as a national mortgage association, FNMA was created to provide a national source of liquidity for mortgage investment. Its principal task was to develop

and supplement a secondary mortgage market for FHA-insured mortgages.

FNMA was a subsidiary of the Reconstruction Finance Corporation until September 1950, when it was transferred to the Housing and Home Finance Agency, which subsequently became the Department of Housing and Urban Development.

As a result of the Housing Act of 1954, FNMA became a mixed-ownership government corporation. FNMA's non-voting preferred stock was issued to the U.S. Treasury; its non-voting common stock was issued to those lenders who sold mortgages to FNMA. As stated in the conference report on the legislation, one of FNMA's three functions was "to provide assistance to the secondary market for FHA-insured and VA-guaranteed home mortgages in order to furnish additional liquidity for mortgage investments and thereby improve the distribution of mortgage investment funds." (H. Rept. No. 2271, 83rd Cong., 2nd Sess., p. 81 (1954).) This, of course, was the secondary market operation, which was subject to the constraints of the Federal budget.

The other two functions were (1) "special assistance," which entailed the financing of selected types of home mortgages until the mortgages involved became acceptable to private investors, and (2) "management and liquidation," which entailed servicing the portfolio of mortgages FNMA acquired in the period from 1938 to 1954.

Section 303(g) of the Charter Act, as enacted by the 1954 Act, provided that the Housing and Home Finance Administrator was to transmit to the President for submission to the Congress recommendations for legislation "to transfer to the owners of the outstanding common stock of the (Federal National Mortgage) Association the assets and liabilities of the Association in connection with, and the control and management of, the secondary market operations of the Association ...in order that such operations may thereafter be carried out by a privately owned and privately financed corporation."

Fulfilling this intent expressed in 1954, the Congress, in the Housing and Urban Development Act of 1968, again amended the Charter Act to reconstitute FNMA, after a transitional period which ended in May 1970, as the Federally chartered, privately financed and managed corporation that it is today.

MARKETPLACE CONSTRAINTS

FNMA exists in an environment which it did not create and cannot control. The fundamental factors affecting FNMA's operation are determined by the demands of the marketplace. The market determines what interest rate FNMA must pay on its debt. The market determines how profitable FNMA must be in order to attract capital. The market determines what the yield will be on the mortgages

FNMA purchases, and the market determines what volume of mortgages it is willing to sell to FNMA at the yields needed to meet the requirements of investors in FNMA stock and in its debt obligations.

FUNDAMENTAL CHARTER ACT CHANGES

The Housing and Urban Development Act of 1968 (the "1968 Act") made a number of fundamental changes in FNMA's financing capability so that it could better achieve its statutory objective stated in Section 301 of the Charter Act. Without the greater flexibility thereby given to operate as a privately owned, managed and capitalized corporation, FNMA could never have been able to respond as quickly and as aggressively as it has done during the periods of credit stringency which have already been referred to.

During the period between enactment of the Housing Acts of 1954 and of 1968, proposals were made from time to time to transfer FNMA's secondary market operations to a corporation wholly owned by its shareholders as contemplated by Section 303(g) of the 1954 Charter Act.

During the severe credit shortage of 1966 it became apparent that FNMA could not respond quickly to an increased demand for housing if its mortgage purchases continued to be under government budgetary constraints. The 1966 experience resulted in renewed interest in these proposals, but they were not acted upon until 1968, when it became

the Administration's policy to remove FNMA's existing debt and annual expenditures from the Federal budget.

Some of the early proposals had envisioned simply removing FNMA from the budget without significant structural changes in the corporation. This approach, however, was opposed by the Administration, speaking through its Bureau of the Budget.

Stockholder Control Required--The Administration's position was that FNMA's operations should continue to be subject to Federal government budget unless actual control of the corporation were transferred from the government to the corporation's stockholders. Thus, the removal of FNMA's debt from the budget was the immediate motivating force for the changes in the Charter Act made by the 1968 Act. These changes, however, coincided with a long-standing view expressed by the Congress in 1954 that the secondary market activities of FNMA should eventually be carried out by a privately owned and privately financed institution.

The most difficult issue facing those who were considering this change was: Where would FNMA obtain the equity capital needed to finance its secondary market operations? These were some of the critical questions raised at that time:

--How should the Treasury preferred stock and its share of ownership in the secondary market operations be retired?

--How should the capital of a privately owned FNMA be rebuilt?

--What should be done about the existing stockholders of FNMA who were not mortgage sellers or servicers, but members of the general investing public who had bought their shares in the market?

--Should FNMA stock be sold by the corporation directly to the public?

--What sort of borrowing authority should a private FNMA have in the capital and money markets? Should it be able to borrow from the Treasury?

Stock Subscriptions--One proposal was to retire the Treasury-held preferred stock and to rely solely on the mortgage lenders who sold mortgages to the corporation for the necessary capital. It was recommended that those who sold mortgages to FNMA be required to purchase stock in an amount equal to 4 percent of the purchase price of the mortgages sold to FNMA (instead of the 1 percent then required). The transferability of stock to be issued to sellers would be restricted to commercial banks which might accept the stock as security for mortgage sellers' credit lines and might later acquire the stock in case of loan defaults. This restricted transferability would require

the common stock held by persons and groups other than mortgage sellers to be retired as soon as possible. (A similar restriction on stock transferability is embodied in the legislation creating the Student Loan Marketing Association. Only institutions participating in some way in the student loan program can own stock in SLMA.)

The 1968 Act, as introduced, provided for a stock subscription of not less than 2 percent or more than 4 percent. If Congress had adopted the proposal to restrict stock ownership to those who sold mortgages to the corporation, FNMA would have become a mortgage finance cooperative--that is, a corporation owned by those who used its facilities.

Ownership of common stock would have been only incidental to the benefits afforded mortgage sellers by the stability and increased business provided by FNMA's secondary market operations. Stock ownership would not have been considered primarily an investment. This proposal, however, was not adopted and the distinction between a users' cooperative and a company owned by its stockholders figures prominently in later judgments made by FNMA's Board of Directors and its management.

The cooperative concept was rejected in 1968 because of a judgment that continued reliance on the users of FNMA for equity capital was not feasible. Mortgage sellers

strenuously objected to a substantial increase in the stock subscription rate. Unlike the savings and loan associations which hold stock in the Federal home loan banks (with which FNMA has mistakenly been compared), the majority of FNMA's mortgage sellers are thinly-capitalized entities, unable to purchase and hold FNMA stock with their own funds. Thus, a small increase in the amount of FNMA stock required to be purchased would result in an increased cost to home purchasers. This adverse impact on consumers would continue as long as FNMA stock acquisition was confined to the mortgage sellers. There were also doubts about whether the stock subscription by mortgage sellers would be adequate to provide the capital needed for the sharply increased borrowings occasioned by future severe credit shortages.

Public Stock Sale Authorized--In enacting the 1968 amendments to the Charter Act, Congress for the foregoing reasons decided not to require the corporation to place reliance solely on its sellers for necessary capital. Instead, the 1968 law specifically authorized FNMA to obtain equity capital from the investing public, a source which already had begun to be tapped through the nonrestricted transfer of FNMA common stock issued to sellers prior to 1968. Subsection 303(c) of the Charter Act was amended to authorize FNMA to issue shares of common stock in addition to those issued to mortgage sellers. Since there was considerable

skepticism both in Congress and among industry spokesmen as to whether FNMA's common stock would be marketable, Congress also authorized FNMA, by enactment of a new subsection 304(e) of the Charter Act, to issue subordinated capital debentures which could be considered as capital for the purpose of determining the corporation's debt-to-capital ratio.

Congress eliminated any possible ambiguity as to whether FNMA's common stock was freely transferable by a specific amendment to subsection 303(a) providing for free transferability. Finally, Congress ratified its directive to FNMA to terminate the Federal government's direct financial involvement by enacting Section 901(a) of the Housing and Urban Development Act of 1970 which required FNMA to pay to the Secretary of the Treasury approximately \$52 million, representing that portion of the corporation's general surplus and reserves which were attributable to Treasury's prior investment.

It is FNMA's view that all of these legislative changes reflect the stated intent of Congress to turn FNMA away from reliance upon funds supplied by the U.S. Government (i.e., the taxpayers) and toward the private market, in order for FNMA to obtain the capital necessary to conduct its charter responsibilities.

FNMA ACTIONS SINCE 1968

Since the 1968 Housing Act FNMA has taken a number of steps to assure its continuing ability to remain a self-supporting private corporation. These acts were either specifically authorized by Congress or approved by the Secretary of Housing and Urban Development pursuant to regulatory authority.

In December 1969, prior to the purchase of approximately \$5 billion of mortgages during 1970, the Secretary of Housing and Urban Development commented as follows when he increased FNMA's maximum debt-to-capital ratio from 20 to 1 to 25 to 1:

"This is the second increase in the corporation's authorized debt-to-capital ratio in a little more than a year. While I believe the new ratio is fully appropriate, I do hope that the corporation is seriously considering ways to improve its basic capital position and I urge that steps along this line be taken as soon as practical."

Less than three months later, the Secretary commented upon FNMA's intent to issue subordinated capital debentures:

"(They are) a feasible alternative at the present time. However, in view of the fact that high volume commitments and purchases may necessarily be continued for some months, I still believe it necessary to strengthen the equity portion of the capital structure as rapidly as is practical and authorize this extension based, among other things, upon the representation that immediate steps will be taken to accomplish such strengthening. Accordingly, it is my understanding that you and the Directors (of FNMA) will push for an

increase in the Common stock base (emphasis added) as a means of assuring the capacity of the Federal National Mortgage Association to meet the urgent National needs for which it was created."

As of September 30, 1970 FNMA's debt-to-equity ratio was approximately 44 to 1. FNMA had provided significant liquidity to the mortgage market during 1969 and the first six months of 1970 by its purchase of mortgages with an aggregate principal balance in excess of \$7.0 billion. As evidenced by the Secretary's comments, it was clear that additional capital was required if FNMA were to continue to meet the demand for mortgage funds during the next period of disintermediation. Although Congress had authorized issuance of subordinated capital debentures, the Charter Act limited the amount of such debentures which would be outstanding to two times the sum of capital represented by common stock and surplus and undistributed earnings. Because of its high borrowing costs, it was questionable whether FNMA's operations would be profitable during 1970, and the capital provided from the sale of stock to mortgage sellers would have permitted sale of no more than approximately \$150 million of subordinated capital debentures.

Rights Offering--Faced with this need for new capital, FNMA, with the approval and indeed the urging of the

Secretary of HUD, offered to its shareholders the right to subscribe for 1,130,598* shares of its common stock on the basis of one "new" share for each eight shares outstanding. Rights were exercised for 98 percent of the shares offered and the net proceeds to FNMA totaled \$49.4 million. Since the rights were transferable, the offering resulted in an increase of more than 4.5* million shares of stock held by investors other than mortgage sellers.

Although FNMA is not subject to SEC regulations, the corporation voluntarily disclosed the types of information that other private corporations disclose under the regulations. FNMA went through a self-imposed period of registration, issuing both a preliminary and a final prospectus, and conducted due diligence meetings over the country, informing investors of the risks and rewards attendant to the purchase and exercise of the rights to buy FNMA stock.

In effect, the corporation had passed a point where it was not only privately owned and managed, but where its securities, both debt and equity, were widely known and distributed in the private money and capital markets and on the stock exchanges.

* 4,522,392 shares as adjusted for the January 18, 1972 stock split.

Listing on Stock Exchanges--In August 1970, FNMA had listed its common stock on the New York and Pacific Stock Exchanges and later on the Midwest Exchange. The stock previously was traded on an over-the-counter basis. Listing on these major exchanges has facilitated trading in FNMA's stock by the general public, contributing to the success of later sales of common stock and convertible capital debentures to the public.

Preemptive Rights--Another step taken in broadening FNMA's capital base was the subsequent removal of preemptive rights (that is, the right of an existing stockholder to purchase new stock). Pursuant to statutory authority, the Secretary of HUD promulgated regulations on March 22, 1971, authorizing FNMA to deny preemptive rights for future stock issues by the adoption of a resolution of its Board of Directors ratified by a two-thirds vote of the shareholders. A resolution doing this was approved by FNMA's shareholders at the May 1971 annual meeting.

Subordinated Capital Debentures--Since 1968, FNMA has issued subordinated capital debentures aggregating \$1.5 billion as follows:

<u>Date</u>	<u>Amount (in millions)</u>	<u>Rate</u>	<u>Maturity</u>
September 30, 1968	\$250	6.00 %	October 1, 1973
April 1, 1970	200	8.00 %	April 1, 1975
October 2, 1972	250	7.40 %	October 1, 1997
April 1, 1975	300	7.625%	April 10, 1980
February 10, 1976	300	8.15 %	February 10, 1986
February 10, 1977	200	8.20 %	July 10, 2002

For the first two issues, FNMA obtained from the Secretary of the Treasury letters to the effect that the Department would make loans to FNMA (i.e., purchase debentures from FNMA) in sufficient amounts to enable FNMA to effect timely payments of principal and interest on its debt when due, if and whenever there would be a need for such loans. Because of increasing market acceptance of FNMA's subordinated debt, no similar agreement was sought from the Treasury for the last four of these issues. Another indication of market acceptability of FNMA securities was the fact that the last four issues were not underwritten by investment bankers, but were routinely sold to the public by those firms that regularly market FNMA's debentures.

Convertible Issue--In September 1971, FNMA undertook a successful offering of \$250 million of 25-year debentures convertible into common stock. This offering, one of the largest in the history of the investment community,

significantly improved the corporation's capital base and its ability to respond to sudden and unexpected pressures to supply funds to the mortgage market.

Again, FNMA voluntarily complied with all SEC disclosure requirements applicable to other corporations and FNMA's commitment to the investing public was deepened.

This convertible debenture offering was made against a background of severe shortage of funds for housing which had developed during the summer of 1971. Heavy demands were being made upon FNMA to buy mortgages. Wage and price controls were imposed. Tandem plans involving an unusually large volume of mortgages for financing for unsubsidized single-family homes and apartments were announced by the Government National Mortgage Association. Only the administrative flexibility of FNMA and its access to private money and capital markets made it possible for the corporation to implement these new tandem plans within a few weeks and to assume the sizable financial commitments in support of national housing objectives. The convertible debenture offering played an essential part in the capital planning of the corporation at that time.

Decrease in Seller's Stock Subscription--By enactment of Section 902(1) of the Housing and Urban Development Act of 1970, Congress amended subsection 303(b) of the Charter

Act to eliminate the mandatory one percent minimum stock subscription rate required of mortgage sellers. This amendment in effect recognized the corporation's increased ability to raise equity capital from private investors.

Increase in Dividend Rate--The current annual rate of FNMA dividends is \$1.00 a share, or a 6.25 percent return based on the approximate current market price of the stock--\$16 a share. The Board of Directors has successively raised the dividend from 24 cents a share in 1969 to the present \$1.00. Under the Charter Act, the Secretary of HUD may regulate the amount of earnings distributed as dividends.

CAPITAL STRUCTURE

The foregoing improvements in FNMA's ability to raise capital and to borrow are among the corporation's primary accomplishments since the 1968 Housing Act, second in importance only to the sizable volume of mortgages purchased during times of credit stringency--and indeed those purchases would not have been possible if the corporation's financing ability had not been so strengthened.

As the 1968 legislation was being developed, some who opposed FNMA's transfer from government ownership were understandably concerned about whether it could earn a sufficient profit and thus attract sufficient equity

capital to enable it to meet its statutory purpose of buying large volumes of mortgages during periods of credit shortage. Through sales of stock to the public, retained earnings and subscriptions of stock by sellers, FNMA has increased its stockholders' equity from \$200 million in December 1968, to approximately \$983 million in December 1976.

The corporation's ratio of debt-to-equity has been reduced from a high of 44 to 1 in September of 1970 to a current level of 31 to 1.

DEBT STRUCTURE

FNMA's operations in the secondary market are financed primarily through the sale of discount notes and debentures in the private market. The notes have a maturity ranging between 30 and 270 days, with an average maturity of about 132 days. The debentures are long-term obligations and presently have an average maturity of about 4.6 years. The average maturity of both our outstanding notes and debentures is 4.3 years.

In accordance with the Charter Act, FNMA obligations are not guaranteed by, nor do they constitute a debt or obligation of, the United States. They are, however, considered to be "agency securities." Their status as "agency securities" does not involve any Federal subsidy

or tax advantage, either to FNMA or to the investor. This status, coupled with its favorable general credit rating, helps FNMA obtain a lower borrowing cost than might otherwise be the case. This lower borrowing cost is reflected in the lower yields required on the mortgages purchased, thereby benefitting the homeowner.

Though privately owned, the fact that FNMA obligations are considered "agency securities" is wholly consistent not only with precedent, but also with the legislative history of the 1968 Housing Act. The banks for cooperatives, the Federal intermediate credit banks, the Federal land banks, the Federal home loan banks and the Federal Home Loan Mortgage Corporation are all owned by private stockholders and the debt instruments of each are classified as "agency securities." Further, this Committee's report states, "The new FNMA would be a 'Government-sponsored private corporation,' regulated by the Secretary [of the Department of Housing and Urban Development] and would have a status analogous to that of the Federal land banks and the Federal home loan banks." (Report, p. 69.)

The Charter Act imposes certain limitations on FNMA's borrowing. For example, the Secretary of the Treasury must approve the issuance of debt securities. As previously noted, the Secretary of Housing and Urban Development, in addition to having general regulatory power over FNMA,

must specifically approve FNMA's ratio of debt to capital, when that ratio exceeds 15 to 1. Today, with HUD approval, the limit on that ratio is 25 to 1. "Capital" for this purpose includes subordinated debentures, thereby differentiating this ratio from the debt-to-equity ratio mentioned earlier.

As of December 31, 1976, FNMA had \$30.6 billion outstanding in debentures and short-term discount notes.

FNMA has made analyses of those who purchase its debentures. Purchases by "housing oriented" investors (defined for this purpose to include insurance companies, savings banks and savings and loan associations) have ranged between 15.8 percent and 22.1 percent. The two largest non-housing oriented purchasers of FNMA debentures are commercial banks and state and local governments. Banks, state and local governments and corporations held about 70 percent of FNMA's discount notes; savings and loan associations held about 2 percent.

Lengthening of Debt--Another accomplishment which has materially affected FNMA's ability to perform its basic mission is the lengthening of its debt. The average maturity of FNMA's obligations, both debentures and short-term discount notes, has increased from 15 months in March 1970 to the present 4.3 years. This has greatly reduced

the risk of loss that could occur, if the corporation were required to refinance a high proportion of its outstanding debt during a short period when interest rates are unusually high.

EARNINGS, DIVIDENDS AND RETURN ON EQUITY

FNMA's operations have been carried out so as to yield a profit. It is understandable that I would rather explain a profit than a loss.

It was Winston Churchill who said:

"It is a socialist idea that making profits is a vice. I consider the real vice is making losses."

The corporation's financial performance during the eight full calendar years since becoming a private corporation is shown in the table on the next page.

FNMA's income before taxes for the period from January 1, 1969 through 1976 was \$1.265 billion.

The biggest single share--\$609 million or 48 percent--was set aside for payment to the United States government as Federal corporate income taxes.

The next biggest share--\$482 million or 38 percent--was plowed back into the business of buying mortgages.

The smallest share of it--\$174 million or 14 percent--went back to the owners in the form of dividends.

In recent years, FNMA has been paying out as dividends about one-third of its earnings, while retaining two-thirds

(\$ in thousands) except per share	Income before taxes	Provision for taxes	Net income	Reinvested	Paid in Dividends	Earnings Per Share	Dividends Per Share	Yield*
1969	34,228	17,821	16,407	10,048	6,359	.63	.24	2.1%
1970	13,264	6,564	6,700	(834)	7,534	.19	.24	2.0%
1971	115,636	54,455	61,181	49,722	11,459	1.43	.27	1.4%
1972	185,598	89,200	96,398	81,770	14,628	2.17	.33	1.5%
1973	240,685	115,000	125,685	102,948	22,737	2.76	.50	2.7%
1974	206,358	99,000	107,358	75,628	31,730	2.30	.68	4.3%
1975	225,158	110,200	114,958	78,407	36,551	2.42	.77	4.8%
1976	<u>243,914</u>	<u>117,100</u>	<u>126,814</u>	<u>84,200</u>	<u>42,614</u>	2.62	.88	5.7%
TOTAL	1,264,841	609,340	655,501	481,889	173,612			

* Based on dividends paid per share and midpoint between year's high and low stock price.

to invest in new mortgages. Even after several successive increases in FNMA's dividend, its stockholders are at this time receiving a return of 6.25 percent assuming a \$16 per share stock price, as compared with a 6.5 percent return if they were to put the money in a one year savings certificate at a local savings and loan association where there would be no risk of loss of investment.

From the standpoint of an investor in FNMA stock, the return over the years has not been high. In addition to receiving only 14 percent of pre-tax earnings in dividends, the stockholders have had no appreciation in value in the last five years. The market price of the stock is just about the same now as it was then on an equivalent basis.

This relatively low current dividend yield is, however, only one of several factors that a prudent investor would normally take into account in evaluating the desirability of buying or holding the corporation's stock. Another relevant factor is profitability, one convenient measure of which is the return on stockholders' equity, commonly defined as the after-tax income for any given year expressed as a percentage of the average amount of equity outstanding for that year. This return has averaged 14.3 percent for the calendar years 1969 through 1976.

A third factor which prudent investors would normally consider in evaluating the desirability of buying or

holding the corporation's stock is regularity of earnings. Investors value regularity of earnings and tend to accept a lower return on equity than they would otherwise demand if they believe, on the basis of past history, that a steady return is reasonably predictable. In the case of FNMA, the return on equity has varied from a low of 2 percent in 1970 to a high of 20.3 percent in 1973. In 1975 and 1976 the rate was 14.1 percent and 13.8 percent, respectively.

A fourth factor which prudent investors will consider is the degree of risk involved in stock ownership. There is a relatively high element of risk in the way that FNMA's capital structure is leveraged. That is, the corporation has a relatively high ratio of debt to equity as compared with any other large corporation. When there is an increase in the amount by which gross revenues exceed gross expenses, the greater leverage produces a larger profit per dollar of equity invested simply because there are fewer dollars of equity capital among which the increased profits are divided. But, conversely, higher losses magnify the effect of unfavorable spreads between gross income and gross expenses because the losses fall on a narrower equity base.

After taking into account FNMA's relatively low current dividend rate, the record of fluctuation in earnings,

and the degree of leverage (with attendant risk) in the corporation's capital structure, the management of the corporation has concluded that its profitability during recent years was reasonable to enable the corporation to compete for the funds needed in order to enable it to carry out the mission assigned to it by the Charter Act. This conclusion was reinforced when our professional staff, in cooperation with other financial experts, looked into the pattern of return among other financial corporations and among industrial corporations. FNMA's return was found to be consistent with that pattern.

A fair return to equity investors--competitive with the return available to them from other investments involving similar risk--is vital to the corporation's mission because its ability to borrow large additional funds is directly dependent on its ability to attract equity investment. This dependency arises both as a matter of law (the statutory and regulatory limitations on the debt-to-capital ratio) and as a matter of economics (the unwillingness of lenders to lend to an undercapitalized or unprofitable borrower). Without the substantial prior growth in FNMA's equity base, the corporation could not have borrowed at reasonable interest rates the large sums of money needed during the 1969-1970 credit crunch and again in 1974 to enable it to support the residential mortgage market.

For example, in 1974, FNMA marketed \$6.6 billion in debentures and \$6.4 billion in short-term discount notes. Despite the magnitude of these offerings, the securities were readily accepted by the market. This borrowing made possible the refinancing of expiring existing debt and the purchase of over \$7 billion of mortgages and loans in a year when the housing industry was beset by persistently high interest rates, severe credit shortages and a shatteringly severe drop in housing production.

Unless the corporation's stockholders receive a fair return, taking into consideration their alternative investment opportunities, FNMA cannot continue to serve the housing industry and the housing consumer in the manner that has characterized its past service since its transition to private status. Nor could this level of service have been attained by a governmental agency whose flexibility of action was restricted by Federal budgetary restraints.

Looking to the future, it is quite possible that several favorable developments will combine to permit FNMA to obtain the equity and debt capital it needs while paying a lower return on equity than it is now paying. Such favorable developments could include a general drop in interest rates, consistency in the level of FNMA's earnings, a further lowering of FNMA's debt-to-equity ratio, and either maintenance or lengthening of the recently

increased average maturity of FNMA's debt. I do not, however, mean to make any predictions as to the future.

Stockholder Profile--FNMA has about 35,000 stockholders. As of December 31, 1976, FNMA had 49.8 million shares of its stock outstanding, held as follows:

Nominees*	46.4 %
Brokers and Depositories	17.4 %
Mortgage Bankers	22.9 %
Individuals and Others	13.3 %

The corporation's stockholders cover a broad cross section of the investment community. FNMA knows of more than one hundred fifty pension, retirement and profit sharing plans, representing more than 4,500,000 shares of stock. Some of these shareholders are among FNMA's largest.

It is significant that the mortgage lenders hold about 25 percent more stock than is required under the corporation's stock retention requirements.

The ownership of FNMA's convertible debentures as of November 29, 1976, is as follows:

124 Brokers and Security Dealers	\$ 41.6 million
386 Nominees*	143.2 million

* This refers to stock held in the name of a legal entity, usually a partnership, for the benefit of other unidentified individuals or institutions. By and large, corporations are unable to determine the identity of the actual owners of stock held by nominees.

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42 Pension and Profit Sharing Funds	\$ 7.1 million
20 Commercial Banks	3.6 million
6 Savings Banks	8.8 million
1,016 Individuals and Others	<u>18.0 million</u>
	\$222.3 million

Stock Market Trading--In the early months following FNMA's transition to private status and even after the corporation's listing on the New York Stock Exchange, its stock acquired a reputation for instability. Trading volumes were high and prices fluctuated widely. The heavy volume of trading in the stock seemed to be due largely to FNMA's exemption from SEC regulations which also exempted it from the margin requirements applicable to other listed stocks.

FNMA was of the view that it was inappropriate for the stock of a corporation chartered by the United States Congress to be a vehicle for speculation. It asked the New York Stock Exchange to increase the margin requirement to make it coincide with that for other stocks. The change was made, and this has been a factor in building investor confidence in the corporation.

The facts concerning the stock's trading ranges are shown in the table on the following page, with earlier figures having been adjusted to reflect the two four-for-one stock splits since June of 1970.

<u>Year</u>	<u>High</u>	<u>Low</u>
1969	15 3/8	7 1/4
1970	16 7/8	7 5/8
1971	25 1/8	13 3/4
1972	27 1/4	17 1/2
1973	23 1/2	13 1/2
1974	20 3/4	11 1/8
1975	19 7/8	12
1976	17 3/8	13 1/4

Among the more than 1,500 companies listed on the New York Stock Exchange, FNMA's "ranking" in the volume of shares traded is shown in the following table:

<u>Year</u>	<u>Ranking</u>	<u>Shares Traded</u>
1970*	17th	12,921,100
1971	3rd	23,436,100
1972	4th	25,760,300
1973	5th	24,283,600
1974	22nd	14,198,800
1975	21st	18,826,900
1976	30th	17,728,400

* First Year Listed

GOVERNMENT RELATIONSHIP

In the 1968 Act, the Congress recognized the need for a continuing relationship between FNMA and the government. This relationship, which makes FNMA unique in the history of American business, is developed in the Charter Act in a number of ways:

- Five of FNMA's fifteen directors are appointed annually by the President of the United States.
- The Secretary of Housing and Urban Development is given "general regulatory power" over FNMA.
- The Secretary sets FNMA's debt limit and its ratio of debt to capital.
- The Secretary may require that a reasonable portion of mortgage purchases be related to the national goal of providing adequate housing for low- and moderate-income families, but with "a reasonable economic return to the corporation."

The Congress in the 1968 Act also retained the long-standing provision authorizing the Secretary of the Treasury, in his discretion, to buy FNMA obligations, if necessary, up to a maximum outstanding at any one time of \$2.25 billion. In the past, when FNMA was much smaller, this authority was very important to the corporation's credit standing. In 1957, when the Congress increased the Secretary's purchase authority from \$1 billion to \$2.25 billion, FNMA's

outstanding debt was a little over \$1 billion as compared to the \$30.6 billion outstanding at the end of December 1976. The authorization now provides much less of a benefit in view of the much greater debt, especially since the credit is available only at the discretion of the Secretary of the Treasury.

The House Committee Report on the 1968 legislation notes:

"The existence of this (Treasury) backstop authority, which is similar to that of the Federal home loan banks, would tend to enhance the corporation's credit standing and would constitute Government recognition of the significance of the corporation's operations to the national interest aspects of the mortgage financing industry."
(Report, p. 70)

This authority has not been used since 1969 when FNMA was still in transition to the private status it achieved in May 1970.

FNMA-GNMA Relationships--The 1968 Housing Act authorized an intercorporate agreement between FNMA and GNMA. In accord with the agreement, FNMA has provided a wide range of services for GNMA and has been able to implement a number of GNMA programs in much less time than would have been the case had not FNMA had the flexibility and professional staff, including field staff, to move quickly.

There are essentially two aspects to the FNMA-GNMA relationship.

One deals with FNMA as a provider of services to GNMA. FNMA provides the staff, the office space, the communications network, the computer support and the entire administrative capability to carry out GNMA's mortgage purchase programs, except mortgage-backed securities. This service was begun soon after the passage of the 1968 Housing Act and continues today.

The other aspect to the FNMA-GNMA relationship relates to FNMA's role as a risk taker and a provider of funds. It is in this area that the so-called "tandem plans" were developed and it was through these plans that the Federal government was able to generate substantial volumes of housing activity in the early 1970s with minimal outlays of Federal dollars, and minimum impact on the budget.

Under these plans, now no longer in effect, GNMA committed itself to buy the mortgages at less than market interest rates in the expectation that they could later be sold to FNMA or other investors at a market yield, with GNMA absorbing the loss.

Beginning in the fall of 1974, the GNMA tandem operations were phased out. Since then, new GNMA housing programs have for all practical purposes been so structured

that mortgages were purchased with all-Federal dollars. The mortgages have been held by GNMA and then sold by any one of a number of sales techniques.

In October 1974, the Congress approved for the first time the purchase of conventional mortgages at below market interest rates by GNMA. At the request of GNMA, and subject to its policy direction, FNMA was able to launch this program within about ten days after the legislation was signed into law.

In all, approximately \$7.0 billion were allocated for the GNMA conventional single-family program and half of that was administered by FNMA. Because of FNMA's expertise and the quality of its underwriting, GNMA used FNMA's underwriting staff and underwriting standards as the quality benchmarks for that portion of its program administered by FNMA.

In effect, GNMA said: "If it's good enough for FNMA, it's good enough for us."

Later, when GNMA began to liquidate these conventional holdings, FNMA responded by purchasing \$1.7 billion in negotiated purchases after GNMA's efforts to liquidate its holdings by other means fell short of its objectives. This is another example of the capability of the private FNMA to meet the nation's housing finance needs when called upon to do so.

The GNMA conventional purchases, added to conventional mortgages purchased under FNMA's own programs, have increased its conventional mortgage holdings to approximately 14.5 percent of its total portfolio.

FNMA believes that the tandem plan can be a feasible way for it to supplement the government's efforts to assist American families with financing their housing needs and it stands ready to work to that end.

The table below shows the volume of commitments issued by FNMA for GNMA. In some cases, the commitment issuances reflect only administrative processing, with no risk on FNMA's part. In others, the commitments represent a willingness on FNMA's part to assume a risk for the purchase of mortgages under conditions which could not be foretold at the time the commitment was issued.

<u>Year</u>	<u>(\$ million) Volume of Commitments Issued for GNMA</u>
1969	\$ 623
1970	417
1971	4,692
1972	5,478
1973	2,748
1974	7,311
1975	5,708
1976	3,081

Performance Monitoring--The performance requirements for FNMA and GNMA Sellers and Servicers are specified in the FNMA and GNMA Selling and Servicing contracts. FNMA monitors adherence to these requirements by reviewing various reports submitted to it and by visiting the offices of those who sell mortgages to it (Sellers) and the offices of those who service mortgages for it (Servicers) to obtain first hand information of their operations and discuss any known problems. In addition, periodic audits of Seller/Servicer performance are performed by the FNMA Audit Division. These visits and audits review the selling of mortgages to GNMA and servicing of mortgages owned by GNMA as well as the FNMA mortgages.

Audit deficiencies observed are reported to HUD, VA and the Seller/Servicer. FNMA requires that appropriate corrective action be taken by the Seller/Servicer for each deficiency reported and may impose sanctions such as suspension or termination of selling or servicing privileges when warranted.

In no instance does FNMA set the policies for GNMA programs, nor, except as noted above, monitor GNMA operations.

FNMA TAX STATUS

As a government corporation from 1938 to 1954, FNMA was exempt from Federal income tax. Under the 1954 legislation, FNMA became obligated to make a so-called "tax

equivalent" payment in an amount equal to the Federal corporate income taxes which it would have had to pay on its secondary market operations were it subject to Federal income tax. In 1968, when FNMA's ownership became entirely private, it was treated for Federal income tax purposes the same as any other corporate taxpayer.

FNMA has no special income tax treatment similar to the special bad debt reserve that is available to other long-term mortgage investors such as the thrift and banking institutions. FNMA now provides payment for taxes at an effective rate of 48 percent of its earnings. The thrift institutions (savings and loan associations and savings banks) have an effective tax rate of about half that of FNMA and the commercial banks an even lower rate.

One of the arguments advanced for denying FNMA the benefits of tax credits proposed for other mortgage investors in various financial institution reform bills is that the corporation has a \$2.25 billion Treasury backstop. The Federal Home Loan Mortgage Corporation, which has statutory responsibilities similar to FNMA, and which has access to a line of credit almost twice as large through its relationship to the Federal Home Loan Bank Board, is, however, totally exempt from Federal income taxes. The savings and loan associations have a Treasury backstop through the Federal Home Loan Bank Board, and the national banks have access to the Federal Reserve.

FNMA AND THE CAPITAL MARKETS

FNMA's mortgage and loan portfolio has grown from \$7.2 billion at the end of 1968 to \$32.9 billion at the end of 1976. This has been achieved without the use of Federal money and FNMA's demands on the money and capital markets have decreased relative to the overall size of the market. The largest years of FNMA participation were 1969 and 1970 when the net change in FNMA debt represented 4.2 and 5.0 percent of all net new borrowings, both public and private. In the past five years, FNMA borrowings have averaged 1.7 percent of total net public and private borrowing. In 1976, however, new FNMA debt represented only 0.3 percent of the net increase in total debt.

FNMA's share of all borrowings in the economy are shown in the table on the next page.

FNMA AND THE MORTGAGE MARKET

FNMA does not make direct mortgage loans. Rather, as a secondary market purchaser, it acquires mortgages originated by mortgage bankers, savings and loan associations, mutual savings banks, commercial banks, and others. As of December 1976, approximately 5,400 organizations that originate or purchase mortgage loans were eligible to sell to FNMA.

FNMA Participation in the Capital Market

(Billions of Dollars and Percent)

	<u>All Net Public and Private Borrowing*</u>	<u>Net FNMA Borrowing</u>	<u>% FNMA Share</u>
1968	\$ 98.3	\$1.7	1.7
1969	89.6	3.8	4.2
1970	94.6	4.7	5.0
1971	139.2	2.5	1.8
1972	166.4	1.6	1.0
1973	190.0	3.8	2.0
1974	184.9	5.2	2.8
1975	200.3	1.8	0.9
1976	236.4	0.6	0.3

* Federal Reserve Flow of Funds Preliminary 3rd Quarter 1976
Estimates

Mortgages eligible for FNMA purchase include those insured by the Federal Housing Administration, guaranteed by the Veterans Administration, and conventionally financed single-family home loans. FNMA's planned conventional multifamily program is discussed herein beginning on page 52.

Mortgage Purchase Standards--The quality of mortgages that FNMA can buy is dictated by the Charter Act, Sec. 304(a)(1) requires that its operations "shall be confined, so far as practicable, to mortgages which are deemed by the corporation to be of such quality, type, and class as to meet, generally, the purchase standards imposed by private institutional mortgage investors."

Purchase prices must be within the range of market prices.

FNMA's Mortgage Limits--FNMA can and does buy in the secondary market government-backed mortgages and those conventional mortgages having an unpaid principal balance of not more than \$55,000.

By policy, FNMA serves the moderate-income sector by buying low down payment mortgages. It does so even in times of credit stringency when other permanent lenders are retreating to more conservative lending policies.

In a sampling of the 2,500 largest commercial banks and 350 largest savings and loan associations, conducted

in September and October of 1976, it was found that even in that time of credit availability, 77 percent of these institutions require 20 percent or more down on a majority of their home loans. While it was expected that the percentage would be high, it was not expected to be as high as that.

In periods of tight money, other conventional lenders often require a specified yield for an 80% loan-to-value ratio loan and increasingly higher yields for loan-to-value ratios up to 95%. FNMA purchases conventional mortgages of identical yields irrespective of the loan-to-value ratio or tight money periods. Also, other conventional lenders often refuse to make loans above specified loan-to-value ratios in periods of tight money.

An examination of the table which follows illustrates FNMA's role in financing housing for moderate income families. A comparison of mortgage amounts with sales prices is not valid for statistical purposes, but the relationship provides some perspective on what type of housing is being financed by FNMA.

	<u>1974</u>	<u>1975</u>	<u>1976</u>
Average FHA/VA home mortgage purchased by FNMA	\$22,900	\$25,100	\$24,500
Average conventional mortgage purchased by FNMA	\$27,800	\$33,900	\$34,300
Median sales price of <u>new</u> homes, nationwide	\$35,900	\$39,300	\$44,400
Median sales price of <u>existing</u> homes, nationwide	\$32,000	\$35,300	\$38,100

The FHA-VA programs primarily serve the moderate-income segment of the housing market and as of December 31, 1976, about 85 percent of our \$32.9 billion portfolio of mortgages and loans was in FHA and VA mortgages, both subsidized and non-subsidized. The question arises: If FNMA had not bought these mortgages, would they have been originated, and if so, who would have bought them? What would the families in these units have done for housing if FNMA had not provided the financing of some \$28.1 billion?

The Federal Home Loan Bank of San Francisco recently published an independent study by Dr. Leo Grebler, Professor Emeritus at the University of California at Los Angeles entitled, "The Role of the Public Sector in Residential Financing." Dr. Grebler points out that FNMA has been particularly important for FHA and VA programs. FNMA, he finds, took 65 percent of FHA-VA loans in 1966, 56 percent in 1969, 50 percent in 1970 and well over 80 percent in 1973 and 1974. He states that in the latter years, "private net lending practically ceased."

Mortgage and Loan Portfolio Statistics--A breakdown of the FNMA mortgage and loan portfolio as of December 31, 1976 is illustrated on the following page.

	(Billions of Dollars)		
	<u>Subsidized*</u>	<u>Non-Subsidized</u>	<u>Total</u>
Home Mortgages			
FHA	\$2.6	\$10.3	\$12.9
VA	-	9.2	9.2
Conventional	-	4.8	4.8
	<u>\$2.6</u>	<u>\$24.3</u>	<u>\$26.9</u>
Project Mortgages			
FHA	<u>4.9</u>	<u>1.1</u>	<u>6.0</u>
Total Unpaid Principal Balance	<u>\$7.5</u>	<u>\$25.4</u>	<u>\$32.9</u>
Percent of Total	<u>23%</u>	<u>77%</u>	<u>100%</u>

* Subsidized mortgages consist of Section 235 Home Mortgages and Sections 221(d)(3) Rent Supplement and 236 Project Mortgages.

Mortgage purchases are as set out in the following table:

	<u>Purchases</u>	<u>Portfolio at year end</u>
1969	\$4,243	\$11,080
1970	5,532	16,058
1971	4,040	18,515
1972	3,864	20,326
1973	6,252	24,459
1974	7,019	29,709
1975	4,320	31,916
1976	3,632	32,937

Reaction to Mortgage Market Changes--The importance of the private status of FNMA goes beyond removing from the government the burden of financing and insuring FNMA's debt. As a private corporation, FNMA is free to respond rapidly to changes in the mortgage market.

In 1974, using the best outside consulting services available plus its own professional staff, FNMA estimated it would purchase \$4.4 billion in mortgages and that its requirements for new money would be approximately \$2.3 billion.

Instead of getting stronger, as had been expected, the economy went into a general recession.

Interest rates, after some decline as expected, rose far more sharply than anyone anticipated, beginning in late February.

The mortgage market came under severe stress beginning in March, and FNMA's purchases reached record levels of approximately \$900 million a month in July and August.

Purchases for the year were \$7 billion instead of the \$4.4 billion expected, and new money requirements totaled \$5.2 billion instead of the anticipated \$2.3 billion.

Such a large margin of error in forecasting may be infrequent. Nevertheless, when it does occur, the effect on the housing industry is serious and FNMA's ability to respond to the needs of the mortgage market is crucial--as it was in 1974 and will be again.

It would not have been possible to render this kind of assistance to the mortgage market if FNMA were in the government and thus limited by its budget or by law to some predetermined level of activity. Possibly authorizing legislation would have been necessary and the budget process would have been involved.

It is FNMA's ability to react quickly to changing circumstances which makes it possible for it to carry out its Charter Act responsibilities. Rigidity brought about by legislation or excessive regulation is incompatible with needed flexibility.

FNMA's performance is further evidence of the necessity of profits. Without profits, the sale of stock would have likely been impossible. Also, except for the profits that enabled FNMA to plow back into the business \$482 million during the 1969-76 period, prudence would have required a reduction in its borrowing capacity by about \$15 billion. In other words, it would not have been able to buy about \$15 billion of the mortgages that were purchased.

Another example of the way in which FNMA is able to fill in gaps in government housing programs is its role in financing the resales of existing homes. Since October of 1974, substantial amounts of Federal assistance have been provided for middle-income home buyers and by far the largest majority of it has been for purchasers of new homes.

The resale market is far larger than the new homes market and therefore affects more families. In 1976, the resale market reached just over 3 million housing units for the first time in history, according to figures from the National Association of Realtors.

While the housing programs of the Federal government since 1974 have been oriented mainly toward new construction, FNMA has been meeting the even greater financing requirements of resales. More than 80 percent of its mortgage purchases for 1974, 1975 and 1976 have been related to resales of existing homes.

Subsidized Housing--FNMA is the largest single provider of funds for residential mortgage financing for low- and moderate-income families. FNMA provides no subsidies. Where involved, they are paid by the Department of Housing and Urban Development.

FNMA has, as of December 31, 1976, financed or provided assurance of financing for about 64 percent of all the mortgages insured under HUD's subsidized rental housing assistance programs. It has purchased or committed to purchase about 45 percent of all Section 235 mortgages insured by the FHA as of December 31, 1976. Mortgages on government-assisted housing constitute almost one-fourth of FNMA's portfolio, an important contribution to the provision of homes and apartments for low- and moderate-income families.

In 1970, FNMA purchased or committed to purchase over 96 percent of the Section 236 mortgages insured by the FHA. As time passed, however, and as these and the Section 221(d)(3) mortgages became more acceptable to other private investors, the percentage of purchases and commitments to buy these subsidized mortgages declined. Significantly, FNMA was in the market for these mortgages when no one else was. It provided the financing or the assurance of financing when it was needed. FNMA did what the Congress expected it to do when it gave the HUD Secretary

authority to require of FNMA that "a reasonable portion of the corporation's mortgage purchases be related to the national goal of providing adequate housing for low and moderate income families, but with reasonable economic return to the corporation."

FNMA from 1971 through December 1976 has out of its own funds foregone over \$79 million in income due to the purchase of Section 221(d)(3) and Section 236 project mortgages at preferential prices.

Conventional Single-Family Program--Pursuant to Title II of the Emergency Home Finance Act of 1970, the Congress gave FNMA authority to provide a secondary market for conventional mortgages, both single and multifamily.

The first conventional single family mortgage was purchased in February of 1972. As of December 31, 1976, FNMA had purchased over 169,000 single-family conventional loans having an unpaid principal balance at the time of purchase of over \$5.1 billion.

The conventional program now includes subdivisions, planned unit developments (PUDs) and condominium units as well as individual single-family homes.

In 1976 the average conventional mortgage purchased had a loan balance of over \$34,000. The average loan-to-value ratio was 83 percent. Over 95 percent of the loans

had a term ranging between 25 and 30 years. More than 80 percent of the total conventional purchases are backed by private mortgage insurance covering a percentage of the top of the loan amount. About 70 percent of the conventional loans are originated by mortgage companies; almost 19 percent by savings and loans (both federal and state) and 11 percent are originated equally by state and national banks.

This activity has not in any way detracted from the corporation's continuing ability and willingness to provide a viable secondary market for government-backed mortgages.

In its report accompanying this 1970 Act, this Committee, noting the then current status of the money market, said, "... FNMA should not implement this [conventional] authority immediately... A great deal of spadework should be done in the way of establishing an appraisal system, drafting uniform mortgage documents and making other preparations before FNMA could engage in the buying and selling of conventional mortgages to any significant degree." (H. Rept. 91-1131, 91st Cong., 2nd Sess., p. 7 (1970).)

There was "a great deal of spadework" to do. Between July 24, 1970, the date of the enactment of the Emergency Housing Act and February 1972, FNMA developed an effective underwriting and appraisal system.

Without the standardization of mortgage documents, the \$7 billion Brooke-Cranston stimulus for conventional single-family housing would not have been possible.

One indication of the success of FNMA's underwriting system is found in the low rate of delinquencies and foreclosures. As of December 31, 1976, foreclosures have been completed on only 779 properties, a ratio of about one-half of one percent of FNMA's total conventional portfolio.

As of November 30, 1976, FNMA's conventional mortgage delinquency ratio was 2.8 percent, of which 2.2 percent involved delinquencies of one month.

FHLMC and FNMA adopted a set of uniform mortgage documents, standard mortgage application forms and standard appraisal forms. Evidence of the success in developing uniform documents is the fact that increasingly these forms are being accepted and used by the mortgage industry generally without regard to whether the specific mortgage involved is to be sold either to FNMA or to FHLMC. Perhaps another indication of the success in this area is found in the fact that the mortgage banking industry is moving more and more into the area of conventionally financed residential mortgages. For example, in 1970 and 1971, 2.3 percent and 2.5 percent, respectively, of the loans closed by mortgage bankers were conventional.

That percentage increased to 7.4 percent in 1972 and has been at 13 percent or higher for calendar years 1973-75.

In terms of dollars, mortgage bankers in 1971 closed \$595 million in conventional mortgages; in 1975 they closed almost \$3.3 billion.

The FNMA conventional program and the standardization of documents by FNMA and FHLMC made that increase possible and this expanding participation by mortgage bankers in the conventional mortgage market was a great benefit to the home buyer.

Private Mortgage Insurance--In approving FNMA's conventional mortgage purchase authority, the Congress required that private mortgage insurance be provided on mortgages where the loan-to-value ratio was in excess of 75 percent (this was later amended to 80 percent). This insurance was to be provided by private companies approved by FNMA and FHLMC.

This is another area in which FNMA has provided the guidance and leadership that has strengthened the mortgage market. It has been careful in setting the criteria for approval of mortgage insurance companies, recognizing that because it is its duty and the costs of failure would be high to the housing industry, including FNMA.

Cooperatively with the Department of Housing and Urban Development and FHLMC, FNMA commissioned an independent

study of the private mortgage insurance industry to determine how well it could withstand a period of severe recession or depression.

The study has shown that the industry can withstand severe economic buffeting and the results have done much to build additional confidence in high-ratio loan-to-value conventional mortgages on the part of secondary market investors as well as loan originators.

Conventional Multifamily Program--Subject to the concurrence of the HUD Secretary, FNMA expects to inaugurate its multifamily conventional mortgage purchase program later this year.

In broad outline, FNMA will commit and thereafter buy conventionally financed mortgage loans on multifamily projects. The term of the commitment will vary. For existing units the commitment period will normally be four months; in the case of new construction, up to 24 months. Extension of the commitment periods will be permitted under certain circumstances.

Delivery of the mortgage will be optional. Thus, if the originating mortgagee can get a better price elsewhere, he is free to do so.

FNMA's yield requirement generally will be determined at the time of the issuance of the commitment. While there will be no specified maximum mortgage amount, there are several limitations. In accord with the Charter Act there

will be dollar limitations based on the size of the units, whether the structure contains an elevator or not and whether the structure is located in a high cost area or not.

The loan-to-value ratio will not exceed 75 percent. The mortgage term will not exceed 15 years although the amortization schedule which determines the amount of the monthly payments will generally be based on a period not to exceed 25 years and in some cases 30 years. Consequently, at the end of the 15 year mortgage term there will be a "balloon payment" due from the mortgagor.

As required by the Charter Act, the quality of the multifamily mortgage, and thus the credit and property requirements, will be generally the same as those imposed by private institutional mortgage investors.

Commitment Program--Apart from FNMA's purchasing activities, its forward commitment program is of significant importance to the residential mortgage market. Under this program, FNMA commits itself to buy a stated dollar volume of mortgages at a stated yield anytime within a specified time period, usually four months, but also for as long as twelve and twenty-four months into the future. The holders of these commitments, the originating mortgagees, are under no obligation to deliver any part of the dollar

volume of mortgages involved. If they can get a better price elsewhere they are free to do so and they need not deliver the loans to FNMA.

The ability and readiness of FNMA to issue commitments to purchase mortgages in the future provide an incentive for lenders to extend credit so that more people can buy housing. In other words, the commitments enable various segments of the housing industry--the home builder, the real estate agent, and the mortgage originator--to plan ahead with the assurance that FNMA financing, if needed, will be available. This is an example of how FNMA adds stability to the housing market. The program is based on FNMA's ability to go to the capital markets when it needs to, if and when the mortgages are delivered to it.

The volume of commitments issued by FNMA, exclusive of commitments issued in connection with GNMA programs, is shown in the following table:

<u>Year</u>	<u>(\$ millions) Commitments Issued</u>
1969	\$6,630
1970	7,590
1971	5,135
1972	3,445
1973	6,166
1974	5,389
1975	5,687
1976	5,996

The GNMA tandem plan commitments are included in the earlier discussion of the relationship between GNMA and FNMA.

Delinquencies and Foreclosures--It is and has been FNMA's stated policy to extend every reasonable consideration to delinquent mortgagors who have met with temporary hardships which prevented payment of their mortgage obligations when due. This policy applies to both government-backed and conventional mortgages.

The policy states that this consideration will be given "if the mortgagor is cooperative, willing and clearly acting in good faith and able to enter into a temporary arrangement which will cure the default in a reasonably short period of time." Further it provides:

"When the occasion warrants and the FHA or VA regulations permit, FNMA will agree to enter into forbearance, modifications, etc., to assist the deserving mortgagor in eventually bringing the mortgage to a current status. FNMA will not agree to relief, however, when it is apparent...that the mortgagor cannot or will not resume payments."

It is further FNMA's policy that there will be no action to terminate a mortgage (i.e., to foreclose) until every reasonable effort has been made to arrive at some other solution:

Foreclosures are of concern from two points of view. For the homeowner, foreclosure represents the loss of his home and the equity in his home. For the mortgage investor it represents a potential loss.

Because of justifiable concerns over families losing their homes on account of temporary adversity beyond their individual control, both the legislative and executive branches of the government have taken steps to provide homeowners with additional protection.

It is in the public interest to provide this protection, but when this protection is made necessary because of widespread economic conditions resulting in high unemployment, FNMA believes the additional costs involved should be borne by the public through the government and not by mortgage investors. To do otherwise will only drive investors out of the home finance field and in the end aggravate the problem of financing housing.

Foreclosures Not a Problem--Foreclosures and delinquencies do not appear to be a problem at the present time. In 1976, the number of FNMA-held single-family mortgages foreclosed ran about 27 percent below 1975. In 1976, there were 15,320 foreclosures of FNMA-held mortgages, the lowest number since 1970.

Foreclosures as a percentage of FNMA's mortgage portfolio were 1.01 percent for 1976. In 1975 they were 1.40 percent and in 1974 they were 1.91 percent.

The delinquency ratio for government-backed single-family mortgages in 1976 ranged between a low of 6.6 percent in April to a high of 9.5 percent in February. For the conventional portfolio, the high was 4.1 percent in February and the low was 2.4 percent in April.

Delinquency statistics are subject to varying interpretations. While some mortgagors are willing to miss one monthly payment, many of them will make it up within the ensuing 30 to 60 days. Thus, for example, in February of 1976, when FNMA's total delinquencies were 9.1 percent, the percentage delinquent only 30 days was 6.6 percent. By the following month almost all of those had made a payment, and the percentage still delinquent had fallen to 1.2 percent. By the third month, only 0.5 percent were still delinquent.

As of December 31, 1976, FNMA held 3,971 project mortgages. The delinquency ratio as of that date was 3.6 percent, down from 4.6 percent in November and from the high for the year which was 11.1 percent in February. As of December 31, there were 78 modification or forbearance agreements in effect and 34 more were under consideration. During 1976, there were 134 projects assigned back to HUD or foreclosed.

In the case of delinquencies and foreclosures on single-family homes, the totals themselves may not be

as significant as the important questions:

--Are delinquencies and foreclosure on the increase?

--Why?

An increase in delinquencies in the case of an individual servicer may be due to poorer servicing and may indicate a servicer in financial difficulty. An increase in delinquencies in a particular locality may be due to a plant closing or other problems such as occurred in the Seattle area after the termination of the SST program.

FNMA attempts to evaluate the reasons for mortgage defaults and keeps a statistical record. Although its methods might not satisfy a social science researcher, they do offer some insight into the reasons behind homeowner problems with mortgage payments.

A summary of the default statistics for the quarter ending December 31 is as follows:

<u>Reason for Default</u>	<u>Percent of Defaults</u>
Excessive obligations	25.5
House abandoned	12.2
Income curtailed	22.7
Marital problems	8.7
Other	30.9

MORTGAGE SALES POLICY

FNMA's volume of sales relative to its purchases has been low in recent years. The details are shown in the following table:

FNMA MORTGAGE SALES
(Thousands of Dollars)

<u>Year</u>	<u>Mortgage Sales</u>	<u>Gain (Loss) From Mortgage Sales</u>
1969	0	0
1970	20,293	382
1971	335,523	9,952
1972	211,229	(779)
1973	70,773	2,424
1974	4,292	(124)
1975	1,984	(6)
1976	<u>86,075</u>	<u>(2,879)</u>
TOTAL	730,169	8,970

A simplistic view suggests that FNMA should, when money is readily available, sell the mortgages, or most of the mortgages, that it has purchased when money is tight. As a practical matter, the mortgage market and the money and capital markets operate in such a way as to prevent large scale sales of mortgages except at terms which are inconsistent with the provisions in FNMA's Charter Act that require the corporation to be self-supporting and

that prohibit it from making alternative, non-mortgage investments. The basic problem arises from the fact that large scale mortgage sales result in economic losses by permanently reducing the value of FNMA's future earnings.

There are two essential conditions which must be satisfied before FNMA can undertake large volumes of sales:

--First, there must be a surplus of funds in the mortgage market, or in other words, conditions of excess liquidity.

--Second, the economic condition of the corporation cannot be worsened by undertaking the sale.

If the second of these conditions is not met, FNMA's earnings, its net worth and the value of its stock will all be reduced, endangering the corporation's ability to raise the equity and debt capital needed to support the mortgage market when credit again becomes tight.

In addition, standard accounting and financial reporting practices dealing with the treatment of gains and losses resulting from the sale of mortgages further complicate the consideration of sales. Even when analysis indicates that the economic condition of FNMA would eventually be improved by a sale, if accounting and reporting procedures prevent FNMA from demonstrating these good results in a reasonable period of time via financial

statements, and if in fact these statements reflect a deterioration due to losses, FNMA must place some reasonable limits on these adverse results of sales in order to preserve the market's favorable assessment of its debt and equity securities and the corporation's continued ability to borrow.

Analysis of the Economic Impact of a Sale--The analysis of the impact of a sale hinges on one crucial question: What are the alternative uses of the funds generated by a sale? FNMA must determine whether the corporation--its stockholders, bondholders, customers and the home buying public--are better off if FNMA continues to hold the mortgages in question or sells them and uses the funds generated by the sale in some other way.

FNMA has only two possible uses for the funds generated by a sale. First, it can reinvest the proceeds in new mortgages. This process in most situations represents only a recirculation, with no net effect in reducing excess mortgage market liquidity. There are occasions of disequilibrium in the marketplace when recirculation serves a legitimate purpose--for example, moving liquidity from one geographical regional to another or from one class of mortgage instrument (e.g., single-family mortgages) to another (e.g., multifamily). However, these opportunities are of a special nature and result in only limited sales.

When such an opportunity to sell mortgages does occur, FNMA must compare the present value (the equivalent value in today's dollars of a future stream of payments) of the mortgage payments foregone with the new mortgage payments resulting from reinvestment. Only if the new stream of payments is worth about the same or more to FNMA than the stream foregone is the sale and reinvestment consistent with the prudent asset management required of FNMA's managers.

Second, FNMA can use the proceeds of a sale to pay off its maturing debt without further borrowing. The analysis of this strategy is identical with that of the reinvestment in mortgages except that here the future stream of debenture debt service payments which are "saved" (rather than the income earned from new mortgages) is being compared with the value of the payments being foregone. The elimination of a fixed obligation of \$5 is perfectly equivalent to receiving a payment of \$5. In this case, the yield provided to the purchaser (net of costs such as servicing) must be compared with the note rate of debentures which would otherwise be added to FNMA's indebtedness if there were no sale.

Because of the basic structure of the capital markets, except in rare, special cases, mortgage yields are higher than FNMA borrowing costs. In this situation when the

difference in the two streams of payments (mortgage payments foregone and interest payments saved) is converted to a present value it represents a true economic loss. This is just as real a loss as that generated by selling mortgages to yield 9.0% and reinvesting in mortgages yielding 7.5%. This type of true economic loss is what FNMA management must be concerned with in its responsibility to prudently manage FNMA's assets no matter how accounting practices report the results in current financial statements.

In conclusion, historically, it has been to FNMA's economic advantage to refinance its assets by borrowing rather than by selling assets.

Assessment of Excess Liquidity--FNMA measures the liquidity need for sales by studying the mortgage yield in relation to other interest rates and opportunities to sell as expressed by offers to buy. FNMA daily evaluates the mortgage market and the relation of mortgage yields to its own borrowing costs. One key indicator of market liquidity is the combination of the level of interest rates and the spread which exists between mortgage yields and FNMA's long run estimate of the cost of capital. When this spread remains larger than average, even though rates are low, the mortgage market is not exhibiting

excess liquidity. When this spread is unusually small or negative, the market is indicating excess liquidity.

It is FNMA's judgment that its public role is served by borrowing funds at as low a rate as possible and by investing in mortgages, passing this lower cost through to home buyers. Buying mortgages when prices are low and selling them when prices are high is a riskier business (dependent as it is on forecasting unknown interest rate cycles) than is the role of investor in mortgages "locking in" a known spread. Debt management, when large volumes of mortgages are to be sold, would need to emphasize flexibility that comes with short-term debt instruments. But this short-term debt would also expose FNMA to the risk, during extended periods of high interest rates, of more frequent refinancing at unfavorable terms. Those who lend to FNMA would necessarily compensate for this riskier operating procedure by demanding a higher return on funds.

Finally, the net impact of this broker role--especially in periods of excess liquidity when FNMA would be supporting the maintenance of higher mortgage interest rates--is only speculative. It may or may not contribute to the development of more efficient housing production.

When FNMA Can Undertake Sales--When FNMA determines that conditions of excess liquidity exist and that there is

a reasonable possibility of making a suitable economic use of the funds generated by a sale (either because of market disequilibrium which would allow a profitable recirculation of liquidity or because the spread between mortgage yields and FNMA's long-term borrowing costs is unusually narrow), FNMA does undertake to sell mortgages.

In order to do this, FNMA analyzes its entire mortgage portfolio to determine both the book and economic impact of sale and reinvestment for every note rate in the portfolio. In order to avoid the complication discussed above resulting from the accounting for reported book gains and losses, FNMA attempts to mix high and low note rates on the mortgages being sold in such a way as to minimize adverse book effects of capital losses, while preserving the positive economic results.

Historically, FNMA has used two principal methods of selling. One, which is known as the "open sales window" or "over-the-counter" method, is by announcing the availability of mortgages for sale at prices posted by FNMA. This is practical when there is an excess of funds in the mortgage market at the same time that interest rates appear to be stable. When interest rates fluctuate and give promise of rising, however, this sales activity tends to drop sharply because the prospective buyers hope for yields higher than those posted by FNMA. At

such times, the corporation finds it more practical to sell mortgages on an individually negotiated basis, which it always stands ready to do. FNMA has also sold mortgages through sales auctions, but finds that to be the most practical method only when a substantial volume is involved in the auction.

As shown in the table of sales on page 59 the corporation has sold \$730 million in mortgages in the last seven years at a net gain of \$8,970,000. In the earlier years shown, mortgage rates fluctuated in a fairly narrow and relatively low band--between 6 3/4 and 8 1/2 percent. Capital losses were not a problem. However, beginning in 1973, rates moved up sharply. A change from 7.50 percent yield to a 9.50 percent yield represents a 13 1/2 point decline in the price of mortgages, and book capital losses on the sale of lower yielding mortgages is a significant problem despite efforts to mix the note rate of mortgages to be sold by including both high and low yield mortgages.

FNMA did not undertake extensive sales in 1976 because the extent of excess liquidity in the mortgage market was uncertain. Mortgage interest rates were extremely slow to fall as compared with other interest rates. A large sales program by FNMA during 1976 would not only

have interfered with the continuing efforts of GNMA to liquidate its mortgage portfolio, but could have further inhibited a general reduction in mortgage interest rates to the detriment of consumers.

The relatively small volume of mortgages sold during 1976 (\$86.1 million) was in response to several offers which permitted economic reinvestment of the proceeds.

RESEARCH AND INNOVATION

FNMA has made several contributions to advancing research and improving institutional practices in the fields of urban development and housing. The corporation has helped fund ongoing housing and urban development research at the Joint Center for Urban Studies of MIT and Harvard, contributing \$10,000 annually to the Center. Among the Center's studies that have been assisted is one on alternative mortgage debt arrangements. FNMA has also funded a fellowship for an MIT graduate student who concentrated her research on the residential mortgage market. I have for several years served on the Center's Policy Advisory Board and on that Board's Executive Committee.

FNMA has helped fund other studies on housing matters by research foundations, and has contributed \$50,000 toward the development of uniform state laws. These are the Uniform Condominium Act, the Uniform Land Transaction

Act and the Uniform Simplification of Land Transfers Act. Our professional staff has contributed extensively to perfecting these model laws.

URBAN LENDING

On pages 8-10 of the prepared statement, the details of FNMA's affirmative lending program are outlined. Based on almost five years of effort, including Forum One held in September 1973 and Forum Two held in June 1975, the corporation is now actively working to encourage local governments, local lending institutions, community groups, home builders and others to mobilize their resources to save the billions of dollars worth of deteriorating but still sound housing stock in older neighborhoods around the country.

The role of FNMA is not to go into a city and invest millions of dollars in mortgages all by itself. It is willing to join with others to invest. FNMA's main role is to act as a catalyst--to urge and to demonstrate to lenders that sound loans can be made to qualified borrowers in the older urban neighborhoods, provided there is local community and local government support in preventing deterioration and in taking measures to revitalize such neighborhoods.

CONCLUSION

The most significant measure of FNMA's performance is its ability to buy residential mortgages in large volumes

at unpredictable points in time, not once, but frequently as needed to maintain orderly markets for residential loans. This is how FNMA construes that portion of Section 301 of its Charter Act, which states that its purpose is to "provide supplementary assistance to the secondary market for home mortgages by providing a degree of liquidity for mortgage investments, thereby improving the distribution of investment capital available for home mortgage financing."

FNMA has met this test. In 1969 FNMA issued over \$6.6 billion in commitments and purchased over \$4.2 billion in mortgages; in 1970, almost \$7.6 billion in commitments and purchases of over \$5.5 billion; in 1973, over \$6.1 billion in commitments and purchases of over \$6.2 billion; and, in 1974, almost \$5.4 billion in commitments and purchases of over \$7 billion.

In the House and Senate Committee reports accompanying the 1968 Housing Act, the Congress expressed the expectation "that the privately owned corporation (i.e., FNMA), with its improved financing methods, will add a significant impetus to the flow of funds in the secondary market and the availability of credit in the home mortgage market."

The record shows that the privately financed and managed FNMA chartered by the Congress in 1968 has met this Congressional expectation.

Mr. ASHLEY. We appreciate your statement, Mr. Hunter, and I commend you for some of the initiatives that the corporation has taken. It has assets of over \$30 billion, is that correct?

Mr. HUNTER. That's correct.

Mr. ASHLEY. And liabilities—

Mr. HUNTER. Almost matching it. [Laughter.]

Mr. ASHLEY. Well, I think that some of the initiatives that you have spoken about this afternoon are commendable and of interest to us.

Before I get to your current lending program, if I would ask you, what would be most useful to FNMA that this subcommittee should consider in connection with these hearings, how would you respond to that?

Mr. HUNTER. Well, I would respond by saying that our recommendation with respect to an increase in our limit for the conventional mortgage program should not only be seriously considered, but favorably acted upon.

Also, I would hope that the committee would not take any action with respect to our charter, or make any change in our powers or our authority, which would adversely affect our ability to borrow funds in the capital markets of the world, and convert these funds into mortgage funds to finance housing in this country.

We feel at the present time that FNMA is working rather smoothly and effectively. Our relationship with HUD, and with Treasury, over the last 8 to 9 years has been not only amicable, but it has been productive.

Mr. ASHLEY. How much of your portfolio is represented by the purchase of mortgages which are insured mortgages?

Mr. HUNTER. The conventional mortgages?

Mr. ASHLEY. Yes.

Mr. HUNTER. We are up to almost \$5 billion. Which would be almost \$5 billion out of \$33 billion. What is that?

Mr. ASHLEY. The others—

Mr. HUNTER. About 15 percent.

Mr. ASHLEY. How does the rest of the portfolio break down?

Mr. HUNTER. We have \$12.9 billion in FHA home mortgages. We have \$9.2 billion in VA's and in conventionals, about \$4.8 billion.

Now, we only have a home mortgage program under conventionals. So about 15 percent or a little less—between 14 and 15 percent then is in conventional mortgages. The conventional program is growing.

As a matter of fact, we had an auction yesterday and we had offers of over \$200 million in conventional mortgages made to us. On project mortgages we have \$6 billion in FHA's. And that is it. Comes to a total of \$32.9 billion, and 23 percent of our portfolio is subsidized housing for low- and moderate-income families; 77 percent is not.

Mr. ASHLEY. The administration didn't ask for any additional contract authority for section 235 programs, your recommendation asked for an additional year, with no additional contract authority; is that right?

Mr. HUNTER. Well—

Mr. ASHLEY. What are you suggesting?

Mr. HUNTER. Well—under section 235?

Mr. ASHLEY. Yes.

Mr. HUNTER. Well, I don't think I am in as good a position as the subcommittee is to give an estimate on that. I have not talked recently with HUD as to what it could do. But I would say that sufficient funding should be provided to keep it going for a year.

Mr. ASHLEY. Well, let me—

Mr. HUNTER. It would have to be under different rules. I wouldn't even say rules. I would say a different quality of administration than was first applied. Of course, now circumstances are much more different. The heat is not on now as it was back then in 1969 and 1968 to get this housing produced. And we have learned by experience that this program requires more careful administration. There were many people put in section 235 houses as homeowners that should not have been there.

That is why I gave the example of Milwaukee. This project was carefully put together. At the time there was an FHA area director who was careful and who produced a good, a very good project. It was not all section 235. It was a mix. And it is working.

I think that can be done if there is the will.

Mr. ASHLEY. Well, in this affirmative lending program you are in the prototype stage right now, I take it?

Mr. HUNTER. Prototype as far as new lending techniques.

For example, we are going to go try second mortgages we are going to use a wrap-around mortgage, we are going to use a smaller downpayment, we going to use a graduated payment mortgage.

What kind of a mix are we looking for?

Our affirmative lending program is operating. We are actively soliciting loans from mortgage originators on properties in urban areas.

Historically, FNMA has reacted more than acted. It has been a facility for the purchase over the years of FHA and VA mortgages. The policy has been that FNMA would purchase whatever was offered if the loans were government-backed.

We got into our conventional mortgages program after the 1970 act, and without any Government insurance or guarantee we had to do our own underwriting and to set standards of underwriting that we expect of the mortgage originators who want to sell to us.

Therefore, we have to underwrite these mortgages because if there is any loss, it would be our loss.

Mr. ASHLEY. Well, I suppose that my—

Mr. HUNTER. There is one more point, Mr. Chairman, I would like to make.

I don't like to use the word "redlining" because it has so many bad connotations. But it is a fact that in this country at this time it does not have to do with race. It has to do with two things, in my opinion.

One is the concern of lenders that lending in older urban areas is too great an economic risk.

The other point of concern is that there has been a tremendous amount of homebuilding. There have been a great number of sales, a great deal of financing, and lending institutions, like all other business firms, go after that business which is the easiest and the most profitable.

It is only when a situation arises, when the people involved realize that there is a greater problem which, if it is not successfully com-

bated, will in the long-run affect their individual businesses is there a change in attitudes or approach.

We found that there are certain lenders making urban loans which have delinquency rates and foreclosure rates actually lower than in some of the suburbs.

So a part of our affirmative lending program is to induce a greater interest on the part of originating lenders in urban loans.

Mr. ASHLEY. I didn't mean to characterize your testimony with respect to the lending program as a prototype. I understand better now the dimensions that it spans.

In your prepared statement on page nine you do say that St. Louis was selected as the site for the new FNMA program for several important reasons, which does suggest a singling in terms of focus by FNMA.

Mr. HUNTER. For experimental purposes we call that a pilot program. We plan one more—

Mr. ASHLEY. You really didn't like the word "prototype." I gathered that. And I will accept your terminology. "Pilot." We can certainly agree on that.

Mr. HUNTER. Yes.

Mr. ASHLEY. What interested me here is that you say there are several important reasons which are essential to its success. The site has some neighborhood areas which though suffering from past deterioration have not reached a severe state of blight. And you say, there are neighborhood associations in these areas in which the local government is undertaking a systematic program of code enforcement and in which public funds are being used. This sounds surprisingly like the basic type of situation, criteria, that the urban reinvestment task force has used in selecting some 28 or 30 cities in which to mount its program which, as you know, is designed to bring about a solution to the problem of redlining, insufficiency of public services, and so forth, in that targeted area. And I am wondering if you have given any thought to joining the urban reinvestment task force with your initiative to support those efforts? Have there been any such discussions? Obviously you represent an avenue as far as the purchase of mortgages is concerned that may not be readily available to the task force. And it would seem to me that the criteria that you have described are so similar to those looked for by the task force that your purpose is sufficiently common that there might be a joining in this effort so that we fill out the tools that are needed in order to do the more effective job that everyone has in mind.

Mr. HUNTER. I don't think I have talked to anyone personally about our program except you. And only to you briefly. I would say that we would be very pleased to join efforts with the urban reinvestment task force. We offer our cooperation.

Mr. ASHLEY. Why don't you—

Mr. HUNTER. And our facilities to the extent we have facilities to work with the task force because I understand the nature and the objectives of the task force. And, as you say, they are very similar. They are really the same.

We are operating in one city at this point because of limitations of our own resources. But when it comes to an exchange of informa-

tion seeking to do as much as possible for the entire country we would work with and we would be in touch with the task force.

Mr. ASHLEY. It might be a good idea for you and Mr. Moorhead and myself to get together for a drink some afternoon and see if we can't put something together.

Mr. HUNTER. Excellent idea.

Mr. ASHLEY. The first part or the second part?

Mr. HUNTER. It all goes together.

[Laughter.]

Mr. ASHLEY. Thank you.

Mr. Moorhead.

Mr. MOORHEAD. Thank you, Mr. Chairman. First, Mr. Hunter, I want to congratulate you on the appendix which I have not had time to read. But I have read the table of contents, and I think this would be an excellent source paper for people trying to get a grasp on the history and present functioning of FNMA. The chairman said previously that he wanted to be a devil's advocate. Let me be one with respect to page five of your prepared statement when you talk about the limits on the purchases, present on conventional, \$55,000 having an unpaid balance. That could be a very expensive house. How can we justify that to our brothers and sisters across the street from the Capitol when we come up there?

Mr. HUNTER. Of course the present limitation is \$55,000. That limit was set in 1974. And since, in the period September, 1974, to December, 1976, there was over a 26 percent increase in the sales price median for a new house and a 20.4 percent increase for existing housing. All our proposal does is to raise the dollar limits so that basically the same house can be financed today that was financed 2½ years ago.

Now granted there has been some increase in size of housing, and buyers ask for more amenities. So house prices today are higher not just because of inflation or because of the cost of land. They are higher because the houses may be larger and the amenities are greater and more costly. But the general price increase in housing without a change in the size warrants an increase in our dollar limitation.

Mr. MOOREHEAD. Mr. Hunter, on page 7 of your prepared statement you speak about an area which we can't do anything about, but I am interested in it, you say local governments must be willing to modify zoning and building codes and other laws or ordinances that discriminate against the rehabilitation of existing housing. What sort of things are you talking about? What are the kinds of things you are thinking about there?

Mr. HUNTER. We have produced a documentary film that I hope you will see. It runs about 30 minutes. It shows what has recently going on in five different cities in the United States in the area of rehabilitation. We point out examples of what we are discussing now. For example, and this is not just one city, there are a number of cities which will not permit the use of plastic pipe or will not permit substantial rehabilitation or new construction on a 25-foot wide lot. Now, for example, in the case of the 25-foot lot, we were looking at Denver. The people interested in rehabilitation, not only in doing the work but in living in rehabilitated houses went to the City Council on ap-

peal, and got the law changed, so that substantial rehabilitation or new construction is allowed on a 25-foot lot on which there had been an existing house.

Many, many cities have changed their requirements with respect to plumbing standards so that plastic pipe now is allowed. The film illustrates that there is progress being made and it has been made locally. We can't ask the Congress to legislate in this area; this is not the Congress at this point. Another example. We are now on a tour, so to speak, of a number of cities. We are visiting 10 cities talking about our affirmative leasing program. We are inviting 100 people in each case, showing the film and what can be done if all these different factors work together.

Mr. MOORHEAD. Finally, Mr. Hunter, I am pleased that you believe that we should have several housing tools including the section 312 rehabilitation loan program, that you would not only continue it but add to its program, and then as you have suggested to the chairman, that we include that as available for your portfolio because I believe that is an excellent program for certain areas, for improving the quality of living in our cities. Also that you support the section 235 program which I think was and still is an excellent program, although we may have assigned the administering of it, it may be our fault, assigning a social program to a part of HUD which was not socially oriented, and it was not as carefully administered as we would like, and the places where it failed got the great public attention and the great majority of cases where it was successful, that was not news so it did not receive that attention.

So I for one am very please that you do support that, the continuation of that program, and that you gave us the benefit of the Milwaukee example that you have described to us.

I have no further question, Mr. Chairman.

Mr. ASHLEY. Mr. Mitchell.

Mr. MITCHELL. As per usual, I am a very troubled man. Not because of what—and I won't be very long—not because of what is in your testimony but because of the implication of your testimony and other testimony that I have heard. And I just wanted to—I don't know what good it will do to lay out my concerns right now, but maybe later somebody will read a report of this committee and say, Mr. Mitchell was there hammering away, raising some questions or, perhaps, consider them irrelevant. But what troubles me is, I have no problem at all with your efforts and the efforts of this subcommittee and HUD and everybody else to lure whites back into the city, to bring the suburbanites back in. I have no problem with that. That is part of an integrated society concept, that is policy in America. But what troubles me is that the justification for this effort is always based on the assumption that we have to do this in order to secure a viable tax base for the cities, which inferentially to me means that we are anticipating the present inhabitants of cities to remain in their present economic status *ad infinitum*.

What we are saying is, look, you guys who are poor, lower income, who are now living in cities, don't expect to come up the ladder at all, don't expect to rise up that ladder far enough so that you will ever be come a part of a viable tax base. That is the first thing that troubles me.

The second thing that troubles me is, that in our effort to lure—and I use the term loosely—suburbanites back into the city, what then happens to suburban housing, which was constructed with the aid of the Government after World War II? Do we plan to bulldoze it down? Do we plan to put in parks in suburbia, or will there be new housing?

In short, the troublesome aspect for me is, do we plan to relocate the nonviable tax entities out from cities into suburbia? I like the idea of your affirmative lending plan. It is worth trying. What do you describe as median-income families in that area? What dollar figure?

Mr. HUNTER. If you are talking about families as distinguished from individuals, you are probably talking about \$15, \$20, \$25 thousand at this time, and even higher. But we would hope to be able to finance housing under this program to assist families that are in the \$15 to \$20 thousand income bracket.

When one goes to a lower income bracket, and one is talking about revitalizing the cities and with the costs involved, some sort of governmental assistance will be required. Whether it front-end subsidies or through sections 235 or 236.

Congressman Mitchell, you are asking questions about the most difficult, the most frustrating and the most serious problem inherent in this overall problem or—

Mr. MITCHELL. Could I interrupt you just a moment. I know you want to respond, and I want to come back to that question because I really want to hear your response. Maybe you can allay my concerns. But I want to get to other items and then we can come back to those first two issues.

I asked how you define "median-family income." Is a family at \$15,000 at the lower rung of the median income?

Mr. HUNTER. Right.

Mr. MITCHELL. Can that \$15,000-a-year family really afford a \$68,000 house?

Mr. HUNTER. No. The cost of housing, as a rule of thumb, should not be over $2\frac{1}{2}$ times income.

Mr. MITCHELL. That is right. So I guess I have a little problem with your definition of "median income" for your affirmative lending plan, and the overall definition that we have for median-income families, because we defined it generally in housing operations that "lower rung" really means that many of the proposals, the ideas about the selling price for a house, in effect, has no significance for that lower rung. \$55,000, for example, I am not sure that many \$15,000-income families can really afford that.

If you will indulge me just a little bit more, I have one final question. I appreciated all of your testimony, except for one small part and that was the part where you got to the problems of inner-city housing. Every other place you were very, very specific with recommendations. This is what we ought to be doing. But in that section on inner-city housing, there was, it seems to me, just a generalized statement saying, "We have a multitude of problems."

What should we do with them? I wanted to ask you specifically, what are the problems that your agency confronts in terms of inner-city housing? I think red lining is based on race, but apart from that,

I would like to know, just three specifics that you confront in terms of inner-city housing, and maybe we can address them.

I have thrown a lot at you. You can respond in any way that you can, in any sequence that you care to.

Mr. HUNTER. Well, first, let me say what our Charter Act permits. FNMA is only permitted to buy mortgages within the range of market prices, and we operate entirely with our own funds. Therefore, we cannot subsidize. So when it comes to housing for low- and moderate-income families, we can purchase mortgages under sections 235 and 236 where part of the interest is paid by HUD.

The problem that we see is finding mortgage funds for financing the acquisition of urban housing. In many cases, in urban areas which are beginning to deteriorate but which are still viable or salvageable, there are not many lenders that are willing to get involved; and yet, those that have are finding that these mortgages are sound, there are creditworthy buyers, there is value. When one talks about value, he is talking about resale. In the case of foreclosure, one wants to be able to sell for a price that will cover the mortgage balance.

Now, the attitude of many appraisers, and we have talked to the appraisal societies about this, has been oriented toward new construction or newer areas of the cities, or toward the suburbs, and in the case of inner city properties they have not been able, they have not been willing to give the same weight to either creditworthiness of the buyers or to market value of property.

Another thing, suburban lending is more of a retail business, as distinguished from a wholesale business. A lot of inner city lending has to be spot business. It is much simpler for a builder or real estate agent to go to a lender and write contracts for 200 units, than to accept applications one at a time and in the process probably have to turn down 25 to 50 percent of them, but then make the effort to find additional eligible borrowers.

Mr. MITCHELL. I think I am squared away on one point. That involves lending institutions and the resale problem. That is one specific problem you confront.

Mr. HUNTER. Yes.

Mr. MITCHELL. Are there others?

Mr. HUNTER. The other problems are to help cities realize that it importance of neighborhood organizations. These have never had so be done about the infrastructure, because people won't stay if the public facilities are not kept up.

Another thing that's becoming more apparent in this country is the importance of neighborhood organizations. There have never had so many organizations as there are now. They exist where there is success in urban rehabilitation. I cited Milwaukee. There, the neighborhood organizations make sure that everybody makes an effort to keep his place up. Section 235 works where there is a racial mix. People with less experience as homeowners see the example of others and follow it. They actually follow it, and that's what makes the program a success.

There is the problem that you pointed out, the ghettos of the poor and of the blacks, of racial minorities, and to break up the ghetto and to improve housing conditions, the relocation of some may be required,

and that will be a cost to the Government, but it will have to be done.

Mr. MITCHELL. OK. Do I have a bit more time?

Mr. ASHLEY. We are meant to be out of here by 4 p.m., but if you would care for another minute or two, you are certainly entitled to it.

Mr. MITCHELL. Your graciousness is always appreciated.

Would you comment on those two problem areas that I raised? Maybe I am raising a false problem, but I don't think they have got to build housing in suburbia and abandon it. And I think we are saying, "Folks, where you are right now, that's where you are going to be until the year 2,000, or more."

Would you just comment on that?

Mr. HUNTER. I think if we are going to get this racial and economic mix, there has to be relocation. We must recognize that, and we must provide for it. That is an expensive proposition, but in the long run it would be less expensive than if we don't do anything about it.

When it comes to section 235, or similar programs that may follow, let us build the units someplace else other than on the site where a slum has been demolished. I think we have got to mix to achieve a racial and economic mix. And it is a hard—one cannot tell these people, "Go find your own house." They have to be helped. But unless they are helped, and unless it is accomplished in a meaningful way, we can't save the cities.

In St. Louis, in the Pruitt Igoe project, it got so bad, with the concentration of the poor, that rents couldn't be collected, the police couldn't maintain law and order, and finally the project was demolished. That's an extreme case, but that's the ultimate end of this kind of concentration.

It takes the private sector and the Government, working together if we are going to save our cities.

Mr. MITCHELL. All right. Thank you.

Thank you, Mr. Chairman.

Mr. ASHLEY. Mr. Hunter, we again say thank you for your testimony. It has been helpful in the past, and it is helpful on this occasion. And as we proceed with the markup, we will be looking to your expertise. Thank you very much.

The subcommittee will stand in recess until 10 a.m. tomorrow morning.

[Whereupon, at 4 p.m., the hearing was adjourned, to reconvene at 10 a.m., on Wednesday, March 9, 1977.]

HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1977

WEDNESDAY, MARCH 9, 1977

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY
DEVELOPMENT OF THE COMMITTEE ON BANKING,
FINANCE AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 10:20 a.m. in room 2222 of the Rayburn House Office Building, Hon. Thomas L. Ashley [chairman of the subcommittee], presiding.

Present: Representatives Ashley, Patterson, AuCoin, Evans of Indiana, Lundine, Rousselot, Wylie, and Grassley.

Mr. ASHLEY. The subcommittee will come to order.

The Subcommittee on Housing and Community Development is continuing its hearings on the fiscal year 1978 HUD authorizations and related matters. And this morning we are particularly pleased to lead off with the testimony of my colleague, a new Member but one who has certainly won the attention and the respect of us in the Congress already, the Honorable Wes Watkins, Congressman from Oklahoma.

Mr. Watkins, we are delighted to have you with us this morning, and I understand that sharing the presentation with you will be Mayor Johnnie B. Lee, who is president of the American Association of Small Cities; is that correct?

Mayor LEE. That is correct.

Mr. ASHLEY. We would like to have you proceed in any way that you feel comfortable with. And if you have others to be introduced, I can do that or you can do it yourself, gentlemen. But you proceed with your prepared statement, or if you want that inserted in the record, we can do it that way.

However you wish to proceed, Mr. Watkins.

STATEMENT OF HON. WES WATKINS, MEMBER OF CONGRESS FROM THE STATE OF OKLAHOMA

Mr. WATKINS. Thank you very much.

First, I would like to express my appreciation to you and the members of the subcommittee for allowing us to be here today to visit on behalf of the smaller and rural areas of America. I would like to yield a portion of my time to the American Association of Small Cities, and I would like to introduce these people.

(2391)

Mayor Swinburn from Tulia, Tex., and Mayor John Perritt from Ruston, La., Mr. Roy Dugger, who is the executive director of the American Association of Small Cities, and Mayor Johnnie B. Lee, the president of the American Association of Small Cities.

And at this time I think it would be appropriate to let Mayor Lee deliver his prepared testimony and then I would like, if it is agreeable with all of you, to talk about some specifics in some areas—

Mr. ASHLEY. That will be just fine.

Proceed precisely as you have suggested.

**STATEMENT OF JOHNNIE B. LEE, MAYOR, HALTOM CITY, TEX.,
PRESIDENT, AMERICAN ASSOCIATION OF SMALL CITIES, ON BE-
HALF OF THE ASSOCIATION, ACCOMPANIED BY ROY DUGGER,
EXECUTIVE DIRECTOR**

Mayor LEE. I am Johnnie B. Lee, mayor of Haltom City, Tex., and founding president of the American Association of Small Cities.

It is a distinct pleasure for me and the other founding officers of the American Association of Small Cities to make our first formal presentation to this subcommittee.

We, as representatives of mayors and other elected officials of small cities and rural communities, look forward to a close, continuing and fruitful working relationship with you.

A brief overview of the American Association of Small Cities may help you evaluate the concepts set fourth in this presentation.

Our first efforts to band together the elected officials of the fiscally responsible cities with under 50,000 population began less than 2 years ago. We started under the leadership of Mr. Roy Dugger, executive director; the Honorable Ray Litton, mayor of Round Rock, Tex. director-at-large; and the Honorable Helen Shaw, past mayor of Rollingwood, Tex., national director of membership, who each serve as volunteers without salary.

Elected officials in more than 800 small cities in 20 States were visited during 1976. In 1977 these voluntary efforts will be extended to small cities and rural communities throughout the 50 States and territories.

Membership in the American Association of Small Cities is extended to those cities, villages, boroughs, and towns with up to 50,000 population that have balanced operating budgets and have not defaulted on capital improvement bond issues during the past 30 years. More than 130 million citizens live in these fiscally responsible small cities and rural communities. The elected officials of these small cities believe in and have generally practiced zero based budgeting for many years. We are close to the grassroots of our great Nation.

Our prime purpose is to band together as effective proponents of fiscal responsibility and social equity throughout all governmental units.

Specific goals may be summarized as follows:

First, seek the possibility of setting up a single Federal agency to handle all programs and grants for the small cities, townships and boroughs in the United States of America;

Second, help guide legislation in budgeting and appropriations to a fair percentage of moneys allocated to this group of approximately 130 million citizens;

Third, seek information from this group for necessary input for proper legislation and guidelines from the executive branch of the Federal Government. This information is not now received;

Fourth, convey information to the various elements of Government at the national level regarding where and how breaks in legislation and guidelines should be made so these smaller cities and rural communities may conform to directives;

Fifth, help guide legislation and national guidelines into solutions that assure these citizens have an equal share of assistance available;

Sixth, help categorize problems of like nature. Call meetings of such groups for an exchange of ideas of problems and solutions before seeking Federal assistance. This could be done with a computer bank of information obtained from all member cities;

Seventh, help educate the newly elected official into their new jobs by training in standard good Government policies, thereby saving at least 1 year of effective functioning by each official;

Eighth, seek information and solutions in the areas of problems of the aged and underemployed;

Ninth, to work with private industry and city officials to increase employment with small industries that are within their capabilities;

Tenth, seek the best solution for availability of hospital and medical care in accessible locations and with reasonable transportation limits;

Eleventh, set up sound guidelines for small communities police functions as opposed to proprietary functions; and

Twelfth, help set up standard rules for municipal budgeting and bookkeeping.

The American Association of Small Cities is the only national association dedicated solely to the needs of the often neglected citizens who live in small cities and rural areas.

As the membership grows to become fully representative of the approximately 20,000 small cities and rural communities throughout the United States, it will serve as an effective interactive network that will:

First, assure that adequate information is available to help Federal officials make sound decisions regarding the needs of small cities and rural communities and the programs affecting them;

Second, assure that small cities and rural communities are made aware of Federal Government actions and programs affecting them; and

Third, assure that a continuing system of affordable conferences and seminars is shared by elected officials of small cities and rural communities with officials of private industry and business.

We will be glad to provide members of the subcommittee with additional information about the American Association of Small Cities that may be helpful in your deliberations about housing and community authorizations or in your consideration of the concepts set forth hereinafter.

A 1974 survey indicates that in rural areas, including those communities of up to 20,000 population, there are 1,900,000 families living in housing that lacks plumbing facilities; 1,400,000 families do not have kitchens; 1,300,000 families live in overcrowded houses that have more than one person per room; 3,900,000 families live in houses without attic or roof insulation; 7,800,000 families are without storm windows;

and 5 million families live in houses with deficiencies such as leaky roofs, holes in the floor or walls, or other major defects.

Using the census definition of rural as communities of less than 2,500 population and open country outside urban areas, the 1974 survey of the Department of Housing and Urban Development shows that rural areas had 27 percent of all occupied units—21,400,000 in all.

These rural areas had 63 percent of all units that lacked plumbing, 58.9 percent of all units without kitchens, 34.1 percent of all overcrowded units, and 42.2 percent of the units without roof or attic insulation.

These statistics indicate that if the trend of migration from rural communities to the problem areas of dense urban population centers is to be reversed, the housing policies of the Federal Government must be redirected to make attractive housing available to poor people and moderate-income families in small cities and rural communities.

Providing equity in housing financial programs in small cities and rural communities is an essential part of overcoming the spreading blight in densely populated urban centers. This will require that at least 50 percent of the Federal housing financing and loan guarantee funds be allocated to the support of housing for poor people and moderate-income families in rural communities of under 50,000 population.

Furthermore, ceilings on loans and guarantees must be updated regularly to reflect the realistic prices which builders must charge for good quality homes.

Also, the loan limits and appraisal procedures for federally assisted housing programs in small cities and rural communities must be revamped drastically to provide equity with federally assisted housing programs in urban centers.

This should include procedures to encourage responsible builders to construct houses and multiple family units for poor people and moderate-income families in small cities and rural communities and have them available when families want to escape the economic and social poverty prevalent in large city blight areas.

An added incentive to help make attractive living accommodations available to poor people and moderate-income families in small cities would be to administer housing and other community support programs through a single Federal agency.

This could be a rural finance and development agency through which all Federal programs dealing with rural communities and cities of up to 50,000 population would be administered. The elected officials of the small cities in which approximately half of the people in the Nation live would welcome this kind of centralized administrative service with open arms.

It would be a positive step toward making it unnecessary for them to employ Federal grantsmen which they simply cannot afford and do not desire.

Paperwork reduction is essential if housing assistance and other community support services are to be expedited in small cities and rural communities.

This could be accomplished by having an advisory group of elected officials in small cities and rural communities review Federal Register

guidelines before they are published and approve the forms that will assure fiscal responsibility, environmental protection, and personnel safety before they are printed.

The officials and members of the American Association of Small Cities will be delighted to work with the appropriate Federal officials on a continuing basis to develop understandable and realistic guidelines, as well as simplified short forms of two pages or less for use in making project applications and in reporting compliance with program requirements.

The American Association of Small Cities supports the continuation of the hold-harmless provisions as set forth in H.R. 1522 and in the continuation of revenue sharing until these programs can be reviewed in depth and revised as needed to assure equity in social and financial assistance programs in small cities and rural communities.

We are fully aware that present revenue-sharing formula is discriminatory to small cities and rural communities, as are many of the provisions of the Housing and Community Development Act.

Some of the matching requirements for water and sewage projects are simply unrealistic and cannot be met by many small cities.

Our desire is to work with the subcommittee and other groups during the term of the 95th Congress to correct these and other inequities.

Your indulgence and consideration in these matters will be greatly appreciated. Thank you, sir.

Mr. ASHLEY. Thank you, Mayor Lee. That is an excellent statement.

STATEMENT OF HON. WES WATKINS—Resumed

Mr. WATKINS. Mr. Chairman, if I may, I appreciate your allowing the American Association of Small Cities to be heard and present their case; I would like to go into some specifics.

I would like to mention to you and the members, as you know, I am a freshman Congressman. My past way of making a living has been through homebuilding, and so I have been on the firing line trying to implement certain programs that have been passed, and a lot of it with great intent, I think, by the Congress, and also as we get over into some of the agencies, then it bogs down.

I lean in my discussion about the rural areas of the Nation because in my congressional district I don't have a community about 20,000. First, I would like to echo about retaining the hold-harmless city program and Federal revenue sharing and express my support for H.R. 1522.

But specifically, I would like to commend you as a subcommittee for giving much thought and recommending an increase in the 203(b) section of the Housing Act up to somewhere in the neighborhood of \$55,000 or \$60,000.

There is another section, though, that I would like to bring to your attention. It is section 203(i) which over the past few years has been ignored and has been retained at a \$16,200 limit.

In discussing this with HUD people and others, they have told me they have had no activity on this for over 6 years. And the reason basically why there has been no activity for this for 6 years is because you can't build a home for that amount. It just boils down to that fact.

Section 203(i) has not been active. It applies to the less populated areas and is limited right now to a loan for 5 acres, along a public highway.

This section is needed. It is needed to be activated, Mr. Chairman, to serve those people in rural America who have a higher income and cannot qualify for Farmers Home and would like to build a home just above the requirements that Farmers Home set a side, that they have now in their program.

And this today, by some coincidence, is a great number of people.

As a homebuilder, in these rural areas I find there are a lot of people that have an income right above what the Farmers Home can serve, but they can't find the necessary financing to serve them in rural areas.

So I would like to encourage the subcommittee to consider increasing section 203(i) to the equivalent amount of what the people in the cities have for their home loans under section 203(b).

Also, I would like to ask the subcommittee to consider cutting down the size of plot from 5 acres maybe to half of that, to 2½. Under the Farmers Home Administration, they limit their size of a lot to 1 acre.

Because if you are purchasing just for the reality of this, if you are going to purchase that 5 acres to try to build a home on, right now you can't even build a home under \$16,200.

So, say we get the limits raised. That 5 acres would probably cost you something like \$8,000 to \$10,000 just for the building site.

That is half of what the present limit is that they will loan you now.

I think it is very important that we increase the loan you know. I think it is very important that we increase the loan limit equivalent to section 203(b) and also cut in half the size of the building site which I think would be very beneficial to implement this program and also working with the areas that are being developed in the small communities.

So I want to mention this as a weakness that we have today in trying to serve rural America.

I am preparing a possible amendment, and I would like to ask your guidance on that later on, if we are able to prepare such an amendment.

Second, Mr. Chairman, I am deeply concerned, I say as a homebuilder, I have divested myself of my home building interest, I have sold that interest in order to avoid any type of conflict of interest, so I can be here today talking to you about housing, we have a weak problem in our delivery system.

I think I am probably not telling you anything new. But if we think it is a problem in the major cities, it is compounded and multiplied many times in trying to deliver the Federal housing programs, housing programs in the rural areas, in the rural communities.

For an example, in Oklahoma, Mr. Chairman, we have two offices in Tulsa and Oklahoma City.

The Metropolitan Home Builders flocked to the area immediately. The rural home builders that are not as large, get very little of the money out into the rural communities of the State of Oklahoma. I find that this example of Oklahoma is very much like most States.

So I would like to ask that maybe some of us along the way, especially the subcommittee, take a very close look.

I have asked Secretary Harris to take a look at the delivery system that we have today, because I think we realize how big a problem we have even delivering it in our cities, let alone getting it into the rural communities.

Two other areas I would like to mention specifically about this morning. They mainly deal under the housing and development program under the Farmers Home Administration.

I have discussed this with the Farmers Home people and, Mr. Chairman, I bring it up here because it might entail legislation. If it might not be corrected from other sources.

That is section 524, under this particular act, that allows the non-profit loans to be made for development of subdivisions in rural America.

Today in particular, I have tried to work with communities in implementing this. They are allowed to make a loan to a nonprofit organization such as a Lions Club or a church group or something like this, to develop a subdivision to try to allow their community to survive.

This is reality No. 1. That loan has been made in many cases.

But on the same hand, it has been strangled because they are not able to make loans under the Federal agencies or even through private sectors to build houses on that subdivision that has been set up as a nonprofit corporation through the loan from the Federal Government.

Example, they state that only low-income people can get a loan to build a home here. As a builder I could not have a home building and waiting for a person of this nature to buy a home, because it didn't allow as a builder for me to buy a lot to build a home there for these people.

Therefore, we had to wait for someone moving back to the rural area, and tell them if you would like to live here, we can have your home built in 6 months.

So, what happens? He moves down the road trying to find a home or move into an overcrowded city. It is not working. It is not working, because we need a change to allow the people who have gone out to save their community, the nonprofit loan group, to be able to sell those lots to anyone.

In fact, it works right in the opposite way, from what FmHA requires of their subdivisions, a mixture.

This particular section says only the low income, a veteran could not buy a lot there to build a house on. A person moving back with their life savings from California could not buy a lot there to build a home on.

Under the present structure, it is not working and it is causing embarrassment to a lot of communities who have borrowed money to try to save their community. So I feel that it is something worthy of looking at in order to help these people save their communities and implement a home building program and be able to make it work.

Furthermore, I would like to state that I feel like this could be expanded to allow a guaranteed loan to limit the profit developers, so

that through guaranteed loans, they could set up the necessary subdivisions in rural areas.

Most rural areas have not provided subdivisions, because most of them have lost population over the last 30 years, instead of gaining population. It is just now reversing.

So they are going through a struggle that they have never had to witness before.

Also this particular program has a loan limit, Mr. Chairman, how ridiculous is it, of having to be repaid in 2 years.

It is impossible to develop land and have it repaid within 2 years.

And I think that we should be able to maybe work with these to extend that loan period from 2 years up to 5 years, and I think it would be more realistic for it to be a workable program.

So those two major changes right there would help a great deal in allowing the rural cities and towns of this Nation to implement subdivisions and also to actively have a home building program going.

Second, Mr. Chairman, I hate to bring it up, but I think we also have a problem within the delivery system of the Farmers Home program.

And I am very strong on that program and what they are doing to help rebuild rural America.

But we have some weaknesses there. And the new National Administrator of Farm Home, when he comes on board some time in the near future, I am sure he will be discussing this with him.

We need more personnel. And I think there has to be some new approaches in trying to prepare a delivery system of getting homes available for the rural people of this Nation.

This may seem very small in the eyes of a lot of people who live in large cities.

But as Mayor Lee said awhile ago, over 50 percent of our people of this Nation live in small communities and cities less than 50,000.

So we deeply appreciate you and the subcommittee here taking time to listen to a few of these specifics and also Mayor Lee's testimony and we will be happy to discuss any facet of this, Mr. Chairman.

Mr. ASHLEY. Thank you very much, Mr. Watkins.

I must say that it is a pleasure for me and for the subcommittee to receive your testimony and that of the mayors of smaller cities and to become acquainted with their association and look forward to regular visits and continued opportunities to receive testimony from them.

Let me just ask you a couple of questions, Mr. Watkins, about some of the comments that you made.

I think you may well be justified in asking the subcommittee to take a look at section 203(i) with an eye to increasing the loan limit involved in that program and perhaps reducing the acreage. I think what we will do is to have the staff request departmental reports on that proposal so that we can see exactly what the Department's position, if any, is at this time on that. It makes it easier for us to proceed if we can get departmental reports with respect to the legislative proposals such as this.

Now, on the section 524, relating to Farmers Home loans to non-profits, at what interest rates are those loans?

Mr. WATKINS. I think 9 percent. I think there is some discussion about maybe trying to reduce that, which I think would be very help-

ful in trying to help these normally business people who are going together, forming a nonprofit corporation in order to try to save their community. Right now—

Mr. ASHLEY. That is a direct loan?

Mr. WATKINS. Yes.

Mr. ASHLEY. I am surprised that that is the rate. That is a pretty high rate.

Mr. WATKINS. I might mention that the time period is just 2 years.

Mr. ASHLEY. That is not realistic. With front-end financing, it takes a year to develop it. And the only way you can expect to repay it is out of sales. So what they are doing is restricting the time for the development of the land and construction of your units.

Mr. WATKINS. And in reality, they will not let you—say, a veteran—they won't let you buy the lots as you are developing it. You have to get it developed; then you have to find a buyer that might qualify, process him, make sure he is qualified, and then build the house. That is 6 months, and so that time is used up right there. And these people become embarrassed because they have borrowed the money to help their community, and they find that their loan is overdue, and they have to extend it.

Most business people like to work from a planned and logical step in business. And with maybe 5 years they could be able to do this. But the crunch comes when the lots, Mr. Chairman—you are not able to sell the lots to any person. They have limited them to one specific group.

Mr. ASHLEY. Low income?

Mr. WATKINS. Low income.

Mr. ASHLEY. How do they define that?

Mr. WATKINS. One that would qualify for a farm home loan. And this is a contradiction of what FHA requires in selling their lots. They want a mix of high-income people, low-income people. So it is in direct conflict with what that policy is.

Mr. ASHLEY. We get into a real tough policy area there, because, presumably, the money for the direct loans is coming from everybody who pays taxes. And we certainly don't want to exclude the poor people: they are paying the taxes that make possible the loans. And it would be impossible to justify that, at least in my mind, the taxing of low-income people to set up a program which is only for the more affluent.

Mr. WATKINS. I agree with you, Mr. Chairman. And I don't think this proposal would eliminate that, because most of them—for instance, as a builder, I could not get a commitment to get a home built out there, waiting for that low-income family to come, because they won't sell it to the builder. They won't sell the lot. You have to wait and find that family, then get him qualified, then build a home, which takes about 6 months. And most people don't want to wait 6 months; they are coming back to the rural areas.

Mr. ASHLEY. This prohibits speculative building?

Mr. WATKINS. Yes. And it prohibits a home being there for a veteran or a family that is moving back to their home area and wanting to build there. And this is not 100 percent of them, but some people would like to move back to that area. They have sold their house out in California or somewhere, the Okies returning to Oklahoma.

Mr. ASHLEY. They are getting ahead of that drought out there. [Laughter.]

Mr. WATKINS. It is the problem of trying to implement it, and it is not feasible.

Mr. ASHLEY. You are suggesting for guaranteed loans— this reminds me of the title VII program, which has not given us much good experience to go by. You go back before title VII, which is the guaranteed loan program, to title X, which was passed in the 1960's, and that was not limited to urban areas.

What I am suggesting is that there may be legislation on the books. And there is, but title X has not been used. And I guess I would like somebody, perhaps, to submit for the record an explanation as to why that title X has not proven useful in rural development undertakings.

Mr. WATKINS. I would appreciate knowing that, also, Mr. Chairman, some information on it. Maybe we can get that.

Mr. ASHLEY. Mr. Lundine?

Mr. LUNDINE. First of all, I would like to welcome the mayors of small cities. I have a particular concern for small cities and particular interest in your needs. Having served until about a year ago as one of you, I find that there are a lot of problems that are being experienced by small cities that are seeking to help themselves which are not receiving the degree of Federal attention that I believe they should.

I have a few questions about your statement, Mayor Lee, that I would like to ask you.

Do I gather from your comment on page 7 on Federal programs dealing with rural communities and cities up to 50,000 population, that you would suggest that Farmers Home Administration jurisdiction should be extended from 20,000 up to 50,000?

Mayor LEE. I would—yes, yes. I will put it under the Agriculture Department.

Mr. LUNDINE. In other words, you are saying that—

Mayor LEE. In a separate department.

Mr. LUNDINE. I understand you are proposing a separate department. But dealing with what we have today, you are saying that people should be eligible for loans in communities up to the size of 50,000 under the Farmers Home program?

Mayor LEE. Yes.

Mr. LUNDINE. Turning to your position on the hold-harmless provisions of the Community Development Act, you make a strong statement that you support the continuation of the hold-harmless provisions. Forever?

Mayor LEE. No. I don't know exactly. I would like to defer this question, really, to our executive director. I think he might be able to answer it a little better. He has been working with it.

Mr. DUGGER?

Mr. DUGGER. Thank you, Mavor.

Congressman Lundine, I believe that we would find that the group of mayors and other elected officials of the small cities with whom our group has visited during the past year, that there is a feeling that the hold-harmless provisions and many other sections and parts of the Community Development Act are, in fact, discriminatory against small cities and that they do need to be reviewed in depth.

I think at this time they would not be prepared to give the details of their recommendations. They would like to work with the members of the subcommittee, the subcommittee staff, during the year ahead, to work out many details to assure that equity is provided for citizens who do live in the small cities and rural communities. I think, furthermore, that there would be a general consensus among the mayors and elected officials that until this review is completed and whatever changes, revisions, amendments, are offered that might be appropriate, that the current provisions be extended.

Mr. LUNDINE. I would like to explore this a bit further.

Mr. DUGGER. Surely.

Mr. LUNDINE. The basis of the hold harmless, as I understood it when I was a mayor of a small city and vitally interested in the 1974 legislation, was that there were certain communities that had participated in the various categorical grant programs and that they should be assured of being allowed to continue to participate on the basis of the average experience over a 3-year period, I think it was, prior to the enactment of the law.

Mr. DUGGER. Yes.

Mr. LUNDINE. But that was for a limited time, because there was nothing magic about that 3-year experience.

Mr. DUGGER. Yes.

Mr. LUNDINE. Now we are faced with the phasing down of that hold-harmless provision, which I guess all of us anticipated, because it was written into the law. While I would agree with you that there is an inequity, I am hard pressed to justify continuing hold harmless indefinitely.

Mr. DUGGER. I think our group would agree with that, sir. And that is why I support the hold-harmless clause only until such time as an in-depth review is completed.

It has been the experience of many of our people that—during the past year, we were all involved in a very extensive political race, whether we be on the one side or the other—

Mr. LUNDINE. Don't tell me your problems. I ran for mayor in the fall of 1975; I ran for Congress in March of 1976 and Congress again in the November of 1976. I am tired of running. I think I hold the alltime record for running in the last couple years. [Laughter.]

I didn't mean to interrupt you.

Mr. DUGGER. I think we would be in agreement with you, in the tenor of our thoughts, that an extension of a year or two—and during this time, when we have time to sit down and reason together about the changes that definitely need to be made, and get at making them, that, at that time, we would hope an equitable program could be worked out, so that the hold-harmless policy would not be as much of a concern.

Mr. LUNDINE. I would like to ask you about this.

Are you familiar with Secretary Harris' proposal of an action grant program?

Mr. DUGGER. I have read it. I have not been briefed in depth on it, sir, and I am not sure that others know about the general concept.

Mr. LUNDINE. On behalf of small cities, therefore, you don't want to comment on whether you think that, if part of this is to be allocated to nonmetropolitan areas, that it would be helpful in this situation?

Mr. DUGGER. I think I could say that, in general terms, it would be helpful. We would like to defer detailed comment, though, and perhaps very quickly get back to you, in writing, an elaboration on this question.

Mr. LUNDINE. I would like to conclude by saying that I would be very anxious to work with you.

Mr. ASHLEY. Thank you. Mr. Patterson?

Mr. PATTERSON. Thank you, Mr. Chairman.

I, too, would like to welcome the mayors of the small cities to our subcommittee hearing this morning. And it is a delight to hear from our colleague, Wes Watkins, who is doing an admirable job on the committee, I might add. His input, I am sure, will continue to be valuable, even as you go back and return to your cities.

Actually, Mr. Lundine covered at least two of the areas that I was most interested in asking some questions, so I will limit my questions to a couple.

One, Mr. Lee, Mayor Lee, on page 8 you refer to some of the matching requirements for water and sewage projects as being simply unrealistic for you to meet.

Mayor LEE. Well—

Mr. PATTERSON. They cannot be met by small cities.

I represent an area in southern California that has five not-small cities and five small cities, so it is kind of equally divided. And I wonder if you could elaborate on that now, or, if not, if you could do so for the record.

Mayor LEE. One example I could give you on some matching grants, I know of an instance where a small city of some 200 people obtained the ability somehow to fill out the paperwork to apply for a grant on a sewer system. And when they—they did get the grant approved in their city.

And we have this in some small cities, in some rural cities, where the city officials really—they get somebody else to work their grant application up. They are not familiar with it; they are working people. They wind up having to match the grant.

And there was no way the city could match that grant in any form within the next 5 years, and—even if they raised their taxes to \$2,000 per person. This is an example of some of the smaller cities getting into those programs.

Mr. PATTERSON. May I ask if that is an EPA grant or a HUD grant?

Mayor LEE. It was a community development grant. This was in north-central Texas, and it came through the councils of government for review and comments. That is where I heard of it.

Mr. PATTERSON. I am sure it is Federal funding, but matching grants are not in the community development program.

Mayor LEE. No; but it was involved in the community development grant program that came through that county. It was not for community development funds.

I know what you are saying. We are involved in that in the city in which I am in. But this was in a matching grant for the community, and they had to come up with \$25,000.

Mr. ASHLEY. Would the gentlemen yield?

What you may be talking to is the fact that in the 1974 act we make it possible to use community development discretionary funds as part

of a matching requirement for programs not administered by HUD but by the Commerce Department.

MAYOR LEE. This money wound up going back. They could not use it, and they are still working on it.

I don't know whether I answered your question.

The main problem we have—we have problems in all small cities. I am familiar with 31 in my individual area. Through the efforts of the Community Development Act, we got into this. But we run into so many cities that cannot even comprehend how to work out an application for grant programs or any of the other types of programs.

MR. PATTERSON. The last question that I will ask is, I think the thought behind the housing legislation is probably twofold. One is to meet the needs, primarily, of low-income people.

MAYOR LEE. Yes.

MR. PATTERSON. And secondly, I think, it is to meet the demand for housing.

I am wondering, on that latter part—for example, in urbanized areas there are such things as pricing structures of homes, and where the market drives up the price, and vacancy factors on rentals. And what the vacancy factor is might certainly indicate whether or not there is a need or a demand for housing.

I am wondering if you have such data in the small cities that could be supplied to this subcommittee to show that the need is there. In other words, relative to who gets how much money, one of the things is the demand and the amount of demand that—we want to be a part of healthy development, as Wes Watkins said. But one reason small cities might be excluded has been a lack of showing of the demand in the market.

And if you could, if anyone could elaborate on that either now or for the record, I would appreciate it.

MR. WATKINS. I think Mr. Dugger can elaborate on that.

MR. DUGGER. We don't have a total survey made since 1974: There was some work done by other groups in 1974 that allude somewhat to this fact, and we would like to make those figures available, if you want them. And if it is desirable and necessary, we would be prepared to present relatively up-dated information to you within a few weeks.

MR. WATKINS. I am quite sure Farmers Home can give you some clear-cut information on some of the cities that they know about. And it is an astounding figure of not being able to work with these applicants and people who want to build homes in the area, and they just don't have the program there for it.

The second reason is the water/sewer program. And I would like to tell you a proposal that I would like to have you consider, Mr. Chairman.

Basically, under some of the programs they have what is called the loan program for water and sewage. I think—like under the Farmers Home, they have a 5-percent loan, which on the other end is being subsidized, which we know, and which is necessary in order to provide the water/sewer in many of these communities.

I think it would be worthy of our consideration—and I will talk, also, to the Farmers Home people about this, and—to work the water and sewage from a guaranteed loan program, low interest, and then with the subsidy on top of that, which would cost us no more. In fact,

it would cost us less in this Nation and would give us nearly a bottomless pit to get moneys available to help develop the water and sewers for these rural communities throughout the Nation. It would not be any more of a subsidy, and it would not be counted against the reserve system of the Federal Government. I think that would help get more of these on track and get them developed.

Mr. PATTERSON. Thank you very much, Mr. Chairman.

I have no further questions.

Mr. ASHLEY. Mr. Rousselot, any questions?

Mr. ROUSSELOT. Gentlemen, my colleague Mr. Watkins, we appreciate your comments on small cities.

I have only been able to glance at your testimony, but let me raise this question: What is the capacity of the smaller communities to complete a housing administration plan as part of the community development block grant application?

Mayor LEE. I am—

Mr. ASHLEY. I think you said that many small cities simply don't have the staff.

Mayor LEE. They just don't have the staff or the grantsmanship, or anything else, in order to work with the amount of papers and, actually, the engineering. Everything pertaining to it is done, in most small cities that we are discussing here, by outside consulting firms, which is another cost to them.

Mr. ROUSSELOT. You don't have lobbyists here full time like New York City? [Laughter.]

Mayor LEE. Most of the small cities don't have lobbyists even in their State houses, much less in Washington.

Mr. ROUSSELOT. We are sorry you are so disadvantaged. [Laughter.]

Mr. ROUSSELOT. Do you have regional help?

Do the States help, or, say, a county government, or something like that?

Mayor LEE. I can answer that. In some areas—I am not familiar with all areas—we have a county planning and management office that helps some of the cities on this. If they can get involved, they know where to go to start with. And then our regional—our council of governments do have—usually, that happens after the application is worked up and takes it to them. That is usually the way it helps them.

Mr. WATKINS. The Economic Development districts do have special people that can help. In many areas that help is not there, though. But, fortunately, we have some, mainly, as the mayor stated, outside consultants who are required more in the smaller communities, and then they get a number of these, and we don't have the consistency of New York City coming in here and going into this thing and trying to get whatever they can.

Mr. ROUSSELOT. Or Los Angeles, or any of the larger cities.

Mr. WATKINS. Right.

Mr. ROUSSELOT. Do you want to comment, Mr. Dugger?

Mr. DUGGER. Not particularly, other than, since you were not here for the early part of the testimony, it might be pointed out that all of the staff of the American Association of Small Cities, including me as executive director, serve without salary, as volunteers. We believe in the issues that are at stake in our organization which involve fiscal responsibility.

We are sure that we are close to the people. We know that we need to sit down and reason together now, throughout the entire governmental structure of the United States, we can bring fiscal responsibility and social equity to all of our people in every community.

Mr. ROUSSELOT. Well, we have heard from several other witnesses from the smaller cities who have made this point. And your ability to compete as small cities is clearly—is a potential problem of which we have to be more aware.

Mr. WATKINS. Congressman Roussetot, I would like to comment there.

I think we have moved in the right direction by setting aside a percent, you know. I would like to ask this subcommittee and the chairman at this point, maybe, to consider a larger percent, maybe a third of that money, to be able to go to those towns and cities below 50,000. We have 50 percent of our population—

Mr. ROUSSELOT. Two-thirds, you say?

Mr. WATKINS. I would go for two-thirds. [Laughter.]

Mr. ROUSSELOT. One-third?

Mr. WATKINS. Yes, instead of the 20 percent, because 50 percent of our people live in the towns below 50,000. Yet I think that is where we have caused an out-migration to occur in the past few years, and it is an area that we need to stop this migration into the inner cities or into the metropolitan inner cities and suburban areas and allow these cities to be able to maintain their people there, and to develop there, and to attract new jobs there.

And I think that will solve a lot of the problem. But we have got to have the necessary financing. That is why I ask, maybe, for the subcommittee to consider 30 percent.

Mr. ROUSSELOT. And you think that would partially help the smaller cities have a little better access?

Mr. WATKINS. No question; in my mind, it would.

Mr. ROUSSELOT. Why don't we tell New York City, "Well, never mind"? [Laughter.]

Mr. WATKINS. Their problem would not have occurred—

Mr. ROUSSELOT. I think we have made our point.

Thank you very much.

Mr. ASHLEY. We have several other witnesses this morning, so we will be obliged to move along.

Mr. Watkins, thanks so much for your testimony, and it has been very constructive. We appreciate your being here.

Mr. WATKINS. Thank you, Mr. Chairman.

Mr. ASHLEY. Our next witness this morning will be Henry Schechter, director of the Department of Urban Affairs, AFL-CIO.

I guess you can walk both sides of the street as well as anybody in Washington, Mr. Schechter. [Laughter.]

And you bring an unusual blend of experience to this subcommittee. We are pleased to have you, and I see that you have a prepared statement.

You can procede from that, which is somewhat lengthy, or you can have it inserted in the record and proceed extemporaneously, however you choose to proceed.

STATEMENT OF HENRY SCHECHTER, DIRECTOR, DEPARTMENT OF
URBAN AFFAIRS, AFL-CIO

Mr. SCHECHTER. Thank you. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before you to present the views of the AFL-CIO on authorization for major housing and community development programs.

Housing program authorization levels will be unusually important in the next few years because the country is in a housing crunch. High numbers of births two decades ago and low numbers of housing starts in the last few years have combined to produce current inflation in housing prices and rents.

During each of the years 1954 through 1964, there were more than 4 million births in the United States. That population growth wave began to enter the household forming age groups of 20 years and older in 1974. I would like to show these relationships on this chart.

The data on the top represent the number of births annually from—

Mr. ROUSSELOT. Mr. Chairman, may I interrupt?

Will we be able to have this inserted in the record?

Mr. SCHECHTER. There are copies at the back of my testimony; yes.

And this represents the number of births annually from 1946 to 1965, inclusive. If you will notice, this is the big wave which came from 1954 to 1964. We just entered that period and household formation, which is sensitive to economic conditions, recessions and so on, fell off in 1975. But in the 12 months ending in March 1976, we get the first big upturn of about 1.7 million households added.

That undoubtedly supported some of the upturn in housing, and we can expect more pressure upon housing in the years ahead. As a consequence, partly because of those births but also because of increased longevity and increased divorcees, I have adopted the Census Bureau median household projection of 1.55 million households per year, and you will notice it is not too far out of line from what we have had on the average in the first part of the 1970's.

The total housing requirements, though, in addition to taking care of the increasing households, plus also replacing units lost from the supply through demolitions, fire, flood, and other disasters, and to allow for enough additional vacancies to permit mobility, and to offset units absorbed for seasonal and second homes, about 2.45 million new housing units a year will be needed through 1985. That is on the average.

This estimate of basic requirements does not include a special allowance for replacement of some 3.5 million occupied substandard units. The total of new housing starts plus mobile home shipments fell short of the estimated annual requirement level by 800,000 units in 1974, 850,000 in 1975, and 650,000 in 1976.

The cumulative production deficiency relative to needs over the past 3 years was 2.3 million units.

As part of the increasing general awareness of the need to conserve resources, there has been an appropriate increased emphasis upon maximum possible rehabilitation and use of the existing housing stock.

However, there are only about 2.1 million vacant units available for

sale or rent, and a large proportion of them are not in the right place or of the right size. Regardless of the condition of available units, even if all substandard units could be rehabilitated overnight, the existing inventory is inadequate to counteract the inflationary trends in housing.

The \$39,600 median price of existing homes sold in January was 10 percent above a year ago. Higher existing home values, incidentally, generate higher property taxes. The \$45,200 median price of a new home sold in January was up 9 percent from a year ago, reflecting local shortages as well as increases in component costs. Rents are moving up at a 6-percent annual rate.

A continuing shortfall in housing production creates inflationary pressures in the economy. The low level of housing starts also contributes significantly to high unemployment and underutilization of plant capacity. Unemployment among construction workers was at an average annual rate of 15.6 percent during 1976 and was 15.2 percent in February 1977.

Much higher local area unemployment rates prevail in trades which are heavily specialized in residential building.

Last October, when the national construction unemployment rate was 15 percent, an AFL-CIO Building and Construction Trades Department survey found that in numerous localities between 20 and 60 percent unemployment was prevalent among carpenters, bricklayers, painters, plasterers, plumbers, roofers, and sheet metal workers.

The number of jobs that are lost in residential construction are about matched by the number of jobs that will be lost in the production, transportation, and trade distribution of building materials.

Furthermore, the stagflation that plagues the housing sector and is transmitted to the general economy will not be cured by the operation of market forces. The improvement in the market for new homes in 1976 and the related rise in single-family home starts in the latter half of the year, was significantly stimulated by the Government tandem plan operations.

Over the past 2 years, the Government National Mortgage Association purchased 274,000 home mortgages with below-market interest rates, generally $7\frac{1}{2}$ percent to 8 percent. Home sales financed with these mortgages encouraged builders to raise their production levels.

Tandem plan funds for home mortgage financing began to run out in late 1976, and by now practically all the commitments have been used up. Although new home sales were still strong at the turn of the year, there will be a thinner market for new homes in 1977 than in 1976, with construction costs and prices continuing to rise, and with no $7\frac{1}{2}$ to 8 percent mortgage money available.

This situation may very well be aggravated by increased living costs resulting from the eastern winter freeze and the continuing western drought. And recent rapid rises in wholesale prices of lumber, plywood, and metals will continue to push up home prices. Additional tandem plan financing to help moderate-income families buy homes may be needed to sustain the late 1976 level of housing starts.

Congress should take the necessary actions to make such funds available.

Furthermore, experience with tandem plan home mortgage financing suggests that the program can be modified to be more effective

in meeting housing needs and countering unemployment. The mortgages could be made available only to homebuyers of moderate income, who generally could not afford to buy a home financed at a market mortgage interest rate.

In addition, the Secretary of HUD could be granted authority to reduce the interest rate to levels needed to meet the objectives of the program, and to allocate available funds in relation to local housing needs and unemployment levels.

A rise in multifamily housing starts in the latter part of 1976 also reflected the support of some \$3 billion in tandem plan funds. When the data become available, they probably will show that a significant proportion of the section 8 projects in the FHA processing line reach a conditional commitment stage.

In this connection, too, the availability of additional tandem plan funds later in 1977 may very well be needed to maintain momentum in rental housing construction. In order that support be available for sustained multifamily as well as single family construction at an adequate level to meet needs, the Congress should act to make authorized tandem plan funds available for use.

It would also help in accelerating construction under the section 8 program if the maximum assistance payments contract for privately sponsored projects would be extended from 20 to 30 years. Sponsors would be in a better position to obtain conventional long-term financing and proceed to construction more rapidly than with FHA-insured mortgage financing.

A revised tandem plan home mortgage financing program would be particularly helpful for middle-income families that have been priced out of the market. For families of below-median income, however, the section 235 homeownership assistance program has to be revised and extended beyond its September 1977 expiration date.

It has to be revised by establishing an interest rate significantly lower than the present 5 percent minimum rate. Simply raising the maximum mortgage amounts under section 235 in high-cost areas to \$36,000, and to \$42,000 for a family of five or more persons would create another assisted middle-income program.

Just to meet principal and interest payments on a \$36,000, 30-year mortgage at 5 percent requires \$192 a month. Additional payments for taxes, utilities, insurance and maintenance and repairs would bring total housing expenses up to about \$310 per month.

It would require an annual income of over \$14,800 per year at a 25 percent housing expense-to-income ratio. At a 1 percent interest rate, however, total monthly expenses would be about \$250 and could be managed with a \$12,000 annual income.

We urge Congress to oppose the administration's proposal to expand the graduated payment mortgage experiment. This form of mortgage financing will result in significantly higher total interest payments over the life of the loan. Purchasing power of moderate-income households would be absorbed by more interest payments while those with large amounts of financial assets would reap the rewards of greater interest receipts.

There is a good deal of experimentation with alternative mortgage instruments in California, and some other States where State-chartered savings and loans can make variable interest rate and graduated

payment mortgages. That experience should be followed through a business cycle before such financing is expanded.

The greatest need for rental housing is among low-income families. The HUD budget submitted to the Congress in January 1976 had projected 400,000 units of section 8 and public housing to be placed under fund reservations in fiscal 1977. That target was cut back to 236,000 units, however, in the Ford budget submitted to the Congress in January 1977. The Carter administration is to be commended for requesting additional budget and contract authority to permit the full 400,000 units to be placed under the reservation in fiscal year 1977, and an equal number in fiscal year 1978.

The AFL-CIO favors a suballocation of authority to support 100,000 units of public housing, the program which serves the lowest income families. The starting end of the processing pipeline has to be refilled to produce a larger future production level.

The AFL-CIO, therefore, urges the enactment of the increase of \$1,232 million in annual payments contract authority for the section 8 and public housing programs in fiscal year 1978.

There should also be adequate funding authorized for public housing modernization and operating subsidies of \$35 million and \$665 million, respectively, as requested by HUD, to avoid deferrals of maintenance that would shorten the useful life of properties. Public housing projects represent a permanent stock of rental housing that will remain available for low-income occupancy, with little or no Federal subsidy required, after the 40-year capital bonds have been amortized. In a few years, a number of older projects will reach this stage.

In order to bring projects to the construction stage, HUD must be able to process applications expeditiously. The HUD budget calls for staff increases above September 1976 levels for the housing programs in fiscal years 1977 and 1978. It is our hope that your committee and other committees of the Congress with related responsibilities will maintain an active oversight to see that HUD programs are administered by a staff that is adequate in numbers and training.

In this context, a particular current concern is the administration of the section 202 program of direct loans for housing for the elderly and the handicapped. HUD is in the process of decentralizing the section 202 program, a process which still requires finalization of new regulations, development of a handbook of filed instructions and training of personnel to administer the program in the field.

Following this sequence of preparations, field offices would be prepared to advertise for applications which could be submitted within 60 days. It is doubtful whether all of these steps could be taken and applications selected for approval in time to commit \$600 million in loan authority that would expire on October 1, 1977.

Instead of rushing the preparations for program decentralization—which proved disastrous in the early 1970's—HUD could select applications for approval from among the 1,300 that were already reviewed by its central office staff, but could not be funded because the fiscal year 1976 authorization could support only about 200 of over 1,500 project applications received.

We urge Congress to retain the section 202 program's current exemption from the Federal budget. The direct loans approved under

the program are repayable and thus all money is recovered. It will be much harder to obtain adequate funding for this badly needed program if it is placed "on budget."

Every effort must be made to conserve the existing housing supply as well as to build new units. Programs that further this purpose should be extended and adequately funded. One of these programs is the section 312 rehabilitation loan program which enables moderate income homeowners to restore their homes to modern, livable standards.

Housing alone is not enough to support the economic revival of the older American cities. In the past 2 years, the focus of the problem of older cities has been on their financial dilemma. But the basic problem is really still the plight of low-income people who live in parts of the central cities.

Undesirable neighborhood conditions are important in generating the ills of the central city that affect all of the residents. As an older central city loses population because of the undesirable conditions, it loses part of its tax base for revenues and is less able to provide services. A strategic element in this whole process is the high level of unemployment among central city youth. Studies have shown a positive correlation between levels of unemployment and crime. If large numbers of teenagers continue to be unemployed into their twenties, some may never be able to acquire sufficient skills to be self-supporting. They will enter the ranks of the discouraged workers who no longer seek employment; the cities in which they reside will continue to deteriorate.

We would like to take this opportunity to commend Secretary Harris' recent statement to this subcommittee in which she stated that HUD would be the primary link in the implementation of an urban policy that would be responsive to the cities' needs for coordinated economic development, for housing, and related services, oriented particularly to statutory objectives that speak to the interests of low- and moderate-income people.

This purpose can be served by an extended, high level community development block grant program, with modifications along the lines that have been recommended by HUD Secretary Harris. Before touching upon those specifics, I wish to voice a strong endorsement of Secretary Harris' determination to use the housing assistance plan as it was intended to be used, as a realistic tool for the coordination of housing and community development. The HAP should be used as an action document on the basis of which HUD will allocate its housing resources, and year-to-year implementation of the HAP plans should be given serious consideration. This will be possible with the increased production of assisted housing that is contemplated by the Carter administration budget modifications.

The proposed new alternative, in the dual allocation formula approach recommended by HUD, would be most helpful to the older urban areas with the greatest need for community redevelopment. The weight given in the proposed alternate formula to older housing and to below-average population growth would target a greater flow of funds to cities that need rebuilding and economic rejuvenation.

In addressing herself to the need for urban economic development with a proposed \$400 million, Secretary Harris would attack the hub of the problem of cities. In her testimony of February 24 before the House Subcommittee on Housing and Community Development, Secretary Harris presented four examples of the type development that might be supported. Two of the four examples involved specific retention or expansion of jobs.

The other two were the type that would improve local public facilities, clear land, et cetera, in anticipation of or in the hope of attracting private enterprise. The latter is reminiscent of the urban renewal program which created an involuntary land bank.

The AFL-CIO is enthusiastic about the urban economic development initiatives of the Secretary, but urges that the limited program resources should be employed only where specific arrangements for retention or expansion of jobs are involved. There is continuing economic growth in the economy, although it is neither great enough nor distributed in a manner to absorb the large numbers of new entrants into the labor force.

Urban economic development fund moneys could be used most effectively to attract enterprises that will use the infrastructure and employ the youth of the older cities, while helping to conserve or expand their economic base.

The resultant improvement in the livability and the fiscal position of the cities would rebound to the economic and fiscal benefit of the Nation.

Thank you.

[The prepared statement of Mr. Schechter, on behalf of the American Federation of Labor-Congress of Industrial Organizations, with attached chart, follows:]

STATEMENT OF HENRY B. SCHECHTER, DIRECTOR
DEPARTMENT OF URBAN AFFAIRS, AFL-CIO
ON HOUSING AND COMMUNITY DEVELOPMENT AUTHORIZATIONS
BEFORE THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

March 9, 1977

I appreciate the opportunity to appear before you to present the views of the AFL-CIO on authorizations for major housing and community development programs.

Need For Increased Housing Production

Housing program authorization levels will be unusually important in the next few years because the country is in a housing crunch. High numbers of births two decades ago and low numbers of housing starts in the last few years have combined to produce current inflation in housing prices and rents.

During each of the years 1954 through 1964 there were more than four million births in the U.S. That population growth wave began to enter the household forming age groups of 20 years and older in 1974. To accommodate net increases of households, to replace units lost from the supply, and to offset units absorbed for seasonal and second homes, and provide sufficient vacancies for mobility, about 2.45 million new housing units a year will be needed through 1985. This estimate of basic requirements does not include a special allowance for replacement of some 3.5 million occupied substandard units. The total of new housing starts plus mobile home shipments fell short of the estimated annual requirement level by 800,000 units in 1974, 850,000 in 1975 and 650,000 in 1976. The cumulative production deficiency relative to needs over the past three years was 2.3 million units.

As part of the increasing general awareness of the need to conserve resources, there has been an appropriate increased emphasis upon maximum possible rehabilitation and use of the existing housing stock. However, there are only about 2.1 million vacant units available for sale or rent, and a large proportion of them are not in the right place or of the right size. Regardless of the condition of available units, even if all substandard units could be rehabilitated overnight, the existing inventory is inadequate to counteract the inflationary trends in housing. The \$39,600 median price of existing homes sold in January was 10 percent above a year ago. Higher existing home values, incidentally, generate higher property taxes. The \$45,200 median price of a

new home sold in January was up 9 percent from a year ago, reflecting local shortages as well as increases in component costs. Rents are moving up at a 6 percent annual rate.

A continuing shortfall in housing production creates inflationary pressures in the economy. The low level of housing starts also contributes significantly to high unemployment and underutilization of plant capacity. Unemployment among construction workers was at an average annual rate of 15.6 percent during 1976 and was 15.2 percent in February 1977.

Much higher local area unemployment rates prevail in trades which are heavily specialized in residential building. Last October, when the national construction unemployment rate was 15 percent, an AFL-CIO Building and Construction Trades Department survey found that in numerous localities between 20 and 60 percent unemployment was prevalent among carpenters, bricklayers, painters, plasterers, plumbers, roofers and sheet metal workers. The number of jobs that are lost in residential construction are about matched by the number of jobs that will be lost in the production, transportation and trade distribution of building materials.

Role of Tandem Plan Financing

Furthermore, the stagflation that plagues the housing sector and is transmitted to the general economy will not be cured by the operation of market forces. The improvement in the market for new homes in 1976, and the related rise in 1-family home starts in the latter half of the year, was significantly stimulated by the government tandem plan operations. Over the past two years, the Government National Mortgage Association purchased 274,000 home mortgages with below-market interest rates, generally $7\frac{1}{2}$ to 8 percent. Home sales financed with these mortgages encouraged builders to raise their production levels.

"Tandem plan" funds for home mortgage financing began to run out in late 1976, and by now practically all the commitments have been used up. Although new home sales were still strong at the turn of the year, there will be a thinner market for new homes in 1977 than in 1976, with construction costs and

prices continuing to rise and with no $7\frac{1}{2}$ to 8 percent mortgage money available. This situation may very well be aggravated by increased living costs resulting from the eastern winter freeze and the continuing western drought. And recent rapid rises in wholesale prices of lumber, plywood and metals will continue to push up home prices. Additional tandem plan financing to help moderate-income families buy homes may be needed to sustain the late 1976 level of housing starts. Congress should take the necessary actions to make such funds available.

Furthermore, experience with tandem plan home mortgage financing suggests that the program can be modified to be more effective in meeting housing needs and countering unemployment. The mortgages could be made available only to homebuyers of moderate income, who generally could not afford to buy a home financed at a market mortgage interest rate. In addition, the Secretary of HUD could be granted authority to reduce the interest rate to levels needed to meet the objectives of the program, and to allocate available funds in relation to local housing needs and unemployment levels.

A rise in multifamily housing starts in the latter part of 1976 also reflected the support of some \$3 billion in tandem plan funds. When the data becomes available, they probably will show that a significant proportion of the Section 8 new construction projects started have been financed with $7\frac{1}{2}$ percent tandem plan mortgages. An additional \$2 billion in tandem plan funds, released for multifamily financing in September, will probably be absorbed when more Section 8 projects in the FHA processing line reach a conditional commitment stage. In this connection, too, the availability of additional tandem plan funds later in 1977 may very well be needed to maintain momentum in rental housing construction. In order that support be available for sustained multifamily, as well as single family construction, at an adequate level to meet needs, the Congress should act to make authorized tandem plan funds available for use.

It would also help in accelerating construction under the Section 8 program if the maximum assistance payments contract for privately sponsored projects would be extended from 20 to 30 years. Sponsors would be in a better position to obtain conventional long-term financing and proceed to construction more rapidly than with FHA-insured mortgage financing.

Low-Income Housing Programs

A revised tandem plan home mortgage financing program would be particularly helpful for middle-income families that have been priced out of the market. For families of below-median income, however, the Section 235 home ownership assistance program has to be revised and extended beyond its September 1977 expiration date. It has to be revised by establishing an interest rate significantly lower than the present 5 percent minimum rate. Simply raising the maximum mortgage amounts under Section 235 in high cost areas to \$36,000, and to \$42,000 for a family of five or more persons, would create another assisted middle-income program. Just to meet principal and interest payments on a \$36,000, 30-year mortgage at 5 percent requires \$192 a month. Additional payments for taxes, utilities, insurance and maintenance and repairs, would bring total housing expenses up to about \$310 per month. It would require an annual income of over \$14,800 per year at a 25 percent housing expense-to-income ratio. At a 1 percent interest rate, however, total monthly expenses would be about \$250 and could be managed with a \$12,000 annual income.

We urge Congress to oppose the Administration's proposal to expand the graduated payment mortgage (GPM) experiment. This form of mortgage financing will result in significantly higher total interest payments over the life of the loan. Purchasing power of moderate-income households would be absorbed by more interest payments while those with large amounts of financial assets would reap the rewards of greater interest receipts. There is a good deal of experimentation with alternative mortgage instruments in California and some other states where State-chartered savings and loans can make variable interest rate and graduated payment mortgages. That experience should be followed through a business cycle before such financing is expanded.

The greatest need for rental housing is among low-income families. The HUD budget submitted to the Congress in January 1976 had projected 400,000 units of Section 8 and public housing to be placed under fund reservations in fiscal 1977. That target was cut back to 236,000 units, however, in the Ford budget submitted to the Congress in January 1977. The Carter Administration is to be commended for requesting additional budget and contract authority to permit the full 400,000 units to be placed under the reservation in FY 1977, and an equal number in FY 1978. The AFL-CIO favors a sub-allocation of authority to support 100,000

units of public housing, the program which serves the lowest income families. The starting end of the processing pipeline has to be refilled to produce a larger future production level. The AFL-CIO, therefore, urges the enactment of the increase of \$1,232 million in annual payments contract authority for the Section 8 and public housing programs in fiscal year 1978.

There should also be adequate funding authorized for public housing modernization and operating subsidies, of \$35 million and \$665 million, respectively, as requested by HUD, to avoid deferrals of maintenance that would shorten the useful life of properties. Public housing projects represent a permanent stock of rental housing that will remain available for low-income occupancy, with little or no Federal subsidy required, after the 40 year capital bonds have been amortized. In a few years, a number of older projects will reach this stage.

In order to bring projects to the construction stage, HUD must be able to process applications expeditiously. The HUD budget calls for staff increases above September 1976 levels for the housing programs in fiscal years 1977 and 1978. It is our hope that your committee, and other committees of the Congress with related responsibilities, will maintain an active oversight to see that HUD programs are administered by a staff that is adequate in numbers and training.

In this context, a particular current concern is the administration of the Section 202 program of direct loans for housing for the elderly and the handicapped. HUD is in the process of decentralizing the Section 202 program, a process which still requires finalization of new regulations, development of a handbook of field instructions and training of personnel to administer the program in the field. Following this sequence of preparations, field offices would be prepared to advertise for applications which could be submitted within 60 days. It is doubtful whether all of these steps could be taken and applications selected for approval in time to commit \$600 million in loan authority that would expire on October 1, 1977. Instead of rushing the preparations for program decentralization -- which proved disastrous in the early seventies -- HUD could select applications for approval from among the 1,300 that were already reviewed by its central office staff but could not be funded because the fiscal year 1976 authorization could support only about 200 of over 1,500 project applications received.

We urge Congress to retain the Section 202 program's current exemption from the Federal budget. The direct loans approved under the program are repayable and thus all money is recovered. It will be much harder to obtain adequate funding for this badly needed program if it is placed "on budget".

Every effort must be made to conserve the existing housing supply, as well as to build new units. Programs that further this purpose should be extended and adequately funded. One of these programs is the Section 312 rehabilitation loan program, which enables moderate-income homeowners to restore their homes to modern, liveable standards.

Community Development and Economic Development

Housing alone is not enough to support the economic revival of the older American cities. In the past two years the focus of the problems of older cities has been on their financial dilemma. But the basic problem is really still the plight of low-income people who live in parts of the central cities.

Undesirable neighborhood conditions are important in generating the ills of the central city that affect all of the residents. As an older central city loses population because of the undesirable conditions, it loses part of its tax base for revenues and is less able to provide services. A strategic element in this whole process is the high level of unemployment among central city youth. Studies have shown a positive correlation between levels of unemployment and crime. If large numbers of teenagers continue to be unemployed into their 20's, some may never be able to acquire sufficient skills to be self-supporting. They will enter the ranks of the discouraged workers who no longer seek employment; the cities in which they reside will continue to deteriorate.

We would like to take this opportunity to commend Secretary Harris' recent statement to this Committee in which she stated that HUD would be the primary link in the implementation of an urban policy that would be responsive to the cities' needs for coordinated economic development, for housing, and related services, oriented particularly to statutory objectives that speak to the interests of low- and moderate-income people.

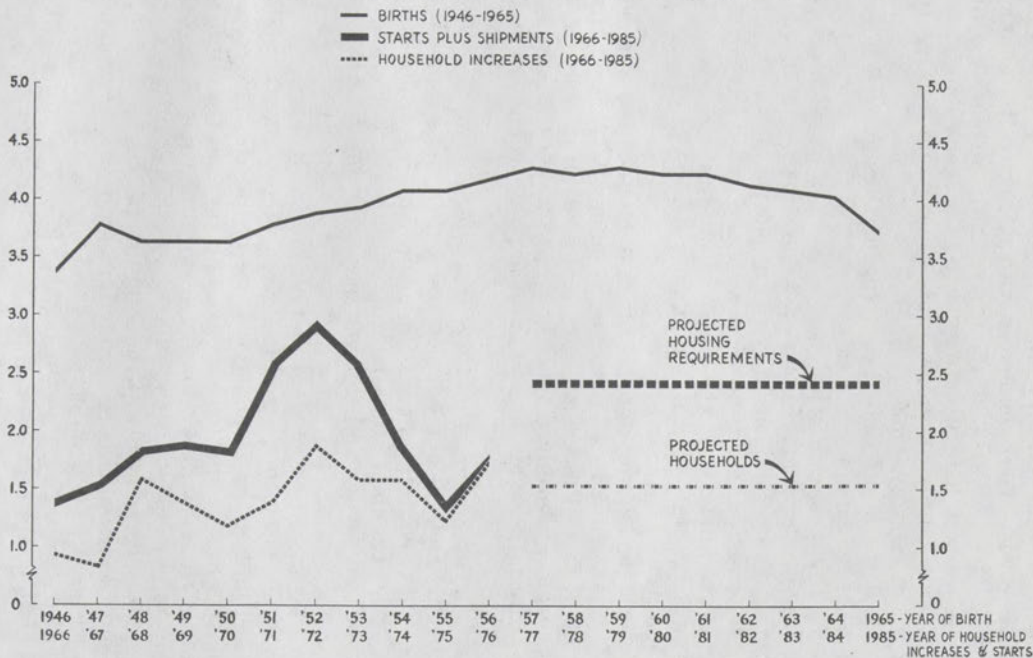
This purpose can be served by an extended, higher level Community Development Block Grant Program, with modifications along the lines that have been recommended by HUD Secretary Harris. Before touching upon those specifics, I wish to voice a

strong endorsement of Secretary Harris' determination to use the Housing Assistance Plan as it was intended to be used, as a realistic tool for the coordination of housing and community development. The HAP should be used as an action document on the basis of which HUD will allocate its housing resources, and year-to-year implementation of the HAP plans should be given serious consideration. This will be possible with the increased production of assisted housing that is contemplated by the Carter Administration budget modifications.

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In addressing herself to the need for urban economic development, with a proposed \$400 million program, Secretary Harris would attack the nub of the problem of cities. In her testimony of February 24 before the House Subcommittee on Housing and Community Development, Secretary Harris presented four examples of the type of development that might be supported. Two of the four examples involved specific retention or expansion of jobs. The other two were the type that would improve local public facilities, clear land, etc., in anticipation of or in the hope of attracting private enterprise. The latter is reminiscent of the urban renewal program which created an involuntary land bank. The AFL-CIO is enthusiastic about the urban economic development initiatives of the Secretary, but urges that the limited program resources should be employed only where specific arrangements for retention or expansion of jobs are involved. There is continuing economic growth in the economy, although it is neither great enough nor distributed in a manner to absorb the large number of new entrants into the labor force. Urban economic development funds monies could be used most effectively to attract enterprises that will use the infrastructure and employ the youth of the older cities, while helping to conserve or expand their economic base. The resultant improvement in the livability and the fiscal position of the cities would rebound to the economic and fiscal benefit of the Nation.

Annual Births in the U.S. 1946-65, Net Increase in Households and Housing Starts Plus Mobile Home Shipments, 1966-76 and Projected 1977-85



Note: Projections of housing starts plus mobile homes are projected requirements to accommodate increases in households, replace units lost from the supply due to demolition and catastrophe, and offset increases in vacancies for migration and mobility, and absorption of units for seasonal and other second homes.

Mr. ASHLEY. Thank you very much, Mr. Schechter. Good statement.

I was interested in your comments with respect to the tandem plan on page 2. I have had trouble quantifying the extent to which the tandem plan has been helpful in improving the market for new homes in 1976. Obviously, it has been helpful to some extent, but really it has been helpful in those instances where the purchaser would not have purchased a home other than by virtue of the lower interest rates provided in the tandem plan.

Obviously, this program is not perfect from the standpoint of substitution. It is pretty clear, if you take a look at the printout that you have, that there are a lot of middle- and upper-middle-income families that could take advantage of that program who would have been in line for conventional financing at the higher interest rates.

Have you been able to look at that any further?

Mr. SCHECHTER. I agree with you.

There was a good amount of substitution. But the average mortgage amount was low enough, it was roughly about \$35,000, so that compared with the mix of prices we have been getting in housing, I think it helped encourage production of housing toward the lower end. It, therefore, catered to a market which otherwise would not have been helped.

I agree with you, though, that there was substitution.

Mr. ASHLEY. But we don't really track these programs. When we put money into countercyclical or homeownership we don't insist on the kinds of records and the availability of data which would permit us after the fact to review and find out how cost-effective the program was.

This just strikes me as the most blatant kind of bad bureaucracy and lack of intelligence on the part of Congress. Here we are today looking at ways to stimulate the economy and put people to work, we come up with a package, a stimulus package, and nobody has the slightest idea, other than in the very direct job programs and what they cost, what kind of leverage you get with a dollar strengthened by a tax rebate or any of the other components of the stimulus package.

And I must say that this is exactly that kind of a situation, and we find that the administration is not asking for an extension of tandem authority. You are asking for it on behalf of your organization, and on the basis of the data that is available to this subcommittee, it is very hard to reach a decision.

Mr. SCHECHTER. That is why I would ask for the type of modification indicated on page 3, Mr. Chairman, with an extension of the program which would—which is aimed at preventing the type of substitution effect that you mentioned.

The paragraph is talking about the experiments with the tandem plan home mortgage financing. I think it does need a little trimming, and certain criteria which would avoid the substitution.

Mr. ASHLEY. Well, I have a little trouble with that on page 3, as a matter of fact. You say in addition that the Secretary would be granted authority to meet the objectives of the program. We would have to define what those objectives are, and we couldn't give her the authority to reduce the interest rates that low.

Mr. SCHECHTER. You might want to limit it down to 6 percent, a range something like that.

Mr. ASHLEY. It is hard for me to understand how the Secretary would be expected to know how the program is working because when a developer gets his commitment, which he may or may not exercise, he plays that against the market rate, doesn't he?

Mr. SCHECHTER. But with a good margin between the market rate and the commitment rate which he has had, there is a fairly good chance that he is going to use that commitment.

Mr. ASHLEY. That was not the experience under the program. There were a lot of people who sat on their commitments for a good long time, and they were tandem commitments. Maybe we should look into it.

Mr. SCHECHTER. Probably they did. But he couldn't do better in the market. If he didn't use the commitment, he just didn't build or didn't go through with it.

But there was no lower rate of financing for him to obtain.

Mr. ASHLEY. There were some factors that didn't go entirely to the rate which was preferential, obviously, and that caused those commitments to not be converted into construction permits very rapidly.

Mr. SCHECHTER. Yes.

Mr. ASHLEY. I am not sure that this addresses that point.

Mr. SCHECHTER. But there tends to be a hoarding of commitments by some developers. And it is another thing that perhaps by proper administration could be prevented.

Mr. ASHLEY. Would you expand on your paragraph at the bottom of page 3 where you appear to endorse the request of the administration to extend from 20 to 30 years the section 8 contract for conventionally financed projects.

Mr. SCHECHTER. Yes.

In order to bring in the project, the rental project, within a fair market or comparable market rent which is rather difficult, the developer needs long-term financing.

And with the 20-year maximum term assistance contract I can see where conventional lenders would be very reluctant or refuse to make a 30-year loan, let alone a 40-year loan.

Because, after all, most of the occupants will be dependent upon the assistance and so the lender would look for a long-term contract. With this longer assistance contract, perhaps, they could get conventional financing which I do think could move things along faster in getting production under the program.

Now, I also think that just by saying we are limiting the contract to 20 years, in those cases where contracts are only for 20 years, we are putting off the business of enacting legislation. After 20 years in most cases we will say we will continue it for another 20 years unless we are optimistic about everybody getting out of those income levels. In which case it doesn't matter anyway, because if they get out of those income levels they wouldn't be in the same position, needing subsidy, as when the contracts are made.

Mr. ASHLEY. So you think we might be able to persuade lending institutions to do this?

Mr. SCHECHTER. I think it would be of some help, yes.

Mr. ASHLEY. I must say that you did not allocate very many lines of your 7-page statement to rehabilitation. I wonder why this is.

All you really said about the section 312 program is that it is one program which enables low-income people to improve their loans. And I don't find any argument with that statement.

Mr. SCHECHTER. We are getting rehabilitation under section 8 to some extent.

I believe the community development program funds are used to some extent for rehabilitation.

I am all for as much rehabilitation as we can get and, as I tried to indicate at the very beginning, we cannot, though, put too much reliance on rehabilitation because the supply is limited.

In other words, I would say the supply of units which can be rehabilitated is relatively limited in relation to our housing needs.

Mr. ASHLEY. But our housing needs would obviously and will obviously increase rather dramatically if we didn't have a concerted rehabilitation program.

Mr. SCHECHTER. I endorsed the programs that are available. I would even add, I would like to see a restoration of the section 115 rehabilitation grant program for people of limited income which helped a good many elderly homeowners and which other countries use.

Although it is not in the statement, I am sure I would be on good grounds with my organization in endorsing it.

Mr. ASHLEY. Well, that comes much closer to the views of the chairman. [Laughter.]

Mr. ASHLEY. Mr. Lundine?

Mr. LUNDINE. Thank you, Mr. Chairman.

I want to follow-up briefly on the matter of rehabilitation. I was going to ask a similar question, specifically: Do you have any views on the attitude of HUD regarding the section 312 rehabilitation program to the effect that they don't need any new appropriation?

Mr. SCHECHTER. I did not speak to the dollar figure because really I don't know. I am a little bit puzzled by a change of administration bringing about a significant increase in the amount of funds that is for carryover within a couple of months. And I have not had an opportunity to go behind those numbers.

Mr. LUNDINE. So are we puzzled. That is why I asked.

I would like to ask you about the elderly housing program under section 202.

Do I understand you to say that if the Department proceeds with their proposed decentralization of administration it is likely to effectively destroy the ability to carry out the section 202 program at an acceptable level in fiscal year 1977?

Mr. SCHECHTER. In fiscal year 1977, yes. That is a fear shared by many people who have been active in the section 202 program.

Mr. LUNDINE. I know that many affiliate unions of your organization have been private, nonprofit sponsors in addition to churches and other not-for-profit groups.

What would you recommend that we do about this rather alarming situation where programs seem to be eliminated by bureaucratic fiat rather than congressional intent?

Mr. SCHECHTER. Well, I would like to see HUD come forth with a definite timetable of when regulations would be finalized, when a hand-

book will be out, and when applications will have been received and gone through the process.

Now, I am very doubtful that this can be done with decentralization in 1 year—within the next 6 months is what it amounts to. That whole process.

Whereas, they do have quite a bank of applications, many of them, that were excellent, and they could ask for updating and go through those to use the funds.

I don't object to decentralization in good time. I think it may be necessary. But not at this time.

Mr. LUNDINE. Do you have a view as to what level—whether the area office or regional office level would be appropriate for administering the program?

Mr. SCHECHTER. The regional office proposal would be best for this.

Mr. LUNDINE. Regarding your comments on the action grant proposal, I take it that it is your position that the action grant, \$400 million program, looks to be a possible, desirable proposal, but that it should be limited to those situations where there are, as you say, specific arrangements for retention or expansion of jobs?

Mr. SCHECHTER. What brings this to my mind is the experience with the urban renewal program which produced many good developments, but there was a great deal of land clearance for commercial and industrial expansion. And much of that land remained vacant for a long time.

So that you have sometimes a city and sometimes a developer or, even if there is an industrial park or an office building put up, it is either the city or the developer in effect doing a little bit of venture-some investing with Federal funds.

I don't think that is essential.

I think, given the fact that there is really a subsidy involved to provide facilities, the write-down of land and so on, that it should be possible to attract a definite—a development which will definitely have an employment arrangement.

Mr. LUNDINE. Well, that is my concern. I share your feeling about that.

But my concern would be the degree of proof that you would require or the degree of commitment.

Wouldn't you agree that HUD should use some discretion in making that judgment?

Mr. SCHECHTER. Yes. But I would hope that there is a definite attempt to go this way instead of just speculating with vacant land.

That is what it amounts to.

Mr. LUNDINE. One other question. Regarding your suggestion on the section 235 program. I won't be as inhibited as the chairman, and will ask one specific question on proposal that we lower the interest rate. What would you think about a dual rate, say, 5 percent normally but 1 percent in specific targeted areas, such as inner cities, and areas of high unemployment?

Mr. SCHECHTER. It would certainly be a great improvement over the present straight 5 percent.

I would hope something like that would be acceptable.

Mr. LUNDINE. Thank you.

Mr. ASHLEY. Mr. Patterson?

Mr. PATTERSON. Thank you, Mr. Chairman.

Mr. Schechter, it is a pleasure to hear you and to receive your testimony. And while I agree with a great deal of it, I will probably concentrate on those areas that maybe we might have some disagreement or at least I would like some more explanation, if I may.

On the—I think generally on page 4, starting with the section 235 program, I gather you are saying more emphasis needs to be placed on low-income housing.

The section 235 program is a middle-income subsidy, and one that I think is important.

The cartoon this morning—I think Herblock showed the middle-income family as missing the boat. And I appreciate your suggestion on reducing the 5 percent or granting the authority to go below 5 percent.

[The cartoon referred to by Congressman Patterson follows:]

[From the Washington Post, Mar. 9, 1977]

"I THINK WE'VE MISSED THE BOAT"



Mr. PATTERSON. Your comment on the high cost areas, I am wondering if—I am wondering what your comment is. You say simply raising it.

Mr. SCHECHTER. Yes. We were talking a little while ago in response to the chairman's question about the tandem plan. And if we—if we raise the mortgage limits to \$36,000, even \$42,000, we are certainly in the tandem plan area as far as house prices are concerned, and with a 5-percent interest rate we are approaching the same class of buyers as that.

I might point out also, in suggesting that we get down to a \$12,000 annual income level, I don't think I am departing from what might be called middle income, and this is what I might call lower middle income if we try to refine it.

Mr. PATTERSON. By suggesting this, aren't you in fact making section 235 a low-income package or program instead of middle income?

Mr. SCHECHTER. This \$12,000 figure I don't think is low income, sir. But I would hate to see us having a middle-income program which really goes above the median income, and most of the funds that are available begin to flow that way because the builders will tend to produce the higher priced houses that they can under the program.

And at the same time we are leaving out the \$10,000 to \$12,000 a year family who in many cases may be, may have too high an income for section 8 or public housing.

Mr. PATTERSON. I am wondering if when you get down to the low-income family if they really can afford to buy a home at all under any program, or if they in fact are not put into a position of at least renting until they can get into the moderate-income levels.

Mr. SCHECHTER. That might be, but there are places where I believe the single-family home, where land is not a great problem, where the single-family home can be built at a moderate price, aside from the many cases where there was fraud and so on. Among the section 235 homeowners under the old program that remained in their home, the reduction of subsidy was very great as their incomes increased, and many of them get off the subsidy in a few years.

So that from a point of view of costs to the Government and filling a per unit housing need, I think it is a relatively low-cost program.

Mr. PATTERSON. I am agreeing with you on that, I guess.

I think that the section 235 program is a good program. It is low cost. It gets people into homeownership when they can afford to buy.

But when you get below \$10,000 or \$12,000 in annual income, my question is: Should you really be in the housing market at all?

You certainly cannot in the urban centers of this country, you know, in the Los Angeles area, San Diego, San Francisco, just speaking of my home State, you cannot get into any housing there.

Mr. SCHECHTER. I simply suggest that there are areas where it can be done.

In other words, lower priced housing can be built. And section 235 would be an appropriate vehicle in those areas.

Mr. PATTERSON. Are you saying that section 235 is the vehicle to use only in rural communities where—where is land cheap these days? [Laughter.]

Not in Washington, D.C. That is for sure.

Mr. SCHECHTER. I doubt whether we can use section 235 in Washington, D.C., even with the changes that have been recommended—\$36,000 and \$46,000 mortgages.

Mr. PATTERSON. It seems to me that your moderate-income families are more concentrated in cities and that is where the land values are higher, and that is where you are not going to get, if you are going to have a program for middle-income people to allow them to buy a home at perhaps a date early, then it has got to be at levels of mortgages that can put them into a house.

Mr. SCHECHTER. I am not objecting to a higher mortgage. After all, the people will be asked to pay 20 percent of their income toward the monthly payment. So the higher income people would pay more. But even if the interest rate is lower, they would get less subsidy.

So what I am suggesting, though, is to also make the program available somewhat more for lower income people by having a less than 5-percent interest rate.

Mr. PATTERSON. Moving to another subject, the alternative mortgage instruments, and also the graduated payment mortgage, you have indicated that you oppose at least the graduated mortgage payment and that you think more experience is required on the variable rate mortgage, essentially.

I wonder if you could expand on that either now or for the record as to why you think it will increase the costs.

Mr. SCHECHTER. When somebody lives in the house for 30 years, on a \$35,000 mortgage, at 30 years, at 8.5 percent, and using the HUD very modest graduated payment plan with an increase in payments of 3 percent a year up to the 10th year and then leveling off, even on that one, for the 30-year term the home buyer would have to pay about \$6,000 more than with a fixed payment mortgage.

Now, this is all a firm interest payment. In contrast to that, I note that our AFL-CIO members have fared fairly well as home owners with the fixed payment mortgage. And also what this does is keep increasing the shift of income to renters, and we have less funds available, really, for productive enterprises.

And this is what we have been going to. Our national income accounts show that net interest payments back about 30 years ago were accounting for 1 percent of the total national income. Now, they are accounting for 6 percent. And this has been going on, as we get more and more into situations where our solution is higher interest payments.

And that is what we are proposing here with this program.

Mr. ASHLEY. But Mr. Schechter, what you are suggesting in your homeownership suggestions are the section 235 which is—which has direct access and use of the Treasury funds and the tandem program which has the same direct access to the Treasury.

Now, whatever the figures are, 18 of the last 19 years the Federal Government has run a deficit so it has to borrow the money. So you don't escape the payment of interest by going the direct route as distinct from the indirect route with respect to the homeownership programs.

Mr. SCHECHTER. It is a matter of who is paying whom. In these subsidized programs after all it is the progressive income tax system that is collecting the funds. With a graduated payment, it is Joe

Homeowner who pays more interest, and guys like myself who have savings reap the benefits.

Mr. PATTERSON. But isn't there some kind of compromise, I mean in this area, the person who pays the graduated payment mortgage or the variable rate is generally getting into a home a few years earlier, and I would expect it is the younger family and I would expect it is their first home in many cases.

So they get that additional appreciation, that additional occupancy that must have some value to them.

Now shouldn't they be paying the interest instead of the Government and all the taxpayers?

Mr. SCHECHTER. Well, no.

Let us say, let me answer that in two ways. I think the fixed interest rate mortgage would be—

Mr. PATTERSON. Not today?

Mr. SCHECHTER. Well, I believe that it is why I recommend going through a business cycle, because if we get a conjunction, let us say, of unemployment at the time when increased mortgage payments have to be made, we may find those are not such desirable types of mortgage instruments.

Mr. PATTERSON. Are you familiar with the California experience with the State savings and loans in terms of being able to offer this?

Mr. SCHECHTER. I know they can offer it, and they have plans using it. And I do say we have a laboratory going.

And we ought to take advantage of it and see what happens instead of expanding it.

Mr. PATTERSON. There are not many areas where you can get interest over a 10-year period that is fixed rate other than housing. And I am wondering if that isn't an antiquated thing in a society that is moving upward or downward as the economy might shift.

Mr. SCHECHTER. We still get fixed bond financing, bond rate financing for corporations. Nobody is suggesting that they borrow at the variable payment rate.

Mr. PATTERSON. Mr. Chairman, I have additional questions but I think I have exceeded my time right now.

Mr. ASHLEY. I didn't see how you justify the tandem plan. You justify it by saying there should be modifications, I guess, but that is a program in which somebody gets the benefit of a 7.5-percent interest rate for the life of the mortgage. And that is a lot of money that is paid by the taxpayers on his behalf. And that person over a 30-year period can go from an income of \$12,000 or \$15,000 to \$45,000 or \$50,000. And he still will be getting the benefit of a 7.5-percent rate.

How in the world can you justify that?

Mr. SCHECHTER. I would say that after all we don't know for sure that the rates are going to be higher. We are making a mortgage interest rate available—

Mr. ASHLEY. Did I hear you right? That we don't know for sure that the rates are going to be higher?

Your definition of certainty and mine don't really coincide on that.

Do you really think that, as we look at the other areas of endeavor that your organization is supporting such as National Health Insurance and many other areas that are consistent with our social necessities, that, in the context of the world economy, we are going to be

looking at mortgage rates of 7 percent, 6 percent again?

Mr. SCHECHTER. Well, 30 years is a long time. I will not predict what interest rates we will have in 30 years. I don't think we will have an unbroken record of high economic activity for 30 years, for example.

And I can foresee periods when the economy will be quite slack and interest rates could be lower.

Mr. ASHLEY. We have enjoyed a period of slack in the economy and we have seen very sticky long-term interest rates, haven't we?

Mr. SCHECHTER. Yes.

And maybe I am too much of an optimist, but I think we will learn how to manage the monetary policy and the economy as a whole a little more rationally, so that we don't have to go through the type of interest rate structure that we had in 1974.

Mr. ASHLEY. In the immediate future it can be expected that we are going to be under considerable budgetary constraints as we try to fulfill the promises of something like a balanced budget by 1981 and as we try to initiate reform and welfare, possibly to give positive consideration to something like National Health Insurance. Now it seems to me that reliance on homeownership programs that depend on direct Federal subsidies may be shortsighted because we know that with budgetary constraints there will be a limitation on the number of units that will come onstream—considerably limited numbers because the Federal budget is not unlimited in this regard.

So that we will have 100,000 or 150,000 units which don't meet the requirements of families who have been priced out of the homeownership market. I should think that it would occur to your organization that this is somewhat self-defeating and counterproductive and that you might be able to generate a whole lot more activity if you give greater consideration to some alternative programs, proposals, experiments, such as variable mortgage or the 16 or 17 different approaches that have been undertaken with regard to different mortgage instruments.

Perhaps a payback provision for the moderate-income potential homeowner or as we suggested last year, a payment from the Treasury to the lender which would reduce the monthly carrying charges for the buyer, and those payments would be reimbursed by the homeowner when he sells the home.

It would seem to me that programs of this kind, which don't break the bank as far as the Federal budget is concerned, might offer a promise of greater activity which is really what you are after.

Mr. SCHECHTER. Mr. Chairman, let me dwell for a moment on the form of homeownership which we discovered, and those who didn't own homes, among our membership when we made a survey in 1975 and we had a higher proportion of members with homeowners than among the regular population. Those who had bought their homes 30 years ago and had paid off their mortgages—

Mr. ASHLEY. This is your membership?

Mr. SCHECHTER. Yes, our membership.

Mr. ASHLEY. That is alright with me, but you don't take into account my automobile workers who get less than your carpenters and your building trades people.

Mr. SCHECHTER. But I think if we compared annual incomes the automobile workers have done better than carpenters perhaps in the last few years.

Mr. ASHLEY. I don't know about that. But go ahead.

Mr. SCHECHTER. The elderly who had bought their homes and owned them with a fixed payment mortgage and paid them off were in pretty good shape as homeowners. Those who had not were in bad shape. They had to devote much of their income for housing. And they need housing assistance.

Now, under the type of plan you propose when a man has been through those 30 years he would then have to start paying a debt that he would owe the Government. And this does not leave him in very good shape in his old age.

Mr. ASHLEY. But it is a little easier for someone to retire if the Government is paying 20 percent or whatever percent it might be of the cost of the home. I mean we can stipulate to that.

Mr. SCHECHTER. I am talking about people who own their home without Government subsidy, under the fixed payment mortgage because, very frankly, this is the one protection that the moderate-income person has against inflation. He generally does not own stocks. So that he was protected from very large home expense increases. And he came through in good shape.

Now the reason I say, though, let us do the tandem plan or something else that will help and without disadvantaging the long-run position of the moderate-income families because as long as we continue without this we have a big inflationary impact upon the economy.

When the existing home prices go up 10 percent in a year this is primarily in my mind a reflection of shortage.

Mr. ASHLEY. I can certainly see that.

What I am saying is, you put all your reliance in tandem and ignore this proposal.

Mr. SCHECHTER. I am willing to look at all proposals. I looked at the Brooke-Ashley bill, but when I saw that somebody would have to pay a mortgage off when he was 60 years old, I couldn't really agree with that idea.

Mr. ASHLEY. Well, let me ask you this question which Mr. Rousselot asked me to ask you. On page 1 you state "The existing inventory is inadequate to counteract the inflationary trends in housing."

There is considerable evidence that the Davis-Bacon Act and minimum wage laws contribute to high housing costs and they contribute to unemployment. And let me interject that this is Mr. Rousselot's question. [Laughter.]

Do you have a comment on that? Would you favor repealing the Davis-Bacon Act and reforming the minimum wage law as a means of reducing high housing costs?

Mr. SCHECHTER. I would answer the latter part first. Of course, I do not favor repealing the Davis-Bacon Act. Nor reducing the minimum wage level, because this would certainly tend to undercut wages of other people who are working.

And I think part of the progress in our economy has been because of a balance we have managed to get, so that we have a little more purchasing power than before we had such laws.

Now, as far as housing costs are concerned, I am sorry Mr. Rousselot is not here, but I think he probably knows that the great majority of homes are not built with union labor, they are built with less than prevailing wages, and in areas where the Davis-Bacon Act has not had much impact.

I don't think he would find the housing situation any different than in areas where the Davis-Bacon Act does have an impact.

Mr. ASHLEY. Are there further questions?

Mr. PATTERSON. Yes; thank you, Mr. Chairman. I would like to address the community development block grant issues, I think you spoke to them in the latter part of your testimony, a couple questions in this regard. First of all, the formula. As you know, Secretary Harris is proposing a new formula, and this would be a dual formula, if you will.

I am concerned a bit about the so-called new formula. The existing formula is weighted heavily to poverty, which is where it should be, 50 percent poverty, 25 percent population, and 25 percent, housing overcrowding.

The new formula is weighted 50 percent to age of housing, 30 percent to poverty and 20 percent to population growth lag.

One of the criticism of the old formula was the double weighting of poverty. It weighted 50 percent to poverty and 25 percent to overcrowding and those two things are the same or similar, or go hand in hand.

And, therefore, it gave a double weight.

I would like to have your opinion of the age of housing and population growth lag.

I think there is a direct tie-in there too, because if your city is growing at a rate lower than the national average, you get 20-percent weight and age of housing, which is where no construction is going on, because they are losing population or 50 percent.

Doesn't that seem to be a double weighting?

Mr. SCHECHTER. Well, I think the age of housing, the age of housing and the loss of population are both factors that would, that would help the older declining areas.

And even where there is, let us say, an equal amount of poverty or perhaps even a greater incidence of poverty at this time in another area, I think a losing population is a sign of deterioration underway.

I can conceive of a greater number of people in poverty in Los Angeles, for example, than in Pittsburgh. And yet Pittsburgh might be more troubled than Los Angeles, economically.

And I think that that is what the formula modification is aimed at, to try to jack up the economic base a little bit.

Mr. PATTERSON. Well, I guess I have a couple of concerns. Let us get to the age of housing. That is a 50-percent weight given to age of housing, and the magic age is pre-1939 housing, which virtually makes many areas not qualified for 50 percent of the proposed new formula.

I asked the Brookings Institution, couldn't they come up with a better indicator than just age of housing, because you can have the Georgetown townhouse built far before 1939 and then you can have the Tucson, Ariz., clapboard house built in 1952, which would not qualify. And is there another way to measure either poverty or age of housing, whatever we are trying to measure, blight, deterioration, poverty?

Mr. SCHECHTER. At this time there is a move going on that has been underway for some time to try to develop more tangible criteria for substandard housing.

We don't have the tool yet. Maybe with the 1980 Census we will get it.

I am sorry I have to say that. But I don't know of any way at this time of getting that information.

Mr. PATTERSON. Do you think the new formula is an improvement, or would you rather stick with the existing formula?

Mr. SCHECHTER. I would like to see some change which would give greater recognition to the areas which are declining.

To make sure that they get a chance to stop that decline, because that decline will not affect only those particular areas, and I know we all tend to think in terms of particular areas, because we come from particular areas, but a decline of some of the older cities, where a lot of the infrastructure and private utilities and plants become pretty worthless, and that is something we all pay for, because the securities that underly those proposals are held by institutions and individuals all over the country. As a society, we will have to be rebuilding many of these facilities in other areas.

So I think there is a national stake, even in—

Mr. PATTERSON. Let me assure you that I can rise above my congressional district and represent the national interest when someone can prove to me that it is in fact an improvement, and I guess that I am trying to draw out—I have asked the Secretary and I have asked Brookings and I ask you, and, at least to my satisfaction, it cannot be shown that age of housing is a better measure of poverty than poverty is.

Mr. SCHECHTER. I think it is almost a trial and error basis. I have not seen the runs and the distribution of funds.

But I gather from what I have heard from the Brookings people that some of the older cities that are in trouble would come out better with the alternate formula.

Mr. PATTERSON. I think it is quite clear that we are going from a \$3-billion program to a \$4-billion program and while under a dual formula system "no one is a loser," the only gainer is the Northeast. The Northeast part of our country. And while I said I could, I could certainly support something in the national interest, I think poverty exists nationwide.

I don't think it exists only in the Northeast.

I have let my bias come out, as I have before. I still am searching, and I am still asking, if age of housing is really a better measure of poverty or whether it is just a way to say, let us send more money to the Northeast.

Mr. SCHECHTER. It may be the latter. But then what are the consequences of not sending more money to the Northeast?

Mr. PATTERSON. I don't know.

Maybe we could continue with the existing formula. Most of the areas of the country are going to get more than they got before.

And certain areas are going to get a 25- or 30-percent increase.

I just wonder if age of housing—the Northeast, another thing, no prejudice against it, I love this area, but you have got the red brick construction many times as opposed to other cheaper types of construction.

I think the poor people are being hurt twice, first they didn't get into the red brick, which qualifies as aging housing stock, oftentimes,

and second, they pass that 1939 date and have a place that is falling down, they don't qualify somewhere else.

Do you have any other thoughts on the index of poverty question that you could offer this subcommittee at all?

Mr. SCHECHTER. At this time, no. I originally had something to do with getting the doubling of poverty in the program formula. So I find myself—

Mr. PATTERSON. I notice you did. And I would ask that if anything occurs to you along this line that would help us in terms of putting community development funds where they should go, nationally, then that is to my judgment in poverty area—my district is not all that hurt, really, when you get right down to it, and I am arguing more for fairness nationally.

If anything occurs to you, I wonder if you would submit it to us for the record.

Mr. SCHECHTER. I would be glad to.

Mr. PATTERSON. One final thing, on the action grants, we have got \$400 million. Do you think that kind of sum is going to really make an impact and in what way would you suggest that Secretary Harris, as to spreading it around from \$60-million grants across the country or focusing on the top five inner cities, what would you recommend?

Mr. SCHECHTER. I would look for projects that would produce definite economic development, meaning employment, regardless of size.

I don't care if it resulted in 10 projects or 40 or 400 projects.

Just to prove how this can be done, and then I have faith that Congress, if it sees a workable device, will support it.

Mr. PATTERSON. Thank you, Mr. Schechter.

Mr. ASHLEY. Thank you very much, indeed. Mr. Schechter, for your testimony. It has been illuminating, as usual, and we are grateful to you for it.

Next we will hear from the Farmers Home Administration; Mr. Lorimer D. Elwell, Assistant Administrator for Housing Policy; Martin Holleran, Acting Deputy Administrator for Financial and Administrative Operations. And I guess we also have Mr. Mercure with us today, the Assistant Secretary (designate) for Rural Development.

I understand we don't have prepared statements from the department and that this can be considered as a disappointment, but we understand the situation.

How do you choose to proceed, gentlemen?

Mr. HOLLERAN. I will proceed, Mr. Chairman.

STATEMENT OF MARTIN HOLLERAN, ACTING DEPUTY ADMINISTRATOR FOR FINANCIAL AND ADMINISTRATIVE OPERATIONS, FARMERS HOME ADMINISTRATION

Mr. HOLLERAN. It is a pleasure to appear before your subcommittee today.

I want to give an overview of Farmers Home Administration, outlining some of the major programs that we have, talk about it administratively in terms of size, and to give you some feel for how we are progressing. Then Mr. Ewell will describe our rural housing programs.

Mr. Chairman, the Farmers Home Administration, a major agency of the U.S. Department of Agriculture, administers most of the credit and direct financing programs which supply Federal assistance to rural America. FmHA services are directed toward four key elements of rural development: agriculture, business and industry, community facilities, and housing.

Rural credit for agriculture assures the continuation and strengthening of family-farm agriculture, producer of food and fiber for all our people. Agriculture accounts for about 20 percent of all rural income and provides jobs for those who plant, cultivate, and harvest crops. It also creates employment for thousands of men and women who process, handle, transport, and sell agricultural commodities. Export sales of farm commodities contribute toward a favorable balance of trade and help keep the U.S. dollar strong in world markets.

Business and industry loans bring jobs and prosperity to rural communities. Pollsters say more than half of all Americans prefer to live in rural America rather than in big cities. The FmHA guaranteed loan program for business and industry makes it possible for private lenders to become directly involved in creating local employment opportunities.

Community facilities, such as water and sewer, adequate fire protection, clinics and hospitals, even city halls and other modern facilities, are needed in order to attract and accommodate people and businesses in rural areas. Farmers Home Administration helps rural communities meet their locally determined needs for planning, developing, expanding, or improving their facilities to meet quality standards prevailing in urban and suburban areas.

Housing loans are provided to assure modernized, adequate housing that is priced and financed within the means of families of low and moderate incomes. The demand for housing increases in direct proportion to the earning and aspirations of rural people. Meeting this demand is essential to the continued growth and prosperity of rural America.

One of our concerns is growth. The volume of assistance channeled through Farmers Home Administration has doubled in the past 3 years, from \$3.5 billion to more than \$6 billion. It should be pointed out that, in moving beyond traditional farmownership and farm operating loans, Farmers Home Administration employees have changed from farm advisers to lenders and account supervisors, requiring a broad knowledge of loan-making and financial management. At the same time, the agency has stressed its original mission of supervised credit—working with individuals and family units to assist them in meeting their debt obligations.

Our second concern, related to the first, is the careful recruitment, training, and placement of employees. Making homes is more important than building houses. Developing sound housing based on needs of a community requires more than the ability to help someone start up a business. Planning community facilities that fit into the overall growth pattern of a rural community is a major responsibility requiring specialized training and understanding.

Training is high on our list of priorities for county supervisors. The Farmers Home Administration has pioneered in the field of com-

puterized financial management, which takes much of the routine and repetitive chores off the shoulders of county supervisors. We have been able to do this through the application and adoption of new and extremely sophisticated computerized management systems that allow much of the arithmetic and recordkeeping, filing and retrieval, to be done by machines. This permits FmHA employees to spend more time with borrowers, servicing accounts, and helping assure maximum repayment of loans.

I would now like to turn to our rural housing program, which is the purpose of today's hearing, and Mr. Elwell will get into that in detail, following which we will be available for questions.

Thank you, sir.

**STATEMENT OF LORIMER D. ELWELL, ASSISTANT ADMINISTRATOR
FOR HOUSING POLICY, FARMERS HOME ADMINISTRATION, AC-
COMPANIED BY MR. MERCURE, ASSISTANT SECRETARY-DESIG-
NATE FOR RURAL DEVELOPMENT**

Mr. ELWELL. Mr. Chairman, I would like to briefly tell you about some of our programs, their condition, and then leave it open to questions.

We appreciate the opportunity to appear before your committee today.

Farmers Home has two volume programs among its housing programs, one being the section 502, which is the homeownership. In describing our section 502, I should point out that Farmers Home is a lender of last resort. A family that qualifies for a 502 homeownership loan must be unable to obtain a loan from a private lender, which would also include a HUD or VA guarantee. So these are families that do not qualify for other assistance.

We can make this loan to buy, build, or repair a house or a home for the family. It is limited to low- and moderate-income people by statute. Farmers Home has defined the low- and the moderate-income family by dollars. We have set an adjusted income level of \$15,000 as our moderate income limit. We have set an adjusted income level of \$10,000 for the low-income limit. Families qualifying for interest credit assistance would have a \$10,000 adjusted income or less.

These loans can be amortized over 33 years, and the current interest rate is 8 percent. The interest rate administratively has floated up and down along with the HUD interest rate.

Mr. Chairman, about 60 percent of the section 502 loans are made to families qualifying and receiving interest credits. This interest credit program was suspended in January of 1973 in the moratorium but was restored by court action in August of 1973. About 60 percent of the loans are interest credit each year.

To give you some idea of the depth of the subsidy that is involved, in fiscal 1975 the average interest rate for the 60 percent was 2.9 percent. So families receiving interest credit loans received interest credit down to the 2.9 percent from, probably, a rate around 9, 8½, up to 9½ percent.

The growth of the section 502 program has been tremendous in the last 6 or 7 years. For example, in 1970 it was funded at a \$760 million

program. In fiscal 1975, we obligated \$1.931 billion. In fiscal year 1977, we have about \$2.6 billion available for loans in this category. The cumulative totals since the beginning of the program in early 1961, reflect active cases of 800,000 for about \$10 billion or more outstanding in loans.

To give some idea to what we are helping a family acquire—because I have heard testimony this morning that leads to wonderment as to whether or not you can help a low-income family obtain a house—the average house that we financed, new construction, in fiscal 1976 contained 1,057 square feet of living area. Typically, this is a three-bedroom, one-bath home accommodating a family with two children. The average cost in the United States, if averages are of any help was \$23,267.

We do not experience some of the high land costs that are found in urban areas, as the comment was made earlier this morning, there is no cheap land available, even in rural areas, when you are trying to get the amenities that you need, such as water, sewer, and the other facilities.

I have read testimony given before your subcommittee which commented about existing supply of housing. Farmers Home has followed, for about the last 3 or 4 fiscal years, the policy of trying to make at least 40 percent of our section 502 loans for existing housing. The reason for this is that we believe there should be a balance between new and existing construction, to keep the existing stock moving.

We have come pretty close to this objective. During the past fiscal year, about 36 percent of our loans went for existing housing.

We have two new programs which I think the subcommittee would be interested in. We have a guaranteed rural housing program which began January 1, 1977. This is an effort to try and utilize the resources of the private lenders, banks, savings and loans, mortgage bankers, or others. We have \$500 million available for this for moderate-income people.

The appropriation limits this for moderate-income only. This is a loan program where the lender will process the loan and service the loan, in contrast to what Farmers Home has always done as a direct loan. The guaranteed program will be utilizing the private lender in all of these functions which would assist Farmers Home in the delivery.

A second program I would like to point to is the weatherization program, which Secretary Bergland has commented on. It is an effort to try and cut redtape and simplify Government procedures. We have a program here where we can work with approximately 1,000 rural electric co-ops located around the country.

These co-ops will receive a loan application from a family user, process the loan for insulation, storm doors, storm windows or other weatherization work. To cut redtape, FmHA has devised a one-form application with a promissory note on the back. This cuts out a lot of paperwork. And we have placed the authority for the processing at the REA co-op level.

We believe this is a way of reducing the amount of time required to process the loan and also reduce the expense to the Government in processing, since the REA co-ops would do this at no cost to the Government.

A lot of comments have been made as to the status of the section 502 program and its condition. Comments have been made that the program has a high delinquency. In September of 1975, 7.8 percent of our loans were delinquent of 90 days or more. This was reduced to 4.8 percent in January 1977. We believe the program has arrived at a point where we can now say it is in good condition.

An alternative to homeownership is a rental program, which we believe is necessary in rural communities. Homeownership is not available to everyone, even though we have the interest credit program in section 502.

The rental program has grown also. In 1972 we had a \$40-million program; in fiscal 1975, \$292 million; in fiscal 1977 we have a level of \$545 million.

We can and do make interest credits available in this program. About 85 percent of the loans are made as interest credits. The average interest rate for these borrowers receiving interest credits is approximately 3 percent.

We can put this program in tandem with the section 8 deep subsidy program of HUD. For example, on February-1 we had financed about, 3,700 units; in 515 of the units, section 8 deep subsidy assistance was used in tandem.

The terms of the loans vary. We can finance a rental project over 40 years for nonsenior citizens or up to 50 years for senior citizens. The interest rate is 9 percent.

Several other programs are small in dollars but very important in their purpose: labor housing, loaning grants which can be made to assist domestic farm workers in obtaining housing; self-help technical assistance, which can help families acquire a house through the self-help method; site loans, which I think Congressman Watkins pointed out this morning, which is a program to help nonprofits or public bodies develop land in rural areas for building sites.

That concludes my comments concerning the programs. I would be willing to answer any questions you may have.

Mr. LUNDINE (presiding). Gentlemen, thank you.

And let me say that the chairman had a commitment this morning which dragged into this afternoon. We thank you for your patience, and the chairman will return as soon as he fulfills his commitment previously made.

As someone deeply concerned with rural America, however, I am not without questions.

First of all, I am interested in your staff situation.

Have you requested, or are you now getting, sufficient funds so that you can fill the vacancies that now exist in your agencies?

We understood that you had filled only 400 of 700 vacancies last year.

Mr. HOLLERAN. Yes, sir. At this time about 500 of those 700 positions are filled, and we are actively working on the other 200. The answer to your first question, sir, is yes, we have sufficient funds to do that.

Mr. LUNDINE. Well, you have described the situation where your county agents—and, I must say, that seems to relate more closely to the people and seem to be more genuinely advocates for the people, than any other similar-type Federal agency, not to name any particular one. Through this system they do seem to be problem solvers in-

stead of problem creators; but apparently you have them doing four jobs.

Do you really think that you can carry on an effective housing program, that you can meet the needs of agriculture and that you can do the other things that you are seeking to do at approximately this staffing level?

Mr. HOLLERAN. Well, the whole question of staffing, as I pointed out, is one of our concerns and it is one of the things we are looking at right now to see just what our needs are.

The numbers of people are part of the problem. The other problem is the mix, or the kinds of people and talent that we need. The third thing is the management systems that we are presently putting in place to give employees the tools they need to do their work.

With the growth we mentioned earlier, from \$3.5 to \$6 billion, just the number of applications is staggering.

For example in our finance center in St. Louis, we process approximately 35,000 loan payments a day, which equates to \$8 to \$12 million a day in payments. These accounts are updated, and their status is posted daily. We make every effort to assure that information is available to our county office people so that they can better service the loans, especially the ones that are starting to go delinquent.

Mr. LUNDINE. In terms of dollars, rural housing would be the largest share of the loan activity that you would have, would it not?

Mr. HOLLERAN. Yes, sir.

Mr. LUNDINE. What percentage?

Mr. HOLLERAN. About 60 percent.

Mr. ELWELL. I think the percentage would be 60 to 65 percent of our loan volume is in the area of housing.

Mr. LUNDINE. This is a problem on which I think the subcommittee would like to work with you on because it is hard for one agent to be all things to all people. I make an observation and you can comment on it. In some of your offices you seem to be more oriented toward housing because you have somebody there that understands housing.

And others are more oriented to farm credit or economic development. It seems to be almost a necessity because of the way you are organized.

Would you essentially agree or disagree with that?

Mr. HOLLERAN. It is true that in a lot of our offices the majority of the work is in housing. In other areas it is more concentrated on farm loans, which, with reference to people it gets back to the question of mix or what kinds of people we need to do what kinds of jobs.

But your observation is correct, sir.

Mr. LUNDINE. Let us turn to some specific programs.

First of all, the section 504 rehabilitation funds.

Why aren't you utilizing this program to the extent that you have the capacity to do so?

Mr. ELWELL. Congressman, the section 504 program has been one that is hard to administer and while history shows that we have not been using the funds that we have had, I submit these reasons:

A section 504 is a loan program which is really a 1-to-1 program. It is not a situation where someone can package a loan or develop a

subdivision. It concerns a low-income family who owns their house, which usually is substandard. The family may previously have received discouragement.

Many times in various ways families are hesitant to approach Farmers Home. Some type of third party—it could be a community action worker or it could be a case welfare worker or somebody—usually makes the contact for the family to get their application to Farmers Home. Then it is difficult to get a contractor lined up, to do the type of repair. He tends to be kind of apprehensive about making an estimate which he might be caught on, particularly if it is an old house.

It is a difficult 1-on-1 job, and we find ourselves not able to fully use the moneys made available.

Now, this year we are trying to raise the priority on the use of the section 504, to utilize the moneys that we have. You might be interested that HUD and the Department of Agriculture have a joint demonstration program that will be awarded within the next several months to at least four participants.

This demonstration is going to be an effort to try and reach the type of family and obtain more information about what is needed to reach families you have just mentioned.

Mr. LUNDINE. It certainly seems that there is no lack of a need for rehabilitation in rural America. All you have to do is drive down the roads and see that the infrastructure exists, but that it seems to be rotting. I think we have to look at the totality of Federal policy.

In my congressional district, Friendship, N.Y., for example, it was mandated to put in a sewer system at a cost over a year to every homeowner in that community of over \$400, and yet we can't find the capacity to help people take advantage of a rehabilitation loan on a house that already exists.

These two things weighted against one another don't seem to make sense.

Mr. ELWELL. This has been a purpose for which the section 504 loan has been used. When a town puts in a water and sewer system, it usually passes an ordinance that you must hook up; we have used the section 504 to complete these hookups.

Now, the section 504 grant just came about in the 1977 appropriation, and the instructions were released to the field, I believe, sometime late in December.

Mr. LUNDINE. Well, it is new, and I am encouraged to hear that you are going to undertake a demonstration effort. I would be interested in hearing the results from that.

Mr. MERCURE. If I may, I think one of the other elements which may have been missed in Mr. Elwell's presentation is again the issue of the number of people who have to sit down with individual families. The county agents have been given the responsibilities. But our information suggests that the work force out there is at 1970 levels.

Mr. LUNDINE. Turning away from rehabilitation, doesn't this new loan guarantee program that you have described really duplicate HUD's FHA applications?

Mr. ELWELL. Congressman, I don't believe it does in any way. It is a 90-10 coinsurance program. And if a family is eligible for any

other type of assistance, they are not eligible for a guaranteed loan. For example, if a family came into a county office today and said, "Am I eligible for a loan?" First they must be considered as they always have, for a conventional loan, or a loan insured or guaranteed by HUD or VA.

If there is no assistance available for the family, then they could be considered for a guaranteed housing loan from Farmers Home.

If the lender could not make the guaranteed housing loan, then and only then could they be considered for a Farmers Home insured loan. So in a way it seems to dovetail someplace below the present programs.

It is limited to moderate-income families.

Mr. LUNDINE. Why has not the Farmers Home Administration implemented the rental assistance program which permits subsidies for the difference of 25 percent of low-income tenants' income and base rents at 1-percent mortgage rates? I understand that Congress insisted that the agency do this, and yet it persists in refusing to do so.

Mr. ELWELL. Congressman, the question of rent supplements is a matter that is under a lawsuit at the present time, and I would not be able to comment other than to indicate to you that the Secretary has responded that by April 30—he will finalize a determination in response to the judge. I would prefer not to go further.

Mr. LUNDINE. OK. Fine.

I think the subcommittee would be interested in your written testimony whenever you feel you are able to give it.

Mr. ELWELL. All right.

Mr. LUNDINE. There have been various proposals that you may be aware of which have been advanced to this committee about how to improve our housing programs in rural areas. Among them has been an administrative proposal that I would like to ask you about, recommending that Farmers Home Administration set up an escrow system so that taxes, insurance, and other expenses that are normally FHA and other mortgages paid by the month on an escrow basis, would be available to Farmers Home borrowers.

I wonder what you feel the administrative burden involved in that kind of arrangement would be?

Mr. HOLLERAN. We are now looking at that. But just to give you an idea, out in the commercial banking area we took a look at what equivalent number of people one needs to run an escrow system, for example, we looked at the number of people per 100,000 escrow accounts. With reference to FmHA, that would translate into the addition of something in the area of 300 to 400 people just to handle escrowing.

We are looking at other ways of doing that, looking at possible ways of contracting escrowing out, at this point or time. We are right in the middle of that evaluation. However it is a major problem to escrow.

Mr. LUNDINE. OK. We would be interested in getting that evaluation as soon as you have it available.

In the course of doing that, I hope you will also evaluate assertions made to us that your county agents are presently spending a lot of their time checking up on whether taxes have been paid and whether

borrowers have insurance and that kind of thing and that there might be a saving in staff time.

Mr. HOLLERAN. That is correct. That is part of the equation, as you look at it.

Mr. LUNDINE. Fine. We would like your study to look at both sides of the equation and we will be very interested in getting the results. On the matter of your loans to minorities, I think about 40 percent of your loans were to minorities and 9 percent in 1975 which is the most recent figure available.

Is that accurate, and if so, why do you think that has occurred?

Mr. HOLLERAN. I think that is just about right. I would have to check the figures to be sure. And to give you a good answer, perhaps what we ought to do is submit for the record what our program is in that area, and give you some of the statistics and perhaps some of the reasons why it is up or down.

I would prefer to do it that way to give you a more accurate answer.

Mr. ELWELL. I might also add, Mr. Congressman, that we have proceeded toward the development of an affirmative marketing plan which, I think, if you would permit us, we will also include with the information and submit for the record.

This affirmative marketing plan is scheduled to be published in the Federal Register within the next few days. And we will be glad to provide you a copy for the record.

Mr. LUNDINE. Thank you. We would appreciate that, as well.

[In response to the request of Congressman Lundine, the following information was submitted for inclusion in the record:]

REPLY RECEIVED FROM MR. HOLLERAN AND MR. ELWELL

Loans to minorities peaked in fiscal year 1972 with 27,065 being made that year to minorities. This constituted approximately 24 percent of the housing loans made by Farmers Home Administration that year. Since that time there has been a dramatic decrease in the number of loans made to minorities with the figure for fiscal year 1976 showing 14,763 loans to minorities. This represents 12.9 percent of the housing workload of the agency for that fiscal year. I am providing a graph chart for the record.

You also asked what caused this decrease. We are at a loss to understand all of the reasons. Immediately following 1972, there was a moratorium on interest credit which certainly had an impact on minorities which are usually at the lower end of the income strata. Following this moratorium, there was an energy crisis which has persisted up until now raising the cost of utilities to prohibitive levels. After the energy crisis began, we were confronted with both a recession followed by inflation which we also believe had an impact for those on the lower end of the income strata but we cannot say with certainty that any of these reasons are valid.

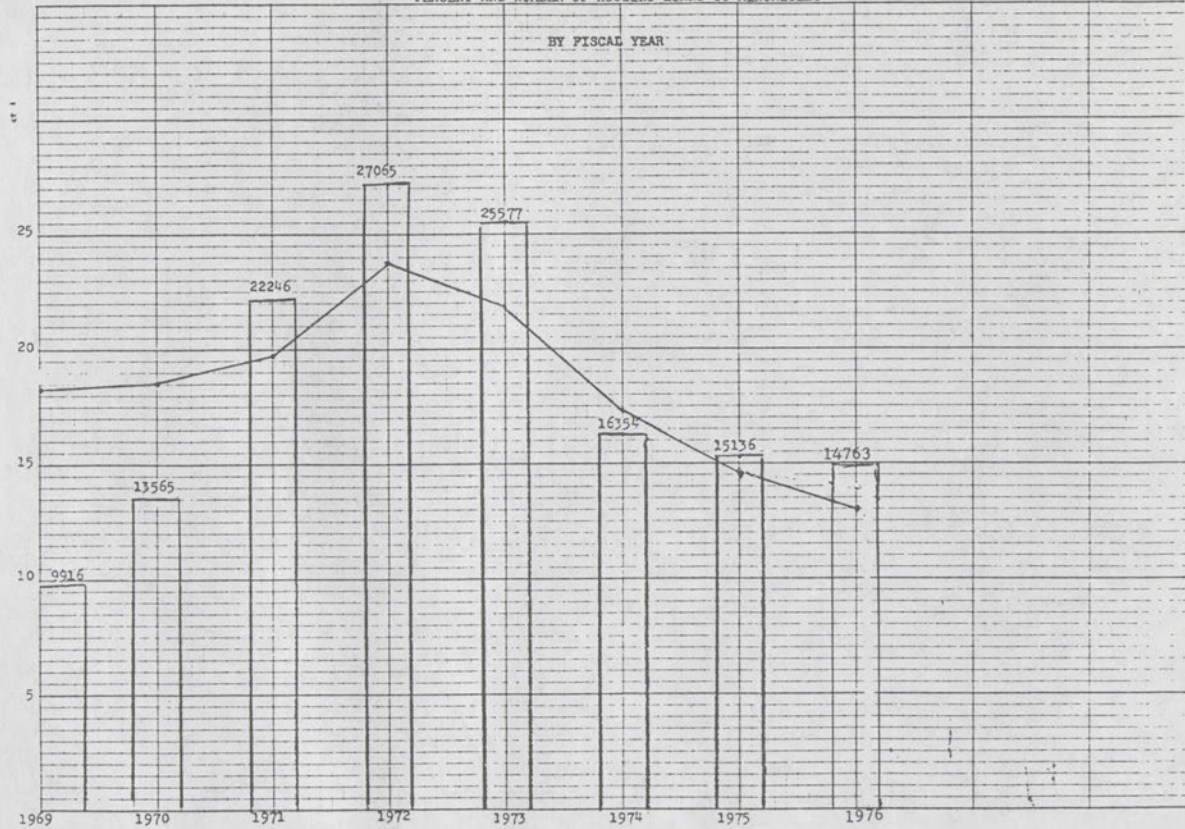
There have been a number of studies and I refer you to the most recent one entitled "The Barrier to Equal Opportunity in Rural Housing Loans" published in January 1977, by the Urban Systems Research and Engineering, Inc. of Cambridge, Massachusetts. This study is published in four volumes with Volume One being devoted to an analysis and findings of the study. The study was contracted for by the Department of Housing and Urban Development.

Farmers Home Administration in concert with the Department of Agriculture's Office of Equal Opportunity is currently planning a survey in seven states having the largest percentage of minorities. However, we do not anticipate the completion of this survey until on or about January 1, 1978.

Additional information should be available in the very near future as a result of a General Accounting Office audit of federal housing programs undertaken, I believe at the request of the House Judiciary Civil Rights Oversight Subcommittee.

PERCENT AND NUMBER OF HOUSING LOANS TO MINORITIES

BY FISCAL YEAR



proposed rules

This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

DEPARTMENT OF AGRICULTURE

Farmers Home Administration

[7 CFR Part 1901]

FAIR HOUSING AFFIRMATIVE MARKETING PLAN FROM BUILDERS, DEVELOPERS AND CONTRACTORS

Civil Rights Compliance Requirements

Notice is hereby given that the Farmers Home Administration has under consideration the proposed amendment of § 1901.203(c) of Subpart E, Part 1901, Title 7, Code of Federal Regulations (41 FR 40112). The proposed amendment requires a fair housing affirmative marketing plan from builders, developers, contractors who build with conditional commitments, packagers and others who provide housing for sale or rent under Title VIII of the Civil Rights Act of 1968.

Interested persons are invited to submit written comments, suggestions or objections to the Chief, Directives Management Branch, Farmers Home Administration, U.S. Department of Agriculture, Room 6316, South Building, Washington, D.C. 20250, on or before April 8, 1977. All written submissions made pursuant to this notice will be made available for public inspection at the office of the Chief, Directives Management Branch during regular business hours (8:15 a.m. to 4:45 p.m.).

As proposed, § 1901.203(c) is amended to read as follows:

§ 1901.203 Title VIII of the Civil Rights Act of 1968.

(c) *FmHA affirmative action.* (1) It is the policy of the Farmers Home Administration to administer its FmHA housing program affirmatively so individuals of similar income levels in the housing market area have housing choices available to them regardless of their race, color, religion, sex or national origin. Applicants and participants in FmHA housing programs who request approval for subdivision development involving five or more sites, multi-family projects with five or more units, or five or more conditional commitments for dwelling units during a 12-month period must submit an affirmative fair housing marketing plan. Any real estate broker who agrees to list acquired rural housing properties on a term basis as described in § 1955.118(c) of this chapter must sign a nondiscrimination certification. The Farmers Home Administration will develop, maintain and operate an affirmative fair housing marketing plan for acquired properties managed in accordance with § 1955.63 of this chapter and offered

for sale in accordance with § 1955.117 of this chapter. Such applicants shall pursue affirmative fair housing marketing policies in soliciting buyers and tenants; in determining their eligibility; and in concluding sales and rental transactions.

(2) The affirmative fair housing marketing plans must be submitted as follows:

(i) For subdivisions—with the preliminary submission of plans and specifications.

(ii) For rural rental housing, labor housing and rural rental site projects—with the AD 621, "Application for Federal Assistance" or with the letter of application.

(iii) For conditional commitment of five or more individual dwelling units in a 12 month period with the application for the fifth conditional commitment.

(3) Affirmative fair housing marketing plans will be submitted on form HUD-935.2 (3-76) or a narrative statement which includes:

(i) A statement of the seller's proposed efforts to reach those persons in the marketing area who traditionally would not be expected to apply for housing.

(ii) A description of efforts undertaken and/or planned to maintain a non-discriminatory hiring policy in recruiting for staff engaged in the sale or rental of properties.

(iii) A description of methods used to train and instruct employees engaged in the sale or rental of properties in the policy and application of nondiscrimination and fair housing.

(iv) A commitment to display in all sales and rental offices the "Fair Housing" poster.

(v) A commitment to post in a conspicuous position on each property a sign displaying the equal housing opportunity logo or the following statement, "We are pledged to the letter and spirit of U.S. policy for the achievement of equal housing opportunity throughout the nation. We encourage and support an affirmative advertising and marketing program in which there are no barriers to obtaining housing because of race, color, religion, sex or national origin."

(vi) A description of efforts to publicize the availability of housing opportunities to minority persons through the type of media customarily used by the applicant or participant. As part of this effort, all advertising must include either the equal housing opportunity logo or statement.

(4) Affirmative fair housing marketing plans will cover the following time periods:

(i) For subdivision, from time of application until all lots are sold.

(ii) For multi-family projects, from time of application until loan is paid in full.

(iii) For conditional commitments for individual dwelling units, one year.

(5) Affirmative fair housing marketing plans for conditional commitment will be reviewed and approved by the County Supervisor. The County Supervisor will review and submit with an comments other fair housing marketing plans to the State Office for approval. Any applicant or participant covered by this section must have an affirmative fair housing marketing plan for subdivisions, conditional commitments, or multi-family project approved after the issuance of these regulations.

(6) Approved affirmative fair housing marketing plans will be made available by the applicant or participant for public inspection upon request at the appropriate sale or rental office.

(7) Applicants failing to comply with these requirements will be liable to sanctions authorized by regulations, rules or policies governing the program in which they are participating including but not limited to denial of further participation in FmHA programs and referral to the Department of Justice for suit by the United States for injunctive or other appropriate relief.

(7 U.S.C. 1989; 42 U.S.C. 1480; 42 U.S.C. 2042; 5 U.S.C. 301; Sec. 10 Pub. L. 93-357, 88 Stat. 392; delegation of authority by the Sec. of Agr. 7 CFR 2.23; delegation of authority by the Asst. Sec. for Rural Development, 7 CFR 2.70; delegations of authority by Dir., OEO 29 FR 14764, 33 FR 9850.)

Dated: February 28, 1977.

F. W. NAYLOR, JR.,
Acting Administrator,
Farmers Home Administration.
[FR Doc. 77-6956 Filed 3-8-77; 8:45 am]

Mr. LUNDINE. With respect to the number of low-income people receiving section 502 loans, first of all, I would be interested in how Farmers Home established the numbers that you gave us—\$10,000 and \$15,300. They seem higher than the Bureau of Census figures, and I wonder what your justification for that is.

Mr. ELWELL. We have looked at the income levels that exist in rural areas on a State-by-State basis.

In updating the 1970 Census Report to a current 1977 level, we have tried to adopt an income level that would meet at least 70 percent of the families in the income brackets in the rural areas.

We have felt that the \$15,600 in many States is borderline.

In other States there may be some latitude. The same is true for the low-income level—\$10,000, for example, in your State, may be pressing the upper limit. But in other States it may not be. The general objective was to try to meet the needs of about 70 percent of the families in the rural areas.

Mr. LUNDINE. Congressman AuCoin and I are carefully reviewing some legislative proposals that have been made to improve Farmers Home programs. We are concerned that we receive input from the administration before becoming advocates for a cause. We are concerned because we come from similar backgrounds and share a deep concern that something will in fact work only if those who are carrying it out are dedicated to seeing that it does work.

I wonder if we could submit to you in writing these proposals for your comments, which we could then make a part of the record and share with the rest of the members of this subcommittee.

Mr. HOLLERAN. I would be very happy to.

[At the time the hearing went to press, no information had been received from Mr. Holleran.]

Mr. LUNDINE. Lastly, it has been suggested to me with respect to some of the water and sewer grants to promote housing in rural areas, that there may be very needy communities with critical, low-income housing needs that should be given priority or 100-percent grants and that, perhaps, there has not been cooperation between HUD's community development program and the Farmers Home with respect to those kinds of needs.

Do you have any observation about that?

Mr. HOLLERAN. Mr. Dwight Calhoun, our Assistant Administrator for Community programs would be better able to answer that.

We will get an answer for that and submit it for the record?

Mr. LUNDINE. Good.

[In response to the request of Congressman Lundine, the following information was submitted for inclusion in the record:]

RESPONSE RECEIVED FROM MR. HOLLERAN

A survey of 471 projects receiving grants was completed in November 1976 by FmHA. It revealed that 73.6 percent went to projects serving communities with median incomes below that for the county. Also 92.7 percent of the projects were funded at a median income below that for the United States. These projects are in communities with the greatest need for water and waste disposal facilities and also where most of the rural housing funds have been used.

Priority for FmHA grant funds is given to water and waste disposal projects serving the most financially needy communities to reduce user costs to a reasonable level.

In addition, we have consulted with DHUD on implementation of the DHUD block grant program in rural areas. These funds may be used for water and sewer development together with other needs of rural areas as determined by the grant recipient. A fact sheet has been developed by agencies within USDA in cooperation with DHUD and distributed to community leaders to inform them of pertinent information of the Act.

Mr. LUNDINE. Turning for a moment to elderly housing, while it is true that your section 515 programs can, as you have testified, be worked in tandem with section 8 and thereby achieve a deeper subsidy, I am informed that many elderly people in section 515 rural rental projects are now paying \$150-\$175 a month in rent, in some cases over 50 percent of their income for decent housing.

Do you think that there is any other way than attaching it to section 8 that we can make the section 515 program better able to serve the needs of low-income, rural, elderly people?

Mr. ELWELL. Congressman, I think that your observation is correct.

I have visited projects in Northeast States in particular where families were paying more than 20 or 25 percent of their income for rent.

It would be my hope that some form of deep subsidy would be available to assist these families.

I think at this point, though, whether a rent supplement or section 8 is the mechanism to use, I would defer on that question since it is a policy matter which I think Secretary Bergland has under consideration at the moment.

Mr. LUNDINE. I am sure he does. The latest report on Farmers Home Administration on farming and housing programs shows a rather precipitous decline in production for the first quarter of the 1977 fiscal year.

Do you have any thought on why this has occurred and what we can do to change this situation?

Mr. ELWELL. I think we agree again with your observation. It is correct.

There may be a number of reasons why this decline has occurred.

The winter weather has been a problem not only for Farmers Home, but the building industry as a whole.

The cost of housing and many other factors have contributed to the decline in the number of loans.

I think in the past several weeks, we have seen an active program beginning in a number of States and indications that it will reactivate itself.

We have administratively taken action on this. We are pooling the first half of the fiscal year money's. Let me back up and say this, we allocated our money based on need.

The formula for the allocation is based on rural population, rural income, and condition of housing.

Now that formula, sir, places money in States based on need but not necessarily where a demand exists.

Pooling of the money results in taking the money for the first half of the fiscal year that is not used, back into a national office reserve and putting it back out based on demand. We feel this may equalize this formula and the demand.

So we have administratively taken action to pool the money as of March 31, utilizing this pool then to fund States that have a demand.

Mr. LUNDINE. Gentlemen, you have a tradition of making things work. And we look forward to working with you to make them work better.

Thank you very much.

Mr. HOLLERAN. Thank you, sir.

Mr. LUNDINE. The subcommittee will now be in recess until 2 o'clock, when further witnesses will be present.

[Whereupon at 1:10 p.m., the hearing was recessed, to be reconvened at 2 p.m., this same day.]

AFTERNOON SESSION

Mr. ASHLEY. (presiding) The subcommittee on Housing and Community Development is taking testimony on the fiscal 1978 HUD authorizations, and our witnesses this afternoon include the National Association of Home Builders, Mr. Robert Arquilla, president.

We will also hear from the National Leased Housing Association, Arthur Abba Goldberg, chairman of the board.

We are happy to have you and your associates before the subcommittee this afternoon, and we look forward to your testimony. I understand you have a prepared statement which you can submit for the record, or proceed from, as you wish.

Let me say that I think that it might be well, if you are so inclined, to perhaps to condense one part of your prepared testimony, but to give us in full the portion which relates to your subsidy program.

STATEMENT OF ROBERT ARQUILLA, PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS, ACCOMPANIED BY CARL A. S. COAN, JR., LEGISLATIVE COUNSEL, AND J. DENIS O'TOOLE, ASSOCIATE LEGISLATIVE COUNSEL

Mr. ARQUILLA. We will do that. Thank you.

Mr. Chairman and members of the committee, my name is Robert Arquilla, and I am a homebuilder from Chicago, Ill. I am testifying today on behalf of the more than 82,000 members of the National Association of Home Builders, the trade association of the Nation's homebuilding industry, of which I am president.

Accompanying me today to my right, is Carl A. S. Coan, Jr., our legislative counsel, and to my left, J. Denis O'Toole, associate legislative counsel.

We appreciate the subcommittee's invitation to appear here this afternoon, to assist you in formulating your legislative recommendations and to provide you with our judgment on the funding levels required for fiscal year 1978 in order to carry out our national housing and community development programs.

At the outset, let me observe that we are pleased by Secretary Harris' announced commitment to meeting the national housing goals as established by the Housing Act of 1949 and the Housing and Urban Development Act of 1968.

The Secretary and the new administration are to be complimented on the selection of a number of outstandingly qualified individuals for key positions within the Department.

We, as private enterprise businessmen, anxiously look forward to working in a reformed partnership with a Congress and an administration that we hope will be committed to making a reality of the national policy of a decent home and a suitable living environment for every American family.

The national housing situation has become complicated in recent years by inflation pushing up mortgage interest rates and construction costs, along with real estate and other taxes and utility costs, beyond a corresponding increase in family income. Thus, the problem of providing housing affordable to millions of low- and moderate-income families, has escalated into the complex question of providing housing to a whole range of middle-income families unable to afford the median-priced new home.

Some analysts of our national housing legislation contend that our existing housing programs are inadequate to deal with today's problems and that Congress should establish the enactment of broad new legislation, as one of its priorities.

We agree that this may be necessary for the long-term solution. However, questions such as the future role of the FHA, the need for continuing housing production subsidies and the role of the private enterprise builder in the rehabilitation process, are such important questions of public policy, that we believe the subcommittee is approaching the problem correctly by dividing itself into task forces to explore these issues in depth.

Pending the report of the task forces and the opportunity of the new administration to examine the many different aspects of housing we share Secretary Harris' view that we should work to implement fully the wide range of programs that are already law, making whatever modifications are needed in the statutes to improve their efficiency or effectiveness.

Thus, a paramount concern of ours is with the extension of the authority of HUD to insure mortgages and loans under the various sections of the National Housing Act until September 30, 1978. We support this extension.

We urge that the 221(d)(2) program be extended along with all the other FHA programs. Its lower down payment provisions and longer maturities should be retained for future use where appropriate.

We also believe that Congress, in extending this authority should continue to vest in the Secretary the power administratively to establish interest rates for FHA-insured loans.

We are pleased to note that among the programs, for which the Secretary is requesting an extension, are the sections 235 and 236 programs. It has long been our position that the section 235 homeownership program is probably the best tool that HUD possesses for extending the benefits of homeownership to lower income families.

Section 235 provides families with interest subsidy assistance to as low as 1 percent, thereby allowing HUD the ability to tailor a family's monthly payment to a myriad of situations.

At our recent NAHB board of directors' meeting, three resolutions were adopted reaffirming our support of section 235, requesting an increase in section 235 mortgage limits, and endorsing the reactivation of the section 236 program as a complementary program to section 8.

We fully endorse and support HUD's proposal for increasing the section 235 maximum mortgage limits. These increases are necessary to reflect the effects of inflation.

Central to our efforts of meeting the housing needs of middle-income families is the Federal Housing Administration. We are pleased that both the Ford and Carter administrations have recognized the important responsibility of FHA in meeting the nonpartisan goal of homeownership for the American family. Both administrations have made identical recommendations for a reduction in FHA down payment requirements, while recognizing the need for increased mortgage limits.

NAHB supports HUD's proposal for increasing the single-family mortgage limits of sections 203, 222, and 234 of the National Housing Act to \$60,000. Such an increase, we believe, is justified, based on increases in costs and sales price since the present limit of \$45,000 was first proposed in 1973.

In the period of 1973 to 1976, for instance, the median sales price of a new home constructed under the section 203(b) program increased 41.3 percent, while the median construction cost per square foot increased 33.6 percent. During this same period, the median sales price of all new housing increased 36 percent, and the wholesale price index for all construction materials increased 39 percent.

We also recommended that, while the subcommittee is considering changes in the FHA single-family limits, consideration be given to increasing the mortgage limits for the conventional secondary market operations of FNMA and FHLMC. We understand that the Federal National Mortgage Association is recommending that their present limit of \$55,000 be increased by 25 percent. We support this recommendation.

The problem of increased housing costs also is affecting the ability of Federal savings and loan associations to make new home loans in certain of our higher cost metropolitan areas. While we realize that jurisdiction for the necessary changes in the Home Owners Loan Act of 1933 rests with another subcommittee, we would hope that appropriate changes will be approved to that act to reflect increased cost levels.

Besides an increase in FHA's single-family mortgage limits, we support the need for a reduction in downpayment requirements. Without a significant reduction in present downpayment schedules, many families will find that the FHA programs are useless to them, unless they have substantial cash reserves with which to meet the hefty downpayment requirements. We endorse HUD's recommendation that the downpayment for the amount of a loan in excess of \$25,000 be reduced to 5 percent.

We note that HUD has not proposed any changes in the mortgage limits or downpayment requirements for the section 220 homeownership program. This program has been useful in urban renewal areas, and we urge that the same changes be provided for it.

To address low-income housing needs, HUD proposes to rely on the section 8 leased housing program as the primary means of providing decent, safe, and sanitary housing. We support the administration's request for an additional \$1.2 billion in annual contribution contract

authority for the public housing and section 8 programs for fiscal year 1978.

With respect to section 8, we have two overriding concerns: first, we believe that the subsidized housing programs are being undermined by the unrealistic formula used in the calculation of budget authority; and second, we are concerned with the tilt of the section 8 program toward existing housing.

We believe that the latter results substantially from the former as well as from the pressures exerted on some localities to overstate in their housing assistance plans the need for existing housing. At a time when the national rental vacancy rate has dropped sharply and there is an unquestioned need for new multifamily housing, it seems inappropriate to place a heavy reliance on existing housing to meet the Nation's substantial low- and moderate-income housing needs.

Unlike most other Federal programs, the housing programs for low- and moderate-income families function with the use of contract authority which will be used over multiyear periods. The amount of contract authority reserved, especially under the section 8 program, is substantially in excess of what will be paid out in any 1 year.

Sufficient contract authority is set aside for each unit to pay the full rent—a situation that will only occur if the assisted low-income occupant has no income. This is highly unlikely in most cases.

We urge this subcommittee to call upon the Budget Committee to come up with a more equitable calculation of budget authority for the low- and moderate-income housing programs. After all, the budget authority for no other ongoing Federal program is calculated in a similar fashion—a fashion calculated ultimately to destroy support for a reasonable level of assistance for low- and moderate-income housing, especially new construction.

We were pleased by the House Banking, Finance and Urban Affairs Committee's recent action recommending section 8 to permit HUD to enter into 30-year housing assistance payment contracts in order to encourage the conventional financing of section 8 projects. A second change recommended by HUD would permit the payment of debt service attributable to unoccupied dwelling units for a period of up to 1 year for all section 8 projects. Under present law, these payments are permitted only in the case of projects whose mortgages are coinsured under section 244 of the National Housing Act.

There are several other changes in the section 8 program which we have outlined in our statement.

NAHB is keenly interested in the development of techniques aimed at preservation of the housing stock of existing neighborhoods and the rehabilitation of neighborhoods where the process of decay has begun.

Within our association, we have established two special committees to study the problems of rehabilitation and also to study the process of urban redevelopment. Many local homebuilder associations throughout the country have become involved in rehabilitation and also to study the process of urban redevelopment.

Many local homebuilder associations throughout the country have become involved in rehabilitation as part of local community renewal efforts. One of the most important tools in this area has been the section 312 rehabilitation program, and we support its extension.

One of the major problems facing the home industry is an adequate supply of land suitable for building. Localities must develop realistic plans to provide for future community growth, including housing. Consequently, we endorse HUD's request for increased funds for the section 701 comprehensive planning grants program. In this connection, we do not believe that the type of planning permitted under the community development block grant program can be substituted for the broader, communitywide planning possible under the section 701 program.

We are especially concerned that the section 701 requirement for a housing element, not contained in the community development legislation, not be avoided, as would be possible if HUD's proposal to fund large city and urban country comprehensive planning through the community development program prevails.

Also proposed by HUD for extension is the national flood insurance program. Certainly, the peril to life and property caused by flooding justifies the extension of this program. However, there have been many problems with the administration of the program which we believe have unnecessarily restricted the availability of developable land. Among these is the use of the 100-year flood level for the purpose of determining flood-prone areas.

We believe that a more appropriate basis for this purpose would be the 50-year flood level. This standard was used by HUD and VA for many years, and we believe it to be more realistic, while still minimizing the exposure of the Federal Government. Please see attachment F for a resolution adopted by our board of directors on this matter.

[Attachment F is attached to Mr. Arquilla's prepared statement.]

For too many years, the housing and community development needs of rural America have been ignored or neglected. For example, the mortgage limits under the 203(i) program, authorizing FHA to insure mortgages for the purchase of single-family homes in outlying areas, have not been increased since 1969, when the present maximum mortgage amount of \$16,200 was fixed. At that time the 203(b) limit was set at \$33,000. To restore at least the same relationship as existed in 1969, we recommend that the 203(i) limit be increased to \$30,000.

The Farmers Home Administration, as contrasted with HUD-FHA, has done a remarkable job within the past 6 years of attempting to meet the housing needs of rural residents. The section 502 homeownership program and the section 515 rural rental program have been the mainstays of FmHA's efforts to provide decent, modest priced housing. We should like to call your attention, however, to our concern that the \$1.356 billion funding level for the rural housing insurance fund recommended by the Carter administration, while an increase over the Ford budget proposal, is still inadequate in reaching a goal of 100,000 new housing starts under the section 502 and section 515 programs.

Another concern in this area flows from the knowledge that Government reform is a priority item for the new administration. Our industry appreciates the need for simplification of the Federal organizational structure, but we also know that Government reorganization does not automatically result in better public service.

Our industry is still wincing from the aimless and misguided reorganization several years ago of the Federal Housing Administration within HUD. So our board of directors has directed NAHB to oppose any efforts to merge Fmha into HUD or any other efforts to dilute Fmha's primary responsibility for rural housing.

During the housing depression of 1974-75 when scarce mortgage money and extremely high mortgage interest rates combined to drive housing construction activity down to unprecedented lows, a very bad situation most likely would have become a disastrous one if it had not been for the enactment of the Emergency Home Purchase Assistance Act, more commonly known as the Brooke-Cranston Act. This act, which was continued by the Emergency Housing Act of 1975, pumped billions of dollars into the conventional mortgage market at interest rates substantially below those otherwise available.

The mild recovery to 1.54 million housing units started in 1976 would not have been possible without this legislation. Even today, funds are still being made available at a 7½ percent interest rate for FHA multifamily projects and probably providing the principal impetus to the mild upswing in multifamily construction that has occurred in the last several months.

The Brooke-Cranston program was highly successful in accomplishing its primary purpose of spurring increased housing construction. While the need for it has lessened somewhat, at least in the single family area, we feel very strongly that the program should remain available for immediate use in the future, if needed. If such a program had been on the books in 1974, it might have been possible to prevent things from getting as bad as they did before it was enacted late that year.

We therefore urge that the program be extended for another year beyond its expiration date, to September 3, 1978.

We are most concerned about the increasing percentage of American families who are unable to enter the new housing market. While adoption of the legislative proposals that I have discussed would go a long way toward easing the Nation's housing problems, there is still a significant portion of our population who find the goal of homeownership beyond their grasp. These are those families in the lower middle-income brackets who have been priced out of the market as a result of high mortgage interest rates.

To fill that gap, the National Association of Home Builders has developed a common sense housing subsidy program aimed at meeting the needs of middle-income families and complementing the various other housing programs now on the books.

Our proposed program is actually two programs. The first would provide assistance for the purchase of up to 100,000 new or substantially rehabilitated units each year in inner-city neighborhoods.

The second would provide assistance for the purchase of up to 300,000 such units each year in other urban and suburban areas. To encourage the provision of housing in inner-city neighborhoods, the terms would be somewhat more lenient and the program would be available to anyone, regardless of income.

Under the second program, family could not have an income in excess of 150 percent of the median income for its area.

Both programs provide assistance through the means of reducing mortgage interest rates by up to 3 percent, but not below 6 percent, depending upon the purchase price of the home.

The higher the price of the home, the smaller would be the assistance, with a maximum purchase price of \$50,000, in keeping with the program's goal of assisting middle-income families.

Under both programs, the Government would recapture the assistance upon the sale of the house to the extent that there were sufficient proceeds.

Because we look upon the program as a permanent one to be used regardless of other economic conditions, this recapture aspect should ultimately result in the program being virtually self-sustaining in later years.

We urge that the subcommittee give serious consideration to this proposal in conjunction with the legislation it has before it this year.

We commend to your attention the detailed description of the program which is attached to your statement.

Thank you for this opportunity to appear today.

[The prepared statement of Mr. Arquilla, on behalf of the National Association of Home Builders, with attachments, along with "Home Purchase Assistance Act of 1977—A Common Sense Housing Subsidy Program," follow:]



NATIONAL ASSOCIATION OF HOME BUILDERS

National Housing Center

15TH AND M STREETS, N.W., WASHINGTON, D.C. 20005

STATEMENT OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS
before the
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
on
HOUSING AUTHORIZATION LEGISLATION
MARCH 9, 1977

Mr. Chairman and Members of the Committee:

My name is Robert Arquilla, and I am a home builder from Chicago, Illinois. I am testifying today on behalf of the more than 82,000 members of the National Association of Home Builders, the trade association of the nations home building industry, of which I am President. Accompanying me today is Carl A. S. Coan, Jr., NAHB's Legislative Counsel, and J. Denis O'Toole, Associate Legislative Counsel.

We appreciate the Committee's invitation to appear here this afternoon, to assist you in formulating your legislative recommendations and to provide you with our judgment on the funding levels required for Fiscal Year 1978 in order to carry out our national housing and community development programs.

At the outset, let me observe that we are pleased by Secretary Harris' announced commitment to meeting the national housing goals as established by the Housing Act of 1949 and the Housing and Urban Development Act of 1968. The Secretary and the new Administration are to be complimented on the selection of a number of outstandingly qualified individuals for key positions within the Department. We, as private enterprise businessmen, anxiously look forward to working in a reformed partnership with a Congress and an Administration that we hope will be committed to making a reality of the national policy of a decent home and a suitable living environment for every American family.

The national housing situation has become complicated in recent years by inflation pushing up mortgage interest rates and construction costs, along with real estate and other taxes and utility costs, beyond a corresponding increase in family income. Thus, the problem of providing housing affordable to millions of low and moderate income families, has escalated into the complex question of providing housing to a whole range of middle-income families unable to afford the median priced new home.

Some analysts of our national housing legislation contend that our existing housing programs are inadequate to deal with today's problems and that Congress should establish the enactment of broad new legislation, as one of its priorities. We agree that this may be necessary for the long term solution. However, questions such as the future role of the FHA, the need for continuing housing production subsidies, and the role of the private enterprise builder in the rehabilitation process, are such important questions of public policy, that we believe the Subcommittee is approaching the problem correctly by dividing itself into task forces to explore these issues in-depth.

Pending the report of the task forces and the opportunity of the new Administration to examine the many different aspects of housing, we share Secretary Harris' view that we should work to implement fully the wide-range of programs that are already law, making whatever modifications are needed in the statutes to improve their efficiency or effectiveness.

Extension of FHA Insuring Authority

Thus, a paramount concern of ours is with the extension of the authority of HUD to insure mortgages and loans under the various sections of the National Housing Act until September 30, 1978. We support this extension. We urge that the 221(d)(2) program be extended along with all the other FHA programs. Its lower downpayment provisions and longer maturities (up to 40 years) should be retained for future use where appropriate. We also believe that Congress in extending this authority should continue to vest in

the Secretary the power administratively to establish interest rates for FHA insured loans.

We are pleased to note that among the programs, for which the Secretary is requesting an extension, are the 235 and 236 programs. It has long been our position that the Section 235 homeownership program is probably the best tool that HUD possesses for extending the benefits of homeownership to lower income families. Section 235 provides families with interest subsidy assistance to as low as 1%, thereby allowing HUD the ability to tailor a family's monthly payment to a myriad of situations.

At our recent NAHB Board of Directors' Meeting, three resolutions were adopted reaffirming our support of Section 235, requesting an increase in Section 235 mortgage limits, and endorsing the reactivation of the Section 236 program as a complementary program to Section 8. (See Attachments A, B and C.) We fully endorse and support HUD's proposal for increasing the Section 235 maximum mortgage limits. These increases are necessary to reflect the effects of inflation.

FHA Mortgage and Downpayment Requirements

Central to our efforts of meeting the housing needs of middle-income families is the Federal Housing Administration. We are pleased that both the Ford and the Carter Administrations have recognized the important responsibility of FHA in meeting the non-partisian goal of homeownership for the American family. Both Administrations have made identical

recommendations for a reduction in FHA downpayment requirements, while recognizing the need for increased mortgage limits.

NAHB supports HUD's proposal for increasing the single-family mortgage limits of Sections 203, 222 and 234 of the National Housing Act to \$60,000. Such an increase, we believe, is justified, based on increases in costs and sales price since the present limit of \$45,000 was first proposed in 1973. In the period of 1973 to 1976, for instance, the median sales price of a new home constructed under the Section 203 (b) program increased 41.3%, while the median construction cost per square foot increased 33.6%. During this same period, the median sales price of all new housing increased 36% and the wholesale price index for all construction materials increased 39%.

While it is difficult to arrive at mortgage amounts for two, three and four unit structures, we believe that there must be a more realistic relationship between these mortgage amounts and the proposed single-family limits. This relationship has not been maintained since 1961. At that time, the two and three unit mortgage limit was 10% above the single-family limit, and the four-unit limit was 40% above. We believe that at least this relationship should be maintained and that a separate, higher amount should be provided for a three-family unit structure. Thus, we urge that the mortgage limit for a two-unit structure be increased to \$66,000; that the limit for a three-family unit be set at \$75,000; and that the four-family unit mortgage limit be increased to \$84,000.

We also recommend that, while the Subcommittee is considering changes in the FHA single-family limits, consideration be given to increasing the mortgage limits for the conventional secondary market operations of FNMA and FHLMC. We understand that the Federal National Mortgage Association is recommending that their present limit of \$55,000 be increased by 25%. We support this recommendation.

The problem of increased housing costs also is affecting the ability of Federal savings and loan associations to make new home loans in certain of our higher cost metropolitan areas. While we realize that jurisdiction for the necessary changes in the Home Owners Loan Act of 1933 rests with another Subcommittee, we would hope that appropriate changes will be approved to that Act to reflect increased cost levels.

Besides an increase in FHA's single-family mortgage limits, we support the need for a reduction in downpayment requirements. Without a significant reduction in present downpayment schedules, many families will find that the FHA programs are useless to them, unless they have substantial cash reserves with which to meet the hefty downpayment requirements. We endorse HUD's recommendation that the downpayment for the amount of a loan in excess of \$25,000 be reduced to 5%.

We note that HUD has not proposed any changes in the mortgage limits or downpayment requirements for the 220 homeownership program. This program has been useful in urban renewal areas and we urge that the same changes be provided for it.

Annual Contributions Contract Authority

To address low-income housing needs, HUD proposes to rely on the Section 8 leased housing program as the primary means of providing decent, safe and sanitary housing. We support the Administration's request for an additional \$1.2 billion in annual contribution contract authority for the public housing and Section 8 programs for fiscal year 1978.

With respect to Section 8, we have two overriding concerns:

(1) we believe that the subsidized housing programs are being undermined by the unrealistic formula used in the calculation of budget authority; and
(2) we are concerned with the tilt of the Section 8 program toward existing housing. We believe that the latter results substantially from the former as well as from the pressures exerted on some localities to overstate in their Housing Assistance Plans the need for existing housing. At a time when the national rental vacancy rate has dropped sharply and there is an unquestioned need for new multifamily housing, it seems inappropriate to place a heavy reliance on existing housing to meet the nation's substantial low and moderate income housing needs.

Unlike most other Federal programs, the housing programs for low and moderate income families function with the use of contract authority which will be used over multi-year periods. The amount of contract authority reserved, especially under the Section 8 program, is substantially in excess of what will be paid out in any one year. Sufficient contract authority is set aside for each unit to pay the full rent -- a situation that

will only occur if the assisted low-income occupant has no income. This is highly unlikely in most cases. However, when these maximum possible, but unlikely, amounts are multiplied by 15 years for existing housing or 20-40 years for new housing, huge amounts result. Therefore, the more contract authority that can be shifted into existing housing, the lesser the amount of budget authority.

We urge this Subcommittee to call upon the Budget Committee to come up with a more equitable calculation of budget authority for the low and moderate income housing programs. After all, the budget authority for no other on-going Federal program is calculated in a similar fashion -- a fashion calculated ultimately to destroy support for a reasonable level of assistance for low and moderate housing, especially new construction.

For over two and one-half years, we have waited as HUD has tinkered with the Section 8 program. Whether Section 8 will ever become a viable production program, we can't assure you today because there are many obstacles preventing its wide-spread use. However, we believe that Secretary Harris and her staff have seriously analyzed the major impediments of the program and we support the HUD initiated recommendations for changes in the program along with several of our own suggestions.

We were pleased by the Banking Committee's recent action amending Section 8 to permit HUD to enter into thirty-year housing assistance payment contracts in order to encourage the conventional financing of Section 8 projects. A second change recommended by HUD would permit the payment

of debt service attributable to unoccupied dwelling units for a period of up to one year for all Section 8 projects. Under present law, these payments are permitted only in the case of projects whose mortgages are co-insured under Section 244 of the National Housing Act.

There are several other changes in the Section 8 program which we would suggest. One, we recommend the enactment of a provision that would permit HUD to make debt service payments on unrented units during the rent-up phase of a project. Two, we believe that Section 8 should be amended to provide that the annual adjustment in the housing assistance payment contract, permitted once a project is in operation, also be made available during the construction period of the project. These changes should be beneficial in attracting conventional financing for Section 8 projects.

While efforts are being made to attract conventional financing, we also believe that attention must be given to facilitating the financing of Section 8 projects insured under the FHA multifamily programs. Therefore, we urge that the Subcommittee consider, as it did last year in connection with H. R. 12945, an amendment to Section 8 that would prohibit HUD from using a "rent comparability" test in connection with FHA-insured Section 8 projects. As long as the rents necessary to support the FHA project are within the fair market rents, no further rent test should be required. Attached are copies of two resolutions by NAHB's Board of Directors recommending further changes in the program. (Attachments D and E).

Other HUD Programs

NAHB is keenly interested in the development of techniques aimed at preservation of the housing stock of existing neighborhoods and the rehabilitation of neighborhoods where the process of decay has begun. Within our Association, we have established two special committees to study the problems of rehabilitation and also to study the process of urban redevelopment. Many local home builder associations throughout the country have become involved in rehabilitation as part of local community renewal efforts. One of the most important tools in this area has been the Section 312 rehabilitation program and we support its extension.

One of the major problems facing the home building industry is an adequate supply of land suitable for building. Localities must develop realistic plans to provide for future community growth, including housing. Consequently, we endorse HUD's request for increased funds for the Section 701 comprehensive planning grants program. In this connection, we do not believe that the type of planning permitted under the Community Development Block Grant Program can be substituted for the broader, community-wide planning possible under the 701 Program. We are especially concerned that the 701 requirement for a housing element, not contained in the Community Development legislation, not be avoided, as would be possible if HUD's proposal to fund large city and urban county comprehensive planning through the CD program prevails.

Also proposed by HUD for extension is the National Flood Insurance Program. Certainly, the peril to life and property caused by flooding justifies the extension of this program. However, there have been many problems with the administration of the program which we believe have unnecessarily restricted the availability of developable land. Among these is the use of the 100-year flood level for the purpose of determining flood-prone areas. We believe that a more appropriate basis for this purpose would be the 50-year flood level. This standard was used by HUD and VA for many years, and we believe it to be more realistic, while still minimizing the exposure of the Federal government. Please see Attachment F for a resolution adopted by our Board of Directors on this matter.

Rural Housing

For too many years, the housing and community development needs of rural America have been ignored or neglected. For example, the mortgage limits under the 203 (i) program, authorizing FHA to insure mortgages for the purchase of single-family homes in outlying areas, have not been increased since 1969, when the present maximum mortgage amount of \$16,200 was fixed. At that time the 203 (b) limit was set at \$33,000. To restore at least the same relationship as existed in 1969, we recommend that the 203 (i) limit be increased to \$30,000.

The Farmers Home Administration, as contrasted with HUD-FHA, has done a remarkable job within the past six years of attempting to meet

the housing needs of rural residents. The Section 502 homeownership program and the Section 515 rural rental program have been the mainstays of FmHA's efforts to provide decent, modest priced housing. We should like to call your attention, however, to our concern that the \$1.356 billion funding level for the Rural Housing Insurance Fund recommended by the Carter Administration, while an increase over the Ford Budget proposal, is still inadequate in reaching a goal of 100,000 new housing starts under the Section 502 and Section 515 programs.

Another concern in this area flows from the knowledge that government reform is a priority item for the new Administration. Our industry appreciates the need for simplification of the Federal organizational structure, but we also know that government reorganization does not automatically result in better public service. Our industry is still wincing from the aimless and misguided reorganization several years ago of the Federal Housing Administration within HUD. So our Board of Directors has directed NAHB to oppose any efforts to merge FmHA into HUD or any other efforts to dilute FmHA's primary responsibility for rural housing. (See Attachment G.)

Middle Income Housing

Emergency Home Purchase Assistance Act

During the housing depression of 1974-75 when scarce mortgage money and extremely high mortgage interest rates combined to drive

housing construction activity down to unprecedented lows, a very bad situation most likely would have become a disastrous one if it had not been for the enactment of the Emergency Home Purchase Assistance Act, more commonly known as the Brooke-Cranston Act. This Act, which was continued by the Emergency Housing Act of 1975, pumped billions of dollars into the conventional mortgage market at interest rates substantially below those otherwise available.

The mild recovery to 1.54 million housing units started in 1976 would not have been possible without this legislation. Even today funds are still being made available at a 7 1/2 per cent interest rate for FHA multifamily projects and probably providing the principal impetus to the mild upswing in multifamily construction that has occurred in the last several months.

Those who have been helped to obtain housing under the program have been generally middle-income home purchasers who normally would have used conventional mortgage financing, but found themselves priced out of the market as a result of high mortgage interest rates.

The Brooke-Cranston Program was highly successful in accomplishing its primary purpose of spurring increased housing construction. While the need for it has lessened somewhat at least in the single family area, we feel very strongly that the program should remain available for immediate use in the future if needed. If such a program had been on the books in 1974, it might have been possible to

prevent things from getting as bad as they did before it was enacted late that year. We therefore urge that the program be extended for another year beyond its expiration date, to September 3, 1978.

Common Sense Subsidy Program

We are most concerned about the increasing percentage of American families who are unable to enter the new housing market. While adoption of the legislative proposals that I have discussed would go a long way towards easing the nation's housing problems, there is still a significant portion of our population who find the goal of homeownership beyond their grasp. These are those families in the lower middle-income brackets who have been priced out of the market as a result of high mortgage interest rates.

To help fill that gap, the National Association of Home Builders has developed a Common Sense Housing Subsidy Program aimed at meeting the needs of middle-income families and complementing the various other housing programs now on the books.

Our proposed program is actually two programs. The first would provide assistance for the purchase of up to 100,000 new or substantially rehabilitated units each year in inner city neighborhoods. The second would provide assistance for the purchase of up to 300,000 such units each year in other urban and suburban areas. To encourage the provision of housing in inner city neighborhoods, the terms would be somewhat more lenient and the program would be available to anyone regardless of income.

Under the second program, a family could not have an income in excess of 150 per cent of the median income for its area.

Both programs provide assistance through the means of reducing mortgage interest rates by up to 3 per cent, but not below 6 per cent, depending upon the purchase price of the home. The higher the price of the home, the smaller would be the assistance, with a maximum purchase price of \$50,000 in keeping with the program's goal of assisting middle-income families.

Under both programs the Government would recapture the assistance upon the sale of the house to the extent that there were sufficient proceeds. Because we look upon the program as a permanent one to be used regardless of other economic conditions, this recapture aspect should ultimately result in the program being virtually self-sustaining in later years.

We urge that the Subcommittee give serious consideration to this proposal in conjunction with the legislation it has before it this year. We commend to your attention the detailed description of the program which is attached to your statement.

Thank you for this opportunity to appear today.

ATTACHMENT "A"

NAHB RESOLUTIONS

January 25, 1977
Dallas, Texas

COMMITTEES ON REHABILITATION/REMODELING AND ASSISTED HOUSING

SUPPORT OF REACTIVATION OF SECTION 235

WHEREAS, Section 235 was most effective in providing homeownership opportunities for low and moderate income families, and

WHEREAS, there is no other program which serves this need effectively,

NOW, THEREFORE, BE IT RESOLVED, that the National Association of Home Builders reaffirm its policy by urging the Administration to implement the 235 Program to the fullest extent authorized by law.

NAHB RESOLUTIONS

January 25, 1977
Dallas, Texas

COMMITTEE ON ASSISTED HOUSING

INCREASE IN SECTION 235 MORTGAGE CEILINGS

WHEREAS, Section 235 of the National Housing Act specifies mortgage limits which render the 235 Program inoperable in many areas of the country, and

WHEREAS, rapid increases in construction costs have outstripped increases in statutory mortgage ceilings,

NOW, THEREFORE, BE IT RESOLVED, that NAHB urge Congress to amend the National Housing Act to grant to the Secretary of the Department of Housing and Urban Development the authority to increase the mortgage ceilings.

ATTACHMENT "C"

NAHB RESOLUTIONS

January 25, 1977
Dallas, Texas

COMMITTEES ON REHABILITATION/REMODELING AND ASSISTED HOUSING

SUPPORT OF REACTIVATION OF SECTION 236

WHEREAS, Section 236 was most effective in producing sound housing rental opportunities for low and moderate income families, and

WHEREAS, a variety of subsidy programs should be available,

NOW, THEREFORE, BE IT RESOLVED, that the National Association of Home Builders endorse the reactivation, funding and operation of Section 236, and such modifications as will improve its performance, and a complementary rent supplement program, which would allow tenant qualifications based on the same criteria as those used in qualifying Section 8 tenants.

ATTACHMENT "D"

NAHB RESOLUTIONS

January 25, 1977
Dallas, Texas

COMMITTEE ON ASSISTED HOUSINGIMPROVEMENTS TO SECTION 8 PROGRAM

WHEREAS, regulations published within the past 12 months have improved the effectiveness of the Section 8 program, and

WHEREAS, substantial number of starts are projected for this calendar year based on allocation of funds of Fiscal Years 1974, '75, and '76, and

WHEREAS, funds available for new construction Fiscal Year 1977 appropriated without special set aside priority are practically nonexistent,

NOW, THEREFORE, BE IT RESOLVED, that NAHB urge the Secretary of HUD to:

1. Continue the effort to remove unnecessary restrictions which remain in Section 8 regulations.
2. Urge local HUD offices to speedily process pending and new applications.
3. Promptly recover allocations from projects that have been determined to be unfeasible and reallocate them to new applications.
4. Review and recapture allocations previously made to Section 202 projects which cannot begin construction for an extended period of time.
5. Request supplemental appropriation of Section 8 funds to the full extent previously authorized.

ATTACHMENT "E"

NAHB RESOLUTIONS

January 25, 1977
Dallas, Texas

COMMITTEE ON ASSISTED HOUSING

SECONDARY MARKET FOR CONVENTIONAL SECTION 8 MORTGAGES

WHEREAS, the Secretary of HUD has encouraged the participation of conventional lenders in providing mortgage financing Section 8 projects, and

WHEREAS, most conventional lenders are reluctant to finance such projects without a viable secondary market for such mortgages, and

WHEREAS, housing for larger families in need of three and four bedroom units is being supplied by the construction and leasing of single-family detached units assisted by a Section 8 Assistance Contract,

NOW, THEREFORE, BE IT RESOLVED, that NAHB urge the Federal National Mortgage Association to amend its proposed regulations establishing conventional multi-family market by increasing loan to value ratio for projects which are the recipients of Section 8 contract and

BE IT FURTHER RESOLVED, that FNMA amend its Sellers Guide to allow the purchase of mortgages financing single family, non-owner occupied homes, which are covered by a Section 8 Housing Assistance Contract.

ATTACHMENT "F"

NAHB RESOLUTIONS

January 25, 1977
Dallas, Texas

COMMITTEE ON FEDERAL GOVERNMENTAL AFFAIRSFLOOD INSURANCE

WHEREAS, the 1973 Flood Disaster Protection Act directs the Department of Housing and Urban Development to identify all "flood-prone areas" in the nation in order to determine eligibility for flood insurance, and

WHEREAS, HUD has defined "flood-prone area" to be any area which lies within a 100 year flood plain, and

WHEREAS, this definition includes many areas in the country whose chances of being flooded are virtually nonexistent, and

WHEREAS, the land use controls and building restrictions which are required in these areas in order for homeowners to be eligible for flood insurance severely discourage home financing, home building and home rehabilitation in these areas, and

WHEREAS, a redefinition of "flood-prone area" as any area which lies within a 50 year flood plain will be far more reasonable while continuing to assure adequate protection,

NOW, THEREFORE, BE IT RESOLVED, that the National Association of Home Builders urges the Congress of the United States to amend the 1973 Flood Disaster Protection Act to define "flood-prone areas" as any area which lies within a 50 year flood plain.

NAHB RESOLUTIONS

January 25, 1977
Dallas, Texas

COMMITTEE ON RURAL HOUSING AND DEVELOPMENT

SUPPORT OF THE FARMERS HOME ADMINISTRATION

WHEREAS, the Farmers Home Administration has proven to be the most viable vehicle for housing rural Americans, and

WHEREAS, the present Administration is committed to government reorganization and reducing unemployment, and

WHEREAS, the rural county offices of the Farmers Home Administration have been more responsive to the housing needs of rural America than any other governmental agencies,

NOW, THEREFORE, BE IT RESOLVED, that NAHB reaffirms its long standing policy to the new Administration to maintain FmHA as a separate entity and to allow it to continue within the Department of Agriculture and expand its commitment to housing rural America by the proper implementation of the housing programs.

HOME PURCHASE ASSISTANCE ACT OF 1977

A COMMON SENSE HOUSING SUBSIDY PROGRAM

AS PROPOSED BY THE

NATIONAL ASSOCIATION OF HOME BUILDERS

HIGHLIGHTS OF NAHB COMMON SENSE HOUSING SUBSIDY PROGRAM

--Two programs. The first would provide assistance for the purchase of up to 100,000 housing units per year and would be aimed at providing housing in inner-city neighborhoods. The second would provide assistance for the purchase of up to 300,000 units per year and be basically directed toward suburban areas, but would not be so limited.

---Both programs would provide assistance in connection with new or substantially rehabilitated single-family homes or condominium units.

---Under each program the units authorized annually would be allocated as follows:

<u>PURCHASE PRICE</u>	<u>PERCENTAGE OF UNITS</u>
0-\$25,000	10%
25,001 - 30,000	20%
30,001 - 35,000	20%
35,001 - 40,000	20%
40,001 - 45,000	20%
45,001 - 50,000	10%

---Under each program the initial mortgage interest rate would be based upon the purchase price of the home. This interest rate would remain unchanged under the inner-city program, but under the suburban program would increase by 1/4% per annum, until the market interest rate in effect at the time the mortgage was written was reached.

---The initial mortgage interest rate would be calculated by reducing the market interest rate by the interest percent established for the purchase price category in which the home falls, but in no case below 6%. The reduction by purchase price category is as follows:

<u>PURCHASE PRICE</u>	<u>INTEREST PERCENT REDUCTION</u>
0-\$25,000	3 %
25,001 - 30,000	2 3/4%
30,001 - 35,000	2 1/2%
35,001 - 40,000	2 1/4%
40,001 - 45,000	2 %
45,001 - 50,000	1 3/4%

---In the case of the inner-city program, there would be a one-time front-end payment to the lender, based on an expected average mortgage maturity of 12 years, to compensate for the lower interest rate carried by the mortgage.

For the suburban program, an annual payment would be made to the lender in an amount equal to the difference between what the mortgage payments for principle and interest would have been if the mortgage carried the market interest rate in effect at the time the mortgage was written and the principle and interest payments paid pursuant to the reduced mortgage interest rate for that year.

---To be eligible for assistance under the suburban program, a family's income may not exceed 150% of the median for its area. There would be no income limit for the inner-city program.

---Under both programs, the borrower would be required to repay the subsidy paid on his behalf by the government at the time he sold the house, to the extent that his sales proceeds were sufficient. The mortgage would be assumable through the first 12 years after it is written, with the assumer to repay any subsidy attributable to his period of ownership.

--Only conventionally financed mortgages would be eligible under either program.

---Both programs would be run by GNMA.

February 23, 1977

HOME PURCHASE ASSISTANCE ACT OF 1977

This Act is designed to provide housing for middle-income families at affordable terms. Because of high mortgage interest rates, an increasing number of middle-income families who could have afforded to buy their own home in the past can no longer do so. This Act would authorize the Government National Mortgage Association (GNMA) annually to provide Federal assistance for the purchase of 400,000 new or substantially rehabilitated homes. The assistance would be in the form of payments to lenders to lower the homeowners' mortgage interest rate.

The Act would provide for two programs. In recognition of the fact that many American families prefer to live in urban neighborhoods but that these neighborhoods often lack decent, newly constructed or substantially rehabilitated housing, the first program would provide annual assistance for the purchase of 100,000 homes in older, urban neighborhoods. These neighborhoods would be those designated by the governing body of the unit of general local government, pursuant to regulations issued by the Secretary of HUD. These regulations would set guidelines for the types of neighborhoods that would qualify, e. g., age of present housing stock and potential long-term availability. They would also prescribe the nature of the commitments that the governing body would have to undertake, in connection with its designation of the neighborhood, for the upgrading and maintenance of public facilities and services in the neighborhood. In recognition of the importance of maintaining the vitality of these neighborhoods with a diverse population, there would be no income limits on those eligible for assistance and the assistance would be more generous than that available under the second program.

The second program would provide annual assistance for the purchase of 300,000 homes in other urban or suburban areas. Only families with incomes at or below 150% of the area's median income would be eligible. Family income would be determined as under the 235 program.

Both programs would cover new and substantially rehabilitated single-family homes and condominium units costing \$50,000 or less (\$62,500 in Alaska, Guam and Hawaii). The dwelling unit must be occupied by the purchaser as his principal residence. Only conventionally financed mortgages would be eligible for this assistance.

In each program the amount of the assistance would depend on the secondary market interest rate in effect at the time the mortgage is executed and the purchase price of the home.

The market interest rate used to determine the amount of assistance would be the average yield (adjusted to the nearest one-quarter percent) for the preceding three months of four-month commitments issued by the Federal National Mortgage Association in its conventional secondary market operations. This rate will be determined by GNMA and published on the first of each month.

The percentage by which the mortgage interest would be reduced from the secondary market rate would be scaled according to the purchase price. The maximum assistance payment would be sufficient to lower the mortgage interest rate by three percentage points, but not below a rate of 6%:

<u>PURCHASE PRICE</u>	<u>INTEREST PERCENT REDUCTION</u>
\$0 - \$25,000	3%
25,001 - \$30,000	2 3/4%
30,001 - 35,000	2 1/2%
35,001 - 40,000	2 1/4%
40,001 - 45,000	2%
45,001 - 50,000	1 3/4%

The differential in interest rates among different purchase price categories would always be maintained, regardless of the market interest rate. For instance, if the market interest rate was 8 1/2%, the reduction for a home purchased at a price of \$25,000 or less would only be 2 1/2%, to the 6% floor, and the reduction for a home purchased at a price between \$35,001 and \$40,000 would be 1 3/4%, rather than 2 1/4%, to a rate of 6 3/4%.

The manner in which the assistance payment would be provided under the two programs is different. Under the first program of assistance in purchasing homes in older, urban neighborhoods the mortgage would be written with an interest rate as determined above. To compensate the lender for the below-market interest rate, GNMA would make a one-time, front-end payment to the lender within 30 days after the execution of the mortgage. The payment would be in an amount equal to the difference between the principal amount of the mortgage and the amount which would be paid for the mortgage if it were priced to provide a yield equal to the secondary market interest rate in effect for the month in which the mortgage is executed. In calculating such yield, GNMA would assume that the life of the mortgage will be 12 years. There would be no change in the mortgage interest rate over the life of the mortgage.

Under the second program the mortgage would carry an initial interest rate as determined above. This interest rate would increase 1/4% per year thereafter, until it reached the secondary market interest rate in effect for the month in which the mortgage was executed. From that time on the mortgage would carry that secondary market interest rate. An annual payment would be made to the lender to compensate for the lower interest rate in an amount equal to the difference between the total amount of principal and interest due under the mortgage for the year and the amount of principal and interest which would have been due for that year if the interest rate on the mortgage was equal to the secondary market rate in effect for the month in which the mortgage was executed.

Under each program the home owner would be required to execute a second mortgage, in favor of the United States, pledging repayment of the assistance payments made on his behalf by GNMA. This second mortgage would be due at the time the property is transferred or the mortgage retired, whichever occurs first. In the event of a sale or other disposition, the amount the home owner would be required to repay could not exceed the gain realized. The definition of gain would be the same as found in Section 1001 of the Internal Revenue Code for determining gain or loss upon the sale of property. In addition, allowances for selling expenses, as set forth in Section 1034 (b) of the Internal Revenue Code, would be permitted.

Thus, if the assistance payments made on behalf of a home owner amounted to \$2,000 and she realized from the sale of her home only \$1,000, after deducting the real estate commission and other selling expenses and allowing for improvements made to the property, she would only be required to repay the \$1,000. In addition, the second mortgage would be satisfied and she would have no further obligation to GNMA.

Mortgage loans assisted under this Act would be assumable by subsequent purchasers at any time during the twelve years following the execution of the mortgage, provided the new home owner agrees to repay that portion of the assistance payments attributable to his period of ownership. In the case of the program for older, urban neighborhoods, the amount would be that portion of the one-time payment allocated by GNMA to the new home owner. Under the second program, it would be the amount of assistance payments made after the assumption. The assumer would be required to execute a new second mortgage to assure repayment, which would not be required to exceed the gain realized at the time of his subsequent sale or transfer of the property.

GNMA would issue to builders prior to or during the construction or rehabilitation of eligible units commitments to make assistance payments. These commitments would be for one year, with one six-month extension permitted. A fee of up to 1%, based on the maximum sales price of the dwelling units for which the commitment is issued, could be charged plus 1/4% for a six-month extension.

GNMA could issue a commitment for a maximum of 100 units to any one builder under the older, urban neighborhood program at any one time. For the second program the maximum commitment would be 50 units. However, builders would be eligible for separate maximum commitments in each standard metropolitan statistical area in which they are building. Furthermore, a builder, who has entered into sales contracts for 50% or more of the dwelling units covered by his commitment, may receive an additional commitment equal to the number of units on which he has sales contracts. The units covered by a commitment would be by purchase price category and a single commitment could include units in more than one category.

Although the number of units authorized for assistance each year could not exceed 100,000 and 300,000 under the two programs, respectively, the actual number that could be assisted in any one year could not exceed the number authorized in appropriations acts for that year. Of the number of units approved for assistance in each year, they would be allocated by unit purchase price as follows:

<u>PURCHASE PRICE</u>	<u>PERCENTAGE OF UNITS</u>
\$0 - \$25,000	10%
25,001 - 30,000	20%
30,001 - 35,000	20%
35,001 - 40,000	20%
40,001 - 45,000	20%
45,001 - 50,000	10%

These purchase price categories may be increased by up to 25% for units located in Alaska, Hawaii and Guam.

A BILL

TO provide mortgage credit assistance to middle-income families purchasing conventionally financed new and substantially rehabilitated homes and to facilitate the preservation and renewal of urban neighborhoods.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

That this Act may be cited as the "Home Purchase Assistance Act of 1977".

FINDINGS AND PURPOSE

SEC. 2.(a) The Congress finds --

(1) that many middle-income families, who in the past could afford to purchase a newly constructed or substantially rehabilitated house, and make mortgage payments thereon with a reasonable portion of their income, are now unable to afford such a purchase because of high mortgage interest rates;

(2) that urban neighborhoods offer living environments that are preferable to many American families, but that these neighborhoods need the availability of decent, newly constructed or substantially rehabilitated housing that can be afforded by middle-income families; and

(3) that it is the policy of the United States to encourage private enterprise to assume the predominant responsibility for attaining the National goal of a decent home and a suitable living environment for every American family.

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(b) It is therefore the purpose of this Act to authorize the Secretary of Housing and Urban Development to direct the Government National Mortgage Association to enter into contracts for mortgage assistance payments to enable middle-income families to finance the purchase of new or substantially rehabilitated housing within their financial means.

MORTGAGE CREDIT ASSISTANCE FOR MIDDLE-INCOME FAMILIES

SEC. 3. Title III of the National Housing Act is amended by adding three new sections as follows:

"Homeownership for Middle-Income Families

"Sec. 314.(a) The Secretary is authorized to direct the Association to make, and to contract to make, mortgage credit assistance payments to lenders who agree to make home mortgage loans to middle-income families meeting the requirements specified in this section.

"(b) To qualify for mortgage credit assistance under this section-

(1) a family's income (as defined in section 235 (i)) at the time of initial occupancy shall not exceed 150 per centum of the median income for the area, as determined by the Secretary with adjustments for smaller and larger families;

(2) the mortgage shall not be insured under the National Housing Act nor guaranteed under Chapter 37 of title 38, United States Code; and

(3) the mortgage loan shall be for the purpose of assisting in the purchase of a newly constructed or substantially rehabilitated single-family dwelling (or of a single-family dwelling unit in a newly constructed or

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substantially rehabilitated condominium project) that is to be owned and occupied by the buyer as his principal residence and the sales price of which does not exceed \$50,000 (\$62,500 in Alaska, Hawaii, and Guam).

"(c) A mortgage assisted under this section shall bear an initial interest rate, based on the purchase price of the dwelling unit and on the secondary market rate for the month in which the mortgage is executed, calculated as follows:

"(1) for dwelling units with a purchase price not in excess of \$25,000 the greater of 6 per centum or the secondary market rate minus 3 per centum;

"(2) for dwelling units with a purchase price in excess of \$25,000 but not in excess of \$30,000, the greater of 6 1/4 per centum or the secondary market rate minus 2 3/4 per centum;

"(3) for dwelling units with a purchase price in excess of \$30,000 but not in excess of \$35,000, the greater of 6 1/2 per centum or the secondary market rate minus 2 1/2 per centum;

"(4) for dwelling units with a purchase price in excess of \$35,000 but not in excess of \$40,000, the greater of 6 3/4 per centum or the secondary market rate minus 2 1/4 per centum;

"(5) for dwelling units with a purchase price in excess of \$40,000 but not in excess of \$45,000, the greater of 7 per centum or the secondary market rate minus 2 per centum; and

"(6) for dwelling units with a purchase price in excess of \$45,000 but not in excess of \$50,000, the greater of 7 1/4 per centum or the secondary market rate minus 1 3/4 per centum.

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The foregoing purchase price limits may be increased by up to 25 per centum for dwelling units located in Alaska, Hawaii and Guam.

For the purposes of this section, the secondary market rate for any month shall be the average yield (adjusted to the nearest one-quarter per centum) for the preceding three months of four-month commitments issued by the Federal National Mortgage Association in its conventional secondary market operations under section 304, as determined by the Government National Mortgage Association and published on the first day of each month.

"(d) The initial interest rate on each mortgage assisted under this section shall be increased annually by one-quarter per centum on the anniversary date of the execution of the mortgage until the mortgage interest rate equals the secondary market rate in effect for the month in which the mortgage was originally executed.

"(e) With respect to each mortgage assisted under this section, the Association shall make an annual mortgage credit assistance payment to the lender on behalf of the eligible family. The payment shall be in an amount equal to the difference between the total amount of principal and interest due under the mortgage for the year, and the amount of principal and interest which would have been due under the mortgage for the year if the mortgage interest rate on such mortgage was equal to the secondary market rate in effect for the month in which the mortgage was executed.

"(f) To qualify for mortgage credit assistance payments-

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"(1) The mortgagor shall execute, in favor of the United States, a second mortgage on the property pledging the repayment of the aggregate amount of the mortgage credit assistance payments made on his behalf by the Association.

"(2) The second mortgage shall be due and payable at the time title to the property is transferred as a result of a sale or other disposition or at the time at which the home mortgage is retired, whichever first occurs. The amount of the mortgage credit assistance payments required to be repaid under the second mortgage, in the event of the sale or other disposition of the property, shall not exceed the amount of gain realized upon such sale or disposition. For the purpose of this section, "gain" shall have the same meaning as in section 1001 of the Internal Revenue Code of 1954 with adjustments being made for selling expenses as defined in section 1034(b) of said Code.

"(3) A mortgage loan assisted under this section shall be assumable at any time during the twelve-year period subsequent to the execution of the mortgage: Provided, That each such assumer executes in favor of the United States a second mortgage pledging the repayment, as set out in paragraph (2), of the aggregate amount of the mortgage credit assistance payments made on his behalf by the Association.

"(g) (1) Commitments to make mortgage credit assistance payments may be issued by the Association to a builder prior to or during the construction or rehabilitation of any dwelling units meeting the requirements of subsections (b) and (c). The Association is authorized to charge a commitment fee, not

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to exceed one per centum, based on the maximum sales prices of the dwelling units for which the commitment is issued pursuant to the purchase price categories as set out in subsection (h). The term of any commitment shall be for a period of one year and may be extended for an additional six-month period on the payment of an additional commitment fee of not in excess of 1/4 per centum.

"(2) The Association may issue a commitment for no more than a maximum of 50 dwelling units to any one builder at any one time: Provided That, when a builder has entered into sales contracts for 50 per centum or more of the dwellings units covered by his commitment, he shall be entitled to a commitment for additional dwelling units, but in no case may the number of additional units covered by a commitment, plus the number of dwelling units remaining unsold under the previous commitment, exceed the maximum limit of 50 dwelling units per builder; and Provided further, That a builder may receive separate commitments of up to fifty units for each standard metropolitan statistical area in which he is building.

"(h) Commitments issued in each fiscal year pursuant to this section shall not exceed the number of dwelling units authorized in appropriations acts, but in no event more than 300,000 units per year, and the dwelling units available for commitment in each fiscal year shall be allocated on the basis of purchase price as follows:

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"(1) for dwelling units with a purchase price not in excess of \$25,000, 10 per centum;

"(2) for dwelling units with purchase prices in excess of \$25,000 but not in excess of \$30,000, 20 per centum;

"(3) for dwelling units with purchase prices in excess of \$30,000 but not in excess of \$35,000, 20 per centum;

"(4) for dwelling units with purchase prices in excess of \$35,000 but not in excess of \$40,000, 20 per centum;

"(5) for dwelling units with purchase prices in excess of \$40,000 but not in excess of \$45,000, 20 per centum; and

"(6) for dwelling units with purchase prices in excess of \$45,000 but not in excess of \$50,000, 10 per centum.

The foregoing purchase price limits may be increased by up to 25 per centum for dwelling units located in Alaska, Hawaii, and Guam.

"Urban Homeownership Program

"Sec. 315 (a) In order to encourage stability of older urban neighborhoods, the Secretary is authorized to direct the Association to make, and to contract to make, mortgage credit assistance payments to lenders who agree to make home mortgage loans to middle-income families meeting the requirements specified in this section.

"(b) To qualify for mortgage credit assistance under this section -

"(1) the mortgage shall not be insured under the National Housing Act nor guaranteed under Chapter 37 of title 38, United States Code;

"(2) the mortgage loan shall be for the purpose of assisting in the

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purchase of a newly constructed or substantially rehabilitated single-family dwelling (or of a single-family dwelling unit in a newly constructed or substantially rehabilitated condominium project) that is to be owned and occupied by the buyer as his principal residence and the sales price of which does not exceed \$50,000 (\$62,500 in Alaska, Hawaii and Guam); and

"(3) the dwelling unit shall be located in an older urban neighborhood, as designated by the governing body of the unit of general local government pursuant to regulations issued by the Secretary.

"(c) A mortgage assisted under this section shall bear an initial interest rate, based on the purchase price of the dwelling unit and on the secondary market rate for the month in which the mortgage is executed, calculated as follows:

"(1) for dwelling units with a purchase price not in excess of \$25,000 the greater of 6 per centum or the secondary market rate minus 3 per centum;

"(2) for dwelling units with a purchase price in excess of \$25,000 but not in excess of \$30,000, the greater of 6 1/4 per centum or the secondary market rate minus 2 3/4 per centum;

"(3) for dwelling units with a purchase price in excess of \$30,000 but not in excess of \$35,000, the greater of 6 1/2 per centum or the secondary market rate minus 2 1/2 per centum;

"(4) for dwelling units with a purchase price in excess of \$35,000 but not in excess of \$40,000, the greater of 6 3/4 per centum or the secondary market rate minus 2 1/4 per centum;

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"(5) for dwelling units with a purchase price in excess of \$40,000 but not in excess of \$45,000, the greater of 7 per centum or the secondary market rate minus 2 per centum; and

"(6) for dwelling units with a purchase price in excess of \$45,000 but not in excess of \$50,000, the greater of 7 1/4 per centum or the secondary market rate minus 1 3/4 per centum.

The foregoing purchase price limits may be increased by up to 25 per centum for dwelling units located in Alaska, Hawaii and Guam.

For the purposes of this section, the secondary market rate for any month shall be the average yield (adjusted to the nearest one-quarter per centum) for the preceding three months of four-month commitments issued by the Federal National Mortgage Association in its conventional secondary market operations under section 304, as determined by the Government National Mortgage Association and published on the first day of each month.

"(d) With respect to each mortgage assisted under this section, the Association shall make a mortgage credit assistance payment to the lender on behalf of the eligible family within thirty days after the execution of the mortgage.

The payment shall be in an amount equal to the difference between the principal amount of the mortgage and the amount which would be paid for the mortgage if it were priced to provide a yield equal to the secondary market rate in effect for the month in which the mortgage was executed. In calculating such yield, the Association shall assume that the life of the mortgage will be twelve years.

"(e) (1) To qualify for a mortgage credit assistance payment, the mortgagor shall execute, in favor of the United States, a second mortgage on the property pledging the repayment of the amount of the mortgage credit assistance payment made on his behalf by the Association.

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"(2) The second mortgage shall be due and payable at the time title to the property is transferred as a result of a sale or other disposition or at the time at which the home mortgage is retired, whichever first occurs. The amount of the mortgage credit assistance payment required to be repaid under the second mortgage, in the event of the sale or other disposition of the property, shall not exceed the amount of gain realized upon such sale or disposition. For the purposes of this section, "gain" shall have the same meaning as in section 1001 of the Internal Revenue Code of 1954 with adjustments being made for selling expenses as defined in section 1034(b) of said Code.

"(3) A mortgage loan assisted under this section shall be assumable at any time during the twelve-year period subsequent to the execution of the mortgage: Provided, That each such assumer executes in favor of the United States a second mortgage pledging the repayment, as set out in paragraph (2), of the proportionate amount of the mortgage credit assistance payment made by the Association with respect to the mortgage for the period of his ownership of the property. In the case of such an assumption, the original or a subsequent mortgagor shall only be required to repay that part of the mortgage credit assistance payment which is proportionate to the period of his ownership of the property. The amount of any proportionate repayment shall be determined by the Association.

"(f) (1) Commitments to make mortgage credit assistance payments may be issued by the Association to a builder prior to or during the construction or rehabilitation of any dwelling units meeting the requirements of sub-

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sections (b) and (c). The Association is authorized to charge a commitment fee, not to exceed one per centum, based on the maximum sales price of the dwelling units for which the commitment is issued pursuant to the purchase price categories as set out in subsection (g). The term of any commitment shall be for a period of one year and may be extended for an additional six-month period on the payment of an additional commitment fee of not in excess of 1/4 per centum.

"(2) The Association may issue a commitment for no more than a maximum of 100 dwelling units to any one builder at any one time: Provided, That, when a builder has entered into sales contracts for 50 per centum or more of the dwelling units covered by his commitment, he shall be entitled to a commitment for additional dwelling units, but in no case may the number of additional units covered by a commitment, plus the number of dwelling units remaining unsold under the previous commitment, exceed the maximum limit of 100 dwelling units per builder: and, Provided further, That a builder may receive separate commitments of up to 100 dwelling units for each standard metropolitan statistical area in which he is building.

"(g) Commitments issued in each fiscal year pursuant to this section shall not exceed the number of dwelling units authorized in appropriations acts, but in no event more than 100,000 units per year, and the number of dwelling units available for commitment in each fiscal year shall be allocated on the basis of purchase price as follows:

"(1) for dwelling units with a purchase price not in excess of \$25,000, 10 per centum;

"(2) for dwellings units with purchase prices in excess of \$ 25,000 but not in excess of \$30,000, 20 per centum;

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"(3) for dwellings units with purchase prices in excess of \$30,000 but not in excess of \$35,000, 20 per centum;

"(4) for dwelling units with purchase prices in excess of \$35,000 but not in excess of \$40,000, 20 per centum;

"(5) for dwelling units with purchase prices in excess of \$40,000 but not in excess of \$45,000, 20 per centum; and

"(6) for dwelling units with purchase prices in excess of \$45,000 but not in excess of \$50,000, 10 per centum.

The foregoing purchase price limits may be increased by up to 25 per centum for dwelling units located in Alaska, Hawaii, and Guam.

"Sec. 316. (a) To carryout the purposes of Section 314 and Section 315, the Association is hereby authorized to enter annually into mortgage credit assistance payment contracts to assist not more than 300,000 units pursuant to Section 314 (h) and not more than 100,000 units pursuant to Section 315 (g) for each fiscal year commencing after September 30, 1977.

"(b) To provide for the payment of mortgage credit assistance payment contracts authorized in subparagraph (a), there is authorized to be appropriated for each fiscal year commencing after September 30, 1977, such sums, not in excess of \$ _____ for any such fiscal year, as may be necessary to carryout the provisions of Section 314 and Section 315. "

Mr. ASHLEY. Thank you very much, Mr. Arquilla, for that articulate presentation.

On page 4 of your statement you say that you endorse the reactivation of the section 236 program as a complementary program to section 8.

Why is it felt that there should be two rental programs which obviously overlap in terms of the income ranges of the people served.

Mr. ARQUILLA. I think one of the reasons, Mr. Chairman, is that we feel that there have been so many delays in the present section 8 program as far as new units are concerned.

Mr. ASHLEY. How long has it been since we have had section 236 functioning? How long has it been?

Mr. ARQUILLA. It is still functioning.

Mr. ASHLEY. They have honored commitments—

Mr. COAN. It is functioning with respect to what is in the pipeline. There are projected starts, activity from it over the next 2 fiscal years at least.

Mr. ASHLEY. Well, I must say that I am not persuaded at this time that we need two such programs. The testimony to date has been that the section 8 program shows encouraging signs of producing starts, and this is the first testimony that has come before us—I don't think that Secretary Harris requested this section 236 authority. She did for section 235—1 year with no additional funds.

Mr. ARQUILLA. We would be pleased to provide you with more information for the record, if you would so desire regarding the section 236 program.

Mr. ASHLEY. All right, sir.

Mr. COAN. Mr. Chairman, this results from the feeling of our members who are building the housing out there. They have found that section 236 is a workable program and that the HUD offices know how to use it.

One of the big things is that it has, it is an integrated program in that the mortgage insurance and the subsidy are wrapped into one application. Whereas under section 8, up until now, there has been a general discouragement to use FmHA and even where FmHA projects were used we frequently ran into the problem of dual processing.

So you first had to process the project, then you had to process for section 8 and then you had to process a third time to get the two together.

And it has been one of the major problems with the construction of housing under the section 8 program.

Now that doesn't mean to say that with some changes and improvements and a more sympathetic administration, that it will not move more quickly. But we think it can work and we think it can produce housing quicker than section 8.

Mr. WYLIE. The public law which—well, the public law provides for the section 8 program, and it does provide for debt service, this is for rehabilitation projects, I guess. It does not provide for debt service for new projects.

Is that what you are saying?

Mr. COAN. Section 8 is not a financing mechanism or vehicle. Instead it is a subsidy vehicle. Whereas section 236 was an integrated financing

and subsidy vehicle. And you processed it only—only one set of processing had to take place.

With section 8 you have to process in two separate channels within HUD and then bring the two together. And that has been one of the big problems of getting new units going.

Mr. O'TOOLE. There is another aspect to it, too. This resolution emanated from our rehabilitation committee. And one of the reasons those people were particularly interested in the reactivation of section 236, I think they are basically talking about a section 236 with a rent supplement. The section 8 program has been pretty much bogged down in advertising requirements and by the need for making proposals. Whereas in the rehabilitation area they have found that, they think it would be better to have the section 236 way, which would be a more attractive package for the syndication people.

They could do the section 236 projects without as much paperwork as in section 8.

Mr. ASHLEY. You say that you are concerned about the section 8 programs for existing housing.

What has been the trend?

Mr. COAN. The use of the program on existing houses.

Mr. ASHLEY. Could you provide some information on that for the record?

Mr. COAN. We would be glad to.

There has been something like 30,000 starts under the section 8 program, and there are some 100,000 units occupied. There has been much more activity allegedly under section 8 existing than new.

Mr. ASHLEY. Of course, section 8 is supposed to provide housing that will support the housing assistance plans which are required under the act.

Is it your feeling that in the past HUD has tried to guide the determinations reflected in the HAP plans? Is that what you are saying?

Mr. COAN. I can speak to that from personal experience. I am on the Commission of the Housing and Redevelopment Authority of Fairfax County and we are responsible for preparing the housing assistance plan for Fairfax County as well as helping to get housing produced out there. And we had several experiences dealing with HUD in connection with our housing assistance plan and in connection with our efforts to get housing allocations being pushed in the direction of existing housing and having even been told to do so. And, in fact, there was a rather infamous letter which was pushed out of the Philadelphia regional office and was directed to the area offices within the region that aimed in that very direction.

Mr. ASHLEY. We addressed ourself to that same situation last year in the Housing Act Amendments of 1976 when we included in the report language on page 16 the following, the conferees on the act expect that the Secretary of HUD will take the appropriate steps to assure fulfillment of the intent of Congress that local communities, not the Federal Government, determine the mix of new and existing units. The importance of this system is clearly recognized in the comments from the House committee report.

So I would hope that this matter could be resolved largely on the basis of implementation of the intent of Congress as contained in this language.

Mr. COAN. We hope so, too.

You know, it is not really clear, and certainly there is a new administration and a new Secretary and new people. And we are hopeful that there will be better attention to this.

Mr. ASHLEY. I doubt that Congress is going to take a view other than that contained in the 1974 act.

Certainly it has not come to my attention that it is apt to do that.

So I guess we are going to allow the local communities to determine the mix as between new and existing units, period.

Do you have objection to that?

Mr. COAN. We have not asked for a change in the law, Mr. Chairman.

We are saying that we think there has been a bias in the administration and there is also a built-in bias with the past way budget authority is calculated, an issue which is mentioned in our statement. Our concern is with a limitation on budget authority that flows out of appropriations process—

Mr. ASHLEY. We are addressing ourselves to the same topic. I might say that in the presentation of the fiscal 1977 housing supplemental justification for an increase in the number of section 8 units to 400,000 was twofold.

One justification was that during the transition period the section 8 commitments went forward on an annualized basis of 400,000 and that left a shortfall as far as fiscal year 1977 was concerned. And nobody argued with that justification.

The second justification was that there was rather more new construction under section 8 than had been anticipated with respect to fiscal year 1977.

So that would indicate, if that second justification has merit, that perhaps your fears are not as well founded as you might suppose.

Mr. COAN. Well, we have had reports from the field, from our members, who have been told that there just is not adequate budget authority to go around for new construction and that therefore available funds will go into the existing program.

There is no question that Secretary Harris' proposals do contemplate, for this fiscal year, a substantial increase in the amount of contract authority which will be used for new and existing—for new and rehabilitation—as well as existing also.

But more of an increase with respect to new and rehabilitation.

The percentages are about the same in both cases, but the numbers are greater.

We are really expressing a concern which flows from past experience.

And I don't know—no one knows exactly what is happening—but we thought it should be brought to your attention as a concern that we have.

Mr. ASHLEY. I think it is justified and I can understand it.

Let me ask one final question, so that other members can have an opportunity to question.

In your commonsense subsidy program, which I think is a very valuable contribution to the initiatives that are being taken in developing alternatives with respect to homeownership opportunities, you suggest that there are actually two programs. The first would provide assistance for the purchase of up to 100,000 new or substantially rehabilitated units each year in inner-city neighborhoods.

And the second would provide assistance for the purchase of up to 300,000 such units each year in other urban and suburban areas.

How did you arrive at that mix of 100,000 to 300,000?

Was there any methodology used?

Mr. COAN. Well, in the course of a discussion which was held between the officers and the staff, concerning the fleshing out of the proposal which was first advanced in September, and in an effort to direct attention toward the inner city, the feeling was that perhaps that this was about the degree of magnitude at which it could be handled.

It is not a scientific design, but it was felt that this magnitude could be handled, and that there is probably going to be a greater demand in other than inner-city neighborhoods, and that 100,000 units is a fairly substantial amount when this is comparable with the number of units processed by Farmers Home Administration in our rural areas.

Mr. ASHLEY. What about existing homes? Are they included in this at all?

Mr. COAN. Only substantial rehabilitation.

Mr. ASHLEY. That obviously presents an area of difficulty as far as others who have testified or will testify: When they look more carefully at exactly what the homeownership pattern is.

It is something that we have become quite familiar with in the past, on both sides here.

Mr. Evans?

Mr. EVANS. Thank you, Mr. Chairman.

I was pleased to have a chance to go through some of your views and recommendations, and I think your general theme at least in the testimony as I read it, that we need a little more commonsense input into the housing programs in this country and through the appointments of several people to key administration positions within HUD, is going to be a good step in the right direction.

I, too, was interested in that breakdown of the 100,000 to 300,000 units. And I think you have indicated how that breakdown was arrived at.

I think that—again I would agree with the chairman that your proposals here in the commonsense housing subsidy program are ones that we need to consider.

I have not had a chance to read all of the proposed bill here in the background. But I think it is a very useful tool for this subcommittee.

And I don't have any questions at this time, Mr. Chairman. But I would like to thank you for coming up here this afternoon and presenting these views.

I am sure that we will very carefully consider them and discuss them in the coming days and weeks.

Mr. ASHLEY. Mr. Wylie?

Mr. WYLIE. Thank you, Mr. Chairman.

Mr. ASHLEY. Would the gentleman yield for a minute?

Mr. WYLIE. Certainly.

Mr. ASHLEY. Since we are talking about your commonsense approach, is it your idea that this would be a complementary approach to homeownership, that we would keep the tandem program and this program?

Mr. COAN. Yes. I would think so, Mr. Chairman.

Mr. ASHLEY. Would you keep the tandem program as a countercyclical tool?

Mr. ARQUILLA. I believe that the Brooke-Cranston type would be a countercyclical tool. It is being used right now, as you well know, in multifamily housing, and it is the only thing that is giving impetus to the resurrection of the multifamily sector right now.

However, it is our feeling that the commonsense subsidy program would complement other programs by specifically addressing the problem of high mortgage rates. The information we have given you is not the ultimate answer. Certainly there may be some changes to it.

But we do feel that it would be an ongoing program that could eventually take care of itself and not need further Government help in the future.

It would be something that, with the return of funds to the Federal Government, could continue itself, so to speak, in years to come.

And certainly, it would be a program that is not "a free lunch." It would be a help to those who really need a help at this point because they can't afford high interest rates, and it would be a program that would be recycling to the Government funds for use by other purchasers at a later date.

Mr. WYLLIE. I would just like to make an observation, Mr. Chairman. We all are committed to a national housing program; at least I know this subcommittee is. And I think we all want to do the right thing, or at least I do.

But I will say that how to go about doing the right thing sometimes isn't all that clear as far as our national housing programs are concerned. We have so many different complicated provisions in the law now and so many different programs ongoing all the time.

And I think we need a commonsense approach to this problem. But when you talk about implementing the 235 program again and the section 236, and the tandem program and mixing that into the new section 8 program which you say you don't think is working right now, you must admit that there is some confusion.

When I heard Secretary Harris say that she thought the section 8 program probably was the most viable one, and I think that is a fair analysis of what she was saying, the most viable program we have going right now, I must say there was some appeal to me in that.

I have seen a section 8 program, at least get off the ground, in my own community in Columbus, Ohio. And it is a large section 8 program. But the idea of having a total community aspect which is possible under the section 8 program rather appeals to me in that you get another mix and that is a mix of commercial development, shopping centers, rental units, apartment communities, and single-family dwelling units on the outer perimeter which plays into the community as a whole.

And I would like your comment on that. I think that some of these other programs we have had in the past like the section 236 and the section 235 really went against that kind of a concept and went in favor of just putting up single-family residences in an area which might not otherwise be able to sustain single-family residences, in areas which had a relatively high tax base previously or at one time in the past had a relatively high tax base.

So I like the so-called urban renewal program which has been more or less, I think, revitalized under the so-called section 8 program.

Mr. ARQUILLA. Mr. Wylie, at the beginning of our statement I think it was mentioned that we agree with Secretary Harris that at this time, time does not permit us at this juncture to do anything else but to work with the programs we have and continue to work for their improvement.

I also mentioned that we were very pleased that the subcommittee was taking the task force approach to try and develop new types of housing programs that would be more effective in the future.

At the present time, it is our feeling that section 8 is a very cumbersome piece of legislation to work with and that it is not being used—

Mr. WYLIE. Cumbersome as far as the community development is concerned or as far as local developers are concerned?

Mr. ARQUILLA. It is very cumbersome to work with as a builder.

Mr. WYLIE. As a builder?

Mr. ARQUILLA. Yes. It is very difficult to work with. And we would like very much to see the task force reports come out with some recommendations for simplification of present legislation, something that is not going to be so complicated, something that is not going to take us 18 months to 24 months to get approval on. And by the time we get approval, it is no longer a viable project because things have changed considerably during that length of time.

We know that you have a hard, difficult chore in developing housing programs that are going to be effective. We don't say there are any simple solutions. And you gentlemen who work with it daily certainly have a better handle on it than perhaps we do as builders.

I mean we work with what you develop and what the Secretary of HUD comes out with. But we would certainly be in favor of eliminating some of these programs that have become so cumbersome, and replace them with something that would be far more simple to use as far as the builder is concerned.

Mr. WYLIE. I think that is rather what we were trying to do when we were committed to phasing out the so-called section 236 program, to eliminate some of the cumbersome programs. And here we are back again with this.

Mr. ARQUILLA. Well, apparently our builders feel that it was far better and far easier to work with section 236 than it is with section 8.

Mr. WYLIE. You don't think we should repeal the Community Development Act, do you?

Mr. ARQUILLA. No, sir, I did not say that.

Mr. WYLIE. On page 9 of your statement in the first full paragraph, you say, "One, we recommend the enactment of a provision in which HUD would make debt service payments on unrented units during the rentup phase of a project."

And I have a copy of Public Law 94-375 here which was supplied to me by the staff, which says in the second paragraph, almost your language.

In the case of newly constructed or substantially rehabilitated projects after such 60-day period in an amount equal to the debt service attributable to such an unoccupied dwelling unit for a period not to exceed 1 year, if a good faith effort is being made to fill the unit and the unit provides decent, safe, and sanitary housing.

Doesn't that provision right there say what you want to do?

Mr. ARQUILLA. That is after initial occupancy, though, isn't it?

Mr. WYLIE. Well, then, in the committee report last year, that question came up during the conference on the difference between the two bills which passed the Houses. And this committee language was added on page 19.

It says, these payments could be made either during the initial rent-up period or subsequently.

Mr. O'TOOLE. I don't think they have implemented that provision. The basic thrust of what we are trying to get at is the question of getting better security for section 8, and basically we support the recommendations from the State housing finance agencies who have been interested in getting better security for their mortgages so that they can finance their bonds.

And one of the problems we have had with section 8, both with the bonds and also with the conventional market, is to assure better security for the section 8 projects.

Mr. WYLIE. Then—may I respectfully submit that it is not the enactment that is necessary. It is the administration of the provision that is necessary.

So we need to go back to the Housing and Urban Development Department again and suggest that what we meant was what we said, that even during these pre-rental periods, that you could have debt service available to you.

Mr. ARQUILLA. We would appreciate any help you could give us.

Mr. WYLIE. You want the language which is in the report, is that it?

Mr. ARQUILLA. Possibly.

Mr. WYLIE. OK. On page 7 it says, with respect to section 8, we have two overriding concerns. We believe that the subsidized housing programs are being undermined by the unrealistic formula used in the calculations for our budget authority.

I am not sure I know what you mean there. Do you mean that only the portion of the budget which is attributable to that year is included in the budget process or the total commitment is included in this budget?

Mr. ARQUILLA. What we mean there, Mr. Wylie, is that when the budget is developed, it is developed on the basis that a total amount of funds will be set aside for a particular unit. And it is unrealistic in the sense that the only time that that would happen is if the occupant of a dwelling didn't have any income and we know that that is not the case across the country.

And so what they are doing is, they are saying that the commitment in the budget is much higher than it really is and it is reducing the amount of individuals who can participate, really. That is what we are saying.

Mr. WYLIE. I have just one more question, Mr. Chairman.

On page 14 you say, these are those families in the lower middle-income brackets who have been priced out of the market as a result of high mortgage interest rates.

Why do we have high mortgage interest rates?

Mr. ARQUILLA. Not being a savings and loan man or a thrift institution man, I really can't tell you. They tell us that it is because

of their increased costs. And part of their increased cost is the higher interest rates that they must pay their depositors in the form of CD's, and that also it is a question that their costs of operation have increased.

Mr. WYLIE. I thought you might get into some discussion of fiscal policy and budget deficits and that sort of thing.

But thank you very much.

Mr. ARQUILLA. It is a good time to call on Mr. Patterson. [Laughter.]

Mr. PATTERSON. Thank you, Mr. Chairman.

It is a pleasure to have you here, Mr. Arquilla, even though I did not hear your testimony, I have read it, and I would like to ask you a few questions.

In your discussion of the future role of FHA, the two suggestions I recall reading were reducing the downpayment requirements and increasing the mortgage limits.

Do you have other proposals that are either here, and I did not see them, or other suggestions that would make FHA more workable?

Mr. ARQUILLA. Yes. We understand that they are going to try to make FHA an independent agency within HUD and give the FHA Commissioner line authority, and certainly that would be a tremendous help as far as FHA is concerned.

When a man is in charge of an area and he cannot control his subordinates that leaves something to be desired. And it is our understanding that this is going to be looked into and possibly changed.

Mr. PATTERSON. And you would be supportive of that as a positive step?

Mr. ARQUILLA. Absolutely, yes.

Mr. PATTERSON. That is independent within the Department or outside the Department?

Mr. ARQUILLA. Within the Department—actually, within or without. If they can do it from within, great. If they cannot, then I think we will have to take a second look at it. But we have to give them an opportunity to try. It is easy to say, "That is not going to work," without giving it an effort. And I think we have to give it an effort.

And it would certainly be simpler to do it from within. If they have any dedication to the concept at all, it would certainly be simpler.

Mr. PATTERSON. Do you want to add to that, Mr. Coan?

Mr. COAN. I think basically we just want to get the thing working. And the line authority and the greater control of the FHA Commissioner over the functions which he is responsible for we believe would do a lot toward going in that direction.

This may well involve some reallocation or responsibility within the area, in the regional offices. We know some of these things are being considered and talked about. I think we have just decided to sit back and see whether these things occur before we go beyond that and split the thing off from where it is now.

Mr. PATTERSON. Your suggestion, as I recall, is that the tandem or Brooke-Cranston plan be maintained on almost a standby basis. That is my recollection.

Are you relying, then, on section 235 as being more important or more the direction that you would like to see the country take with regard to meeting the needs of middle-income families? Or, if not, what other approaches?

Mr. ARQUILLA. Well, section 235 basically serves the lower income families.

Mr. PATTERSON. These days, does it?

Mr. ARQUILLA. Yes; even these days. I would think that our Common Sense subsidy program would fill that middle-income bracket and the lower middle-income bracket. And I would suggest that we confine Brooke-Cranston only to keep it on the books as an extension, and have something to fall back on if and when we run into another disastrous situation like in 1973, and God forbid that we do.

Mr. COAN. I think one thing is that we have, we do feel that there still is a continued need for the use of Brooke-Cranston this year with respect to these families, especially in the conventional area. We have expressed some hope that it would be made available now that Fannie Mae is getting into its own secondary market situation for conventional multifamily mortgages.

Mr. ASHLEY. Why cannot the Common Sense program do all of these things? I think it is at 7½ percent. And here you have authority to lower interest rates by 3 percent, but not below 6 percent. What is the answer to that?

Mr. ARQUILLA. If you could provide funding with the program it could work.

Mr. ASHLEY. But you said in response to a question from me that you wanted to do both. And that presupposed that both would be functioning.

Mr. ARQUILLA. If it were functioning, fine.

Mr. COAN. Brooke-Cranston provides mortgage money. And the Common Sense proposal contemplates that there is mortgage money out there, and there may be a need to bring the interest rate down to 6 percent.

Mr. ASHLEY. I am not sure I understand what you mean. It is not a direct loan program?

Mr. COAN. Brooke-Cranston is, yes, through Ginny Mae. Because Ginny Mae buys loans from the originators. And it does provide the funds directly, whereas our Common Sense proposal would be nothing more than—it does not contemplate any purchase of mortgages by Ginny Mae.

Mr. ASHLEY. But it could, though, couldn't it?

Mr. COAN. No.

Mr. ASHLEY. Why don't you provide for that? Why won't you put that in the proposal?

Mr. COAN. The Common Sense proposal is aimed at serving that segment of the market which is now out of the market—and that is because of the interest rate situation—to get down to 6 or 7 percent mortgage rates to serve people such as the fireman, the policeman, the blue collar worker who has found himself priced out of the market. And our belief is that it is because of the interest rate situation.

Brooke-Cranston brings rates down somewhat, but it also supplies credit which may or may not be able to be supplied solely through the means of a Common Sense proposal.

Mr. ASHLEY. Thank you, Mr. Patterson?

Mr. PATTERSON. I will try to move on.

I notice we have a quorum call here.

Mr. ASHLEY. It is the intention of the Chair, if we have a quorum call going, to continue the hearings. We will have another witness. So, Members who may wish to answer the quorum can come back and do so, and we will still be operating.

Mr. PATTERSON. Let me try a couple of quick questions.

On page 11 you talk about the flood insurance program and suggested a change from the 100-year storm to the 50-year storm.

Do you have any data that would indicate that we are still protecting the interests of people in flood-prone areas if we did make such a change, and if you do not have it, would you be able to supply us with such information for the record?

Mr. O'TOOLE. Right now we have contracts with the Flood Insurance Administration. And I think we can provide that for the record.

Mr. PATTERSON. In many areas of the Southwest you do not have rivers as they are normally defined. When it rains, which is not often, when it rains, and we wish it were a little more often in California, but when it rains too often and too heavy in a short period of time, instead of running in rivers, which we don't have, they are dry anyway, it just sheet flows all the way across.

And the difference between a 50-year storm or a 100-year storm might mean whether or not a city is under 2 feet of water or 4 inches of water.

So, that data would be important at least I think in the drier areas of the country.

Mr. ARQUILLA. All right.

We can supply that information for the record.

[At the time the hearing went to press, no information had been received from Mr. Arquilla.]

Mr. PATTERSON. I had some questions on the Common Sense approach. I think the chairman sort of asked what I was going to ask, how does it differ in a meaningful way from the tandem or what can one do that the other cannot do.

And, again, I just quickly read it. But it reduces up to 3 percent, I guess, the amount of interest available.

I think Mr. Coan explained some of that.

Also, one part of the plan for the inner city provides for any income level. I think maybe that is a good idea for the inner city.

And then the 300,000 units, the suburban areas, would there be an income limit on that?

Mr. ARQUILLA. 150 percent of median income. Not to exceed that level.

Mr. PATTERSON. Would you characterize the difference between the two, then, as—I am thinking of the section 235.

The Common Sense approach would reach a much higher income level, obviously.

Mr. ARQUILLA. Than the section 235, yes.

Mr. PATTERSON. Mr. Chairman, I have no further questions, at this point, anyway.

Mr. ASHLEY. All right.

Mr. PATTERSON. Thank you.

Mr. ASHLEY. Have you had an opportunity to develop some assumptions and put some calculations into a model to arrive at some preliminary cost figures for your Common Sense subsidy program?

Mr. ARQUILLA. Yes. We have done that.

Mr. COAN. We have some, Mr. Chairman.

And based on the use of the full subsidy, you realize that the full subsidy would not be used today on the Common Sense program, since the market rate is approximately 8.5, 8.6 percent.

Mr. ASHLEY. But you are figuring on the full 3 percent?

Mr. COAN. Yes. We have done our calculations based on the full 3 percent for the lower, lowest price.

Mr. ASHLEY. What does it show?

Mr. COAN. Using a spread of—and it is arbitrary determinations as to how many units would go into each—we have got that in the bill, also, however.

Mr. ASHLEY. Based on the 100,000 to 300,000?

Mr. COAN. Yes. And we are talking about in the neighborhood of about \$1 billion.

Mr. ASHLEY. A year?

Mr. COAN. Yes. About \$1 billion. We will be glad to submit a detailed table on that for the record.

Mr. ASHLEY. That would be very helpful. Thank you.

Mr. O'TOOLE. And this depends upon the sales price of the house. That further defines it.

Mr. ASHLEY. When you submit the additional information for the record, I suspect, or I would hope, that that information would give us some ideas as to the assumptions with respect to the cost of housing.

Mr. O'TOOLE. That is right.

Mr. COAN. I think it ought to be emphasized that the moneys that we have put together—as our draft bill is written and as we have put together the proposal, the funds available, let us take 100,000 units, 10 percent of those would be allocated for homes costing under \$25,000; 20 percent between \$25,000 and \$30,000; 20 percent between \$30,000 and \$35,000; 20 percent between \$35,000 and \$40,000; 20 percent between \$40,000 and \$45,000; and 10 percent between \$45,000 and \$50,000; so that the concentration of the program would be in the range of \$30,000 to \$40,000, approximately.

Mr. ASHLEY. At what juncture do you begin to anticipate repayment?

Mr. COAN. There will be some repayments initially. But it would—they probably would not start flowing into the program until about the fifth or sixth year.

There are some houses that are sold almost right away because of various circumstances.

Mr. ASHLEY. What was the rest of your response, Mr. Coan?

Mr. COAN. Well, there would be some—there would be some money in the first year of return, because, in effect, there will be some houses that are sold.

Mr. ASHLEY. Yes. And that is true for every year. And the longer you go, the greater.

Mr. COAN. Yes.

Mr. ASHLEY. Do you have computations in that area?

Mr. COAN. We have prepared a computer model on the matter. And we have to make assumptions which may or may not be valid. We are hoping that they are valid.

Mr. ASHLEY. In some respects your assumptions reflect the worst situation, namely the full 3 percent?

Mr. COAN. That is correct.

And when the program was put together that is what the situation was, when we first started putting it together the interest rates were around 9 percent.

And the purpose was to get down to 6 percent, as a floor below which we would not go. In the last 4 months the interest rates have fallen somewhat. So we are at about 8.5- to 8.6-percent rate and a little higher in the conventional area.

They are bucking the 9-percent ceiling.

Mr. ASHLEY. Are you worried about the inflationary implications, particularly with regard to the homebuilding industry, in terms of the cost of timber, lumber, copper, other building materials? If we earmark 400,000 units for lower income families under section 8 or related programs, for construction on an annual basis, and we do the same thing under the Common Sense approach and if, as we have learned, the more affluent individuals are still buying homes, then aren't we looking at a situation in which there really isn't much give? That is to say, we will have frozen ourselves into a relatively high production level which may well, at certain times in the business cycle, produce some bad consequences in terms of inflation, the cost of land, and so forth?

Mr. ARQUILLA. Mr. Chairman, there is no question inflation is one of our biggest enemies. And there is no question that with inflation we get these huge increases in lumber which are not directly attributable necessarily to inflation.

One of the reasons in the lumber situation for the high prices is the limited amount of Federal forests that are being allowed to be cut. This all adds to it. And the lumber producers tell us that they have to have a 2- or 3-year supply of timber ahead of them.

Mr. ASHLEY. They tell you that they are running two shifts instead of three. And did you ever ask them why they are doing that? I mean there probably is a variety of reasons.

Mr. ARQUILLA. Yes. And I guess they really don't need any more than two shifts right now.

Mr. ASHLEY. They sure don't if they can get the kind of prices they are getting in the marketplace. That is the point.

Mr. ARQUILLA. That is part of the problem. There is no question about that.

And there have been statements for years regarding their charges and what the market will bear and not necessarily any relationship to what their actual costs are, in providing the lumber. But we are concerned about the inflation there. We are worried about the inflation in land. We are worried once again about an increase, seeing an increase in interest rates.

We live 9, 9½, 9¼ percent for the last year-and-a-half. And it appears that if we do start to see the economy heating up, and Lord knows we are looking for that to reduce the unemployment, we will probably see the interest rates starting to rise once again.

Now, you made the statement that the well-to-do really don't pay much attention to interest rates.

I don't know if I entirely agree with that statement. I am sure that there are some who are extremely well-to-do who don't really pay any attention to interest rates.

But I think there are a vast majority of people who are perhaps just leaving the middle income area and going into the higher brackets that still watch those interest rates quite closely. And make a determination not only on what the economic conditions are or what they look like they are going to be in the future along with those cost factors.

Mr. ASHLEY. Of course, my point was if we say as a matter of national policy that we are going to make possible the construction of 800,000 units for people and families from zero income up to median income, somewhat above median income, that is if we assume the adoption of the Common Sense program.

Mr. ARQUILLA. I think what we are really trying to do—

Mr. ASHLEY. That is 800,000 units on an annual basis?

Mr. ARQUILLA. Right.

Mr. ASHLEY. Then what we are saying is that if there is going to be any flexibility or any countercyclical ability within the housing industry it is going to be borne by those who can afford housing regardless of the cost, the best.

I just don't see how you cannot agree with the notion that, if we in effect hold harmless to the extent of 400,000 units for families of lower income, that if we say as a matter of policy that those units can be built whether we are in an inflationary situation or whatever, and if we say the same thing with your Common Sense program, this excites inflationary pressures.

The people who are doing the supplying and the people who are selling the land are going to recognize the factors. If they have a captive market which they would have under these circumstances, at least to the extent of 800,000 units annually, this would in a situation which we have experienced many times in our lifetime give us some real trouble.

How does this differ in effect from the Humphrey-Hawkins bill approach? You don't like that, I suspect, because if we get down to 3 percent unemployment or whatever it was first drafted that has inflationary pressures of course.

And if we subsidize jobs down to that basis, people shake their heads in the business sector and say, "Well, that would be very inflationary at given times in the economy."

How different are these two situations?

Mr. ARQUILLA. Mr. Chairman, one of the serious problems that we have faced in the last 20 years has been the inconsistency of the amount of units that we have been able to produce because of various reasons, and we have had a roller coaster effect where 1 year we are producing high and the next year we are producing low, and then we have 2 years of low and then we start going back up on a high again, and it is very, very difficult to keep manpower.

It is very expensive to retrain manpower when you start going back up again. And these are all factors, the producers of the materials we use tell us that if we could have a consistency we would not see the extremely high rises in some of the prices that do take effect.

And one of the reasons that they give us is the same reason I just gave you now in our own industry where we go from 2.2 million units 1 year and we go down to 1.8 million the next, and then down to 1 million.

We can't keep a lot of people on our payrolls.

Mr. ASHLEY. I can see that. But I think that is a somewhat different problem than the problem I was talking about. I can understand the inefficiencies of the roller coaster type operations.

But as I say, I don't think that is responsive to what strikes me as an overall situation in which there is not much give in homebuilding, where there is assured production of a high number of federally guaranteed units in terms of production.

And that is regardless of the phase of the business cycle. But we will leave that for an economics class. [Laughter.]

Mr. ASHLEY. If you did not—let me ask you this, if you did not reserve full contract authorization for section 8 at the outset, that is, as if the tenant had zero income, then how would you provide for future fair market rental increases?

Mr. COAN. Well, in the first place we are not advocating that you not reserve. We are concerned that this, unlike other aspects of governmental programs, this acts in such a way that we think it is detrimental to the program.

Mr. ASHLEY. Why?

Mr. COAN. Because you are talking about numbers, Mr. Chairman, which are almost guaranteed to scare people and numbers which we don't think will be—

Mr. ASHLEY. Wouldn't you end up in the same place if you didn't assume that the tenant had zero income but provided for increases in fair market rentals?

Mr. COAN. You may or you may not.

Mr. ASHLEY. I thought you said that the program was not working, and it is out of phase right now. Fair market rentals don't accurately reflect costs.

Mr. COAN. We are complaining about the use of comparable rents to the limit that is allowed. And those rents are below the fair market rents which are authorized or prescribed by HUD for a given area.

Mr. ASHLEY. We go back to the question: If we were looking at the projected increase in fair market rents over a 40-year period, why don't we treat the tenant income on a more realistic basis?

Mr. COAN. We just don't think all that authority will be used. But even if it is not used, the whole amount is still spread out there. And you talk about \$25 billion or \$30 billion or perhaps \$35 billion as the annual amount of budget authority.

There are other areas where this does not occur.

Mr. ASHLEY. Give us some suggestions. How about that for the record.

Mr. COAN. As to how to deal with it?

Mr. ASHLEY. Yes.

Mr. COAN. We will be glad to.

Mr. ASHLEY. We want to deal more realistically with tenant income. Help us with how we would deal more realistically with future fair market increases.

Mr. COAN. To the extent of our competence, I want to make that reservation.

I would urge the subcommittee to request HUD to do some calculations for you. It has done similar calculations in connection with other programs. And you might remember that several years ago there was talk about a \$100 billion mistake.

And yet when you looked at the very figures that HUD was submitting to the Appropriations Committee at that time that \$100 billion shrank with respect to the cost of the programs.

We will do so if we are able to. I am not sure we have that competency that HUD might have. We will try to, but I would ask you that you ask the HUD Office to do the same calculations they have done in the past for the appropriations committees.

Mr. ASHLEY. All right. We may ask HUD for those calculations.

Mr. COAN. But we will try to submit something to you.

Mr. ASHLEY. Thank you, sir. If there are not additional questions, thank you very much indeed for your excellent testimony and the helpful suggestions that you have offered.

They will be considered, I can assure you, in the days ahead. Our next—

Mr. ARQUILLA. Thank you, Mr. Chairman.

Mr. ASHLEY. Our next witness is Arthur Abba Goldberg, chairman of the board of the National Leased Housing Association.

I understand that whoever is associated with you has such a striking similarity to the three other people who have testified in the last 2 days, that the Chair begins to wonder if he is overtired. [Laughter.]

Mr. GOLDBERG. It is the bags under his eyes, I guess.

STATEMENT OF ARTHUR ABBA GOLDBERG, CHAIRMAN OF THE BOARD, NATIONAL LEASED HOUSING ASSOCIATION, ACCOMPANIED BY CHARLES L. EDSON, COUNSEL, AND MICHAEL KOLODNER, HOUSING FINANCE SPECIALIST, MATTHEWS & WRIGHT, INC., NEW YORK, N.Y.

My name is Arthur Abba Goldberg. I am chairman of the board of the National Leased Housing Association and vice president of Matthews & Wright, Inc., a New York investment banking house which has deep involvement in the structuring and financing of State and local government housing and community development functions.

I am accompanied by Charles L. Edson, participation in with whom you obviously are familiar, from Lane & Edson, P.C., counsel for the association, and also by Michael Kolodner, housing finance specialist with Matthews & Wright, Inc.

I would ask that my prepared remarks be inserted into the record, and I will try to work within the framework of that and supplementing and adding as the case may be.

Mr. ASHLEY. Without objection, your entire statement will be inserted in the record.

Mr. GOLDBERG. Thank you.

I would also like to indicate that we view testifying and coming before this subcommittee as a homecoming because it was here in 1974

that the present section 8 program was fashioned, at which time we had the privilege of working closely with your membership and your staff.

Likewise, we worked closely with you last year in considering an amendment to section 8 which permitted the debt service portion of the housing assistance payments of unoccupied units to continue for an extra year; this resulted from an amendment introduced by Representative AuCoin and modified by Representative Moorhead.

There were some questions raised in previous testimony as to its applicability and the implementation thereof. The regulations now are issued; and I would like to insert those as well.

The issue, however, before this subcommittee as our organization sees it is really not whether section 8 shall continue—everyone seems to concede that—but the extent of its authorization for 1978.

Section 8 has progressed, in fact, to the point where it is on the threshold of fulfilling its great potential.

However, the program needs some assistance so that it can move toward the actual goal of providing decent, safe, and sanitary housing for the citizens of this country.

There is another overriding issue; and that is, how to maximize the effectiveness of the dollars spent by the Federal Government in this program and how to make the program itself most effective, most operative.

Therefore, we do not come before you with an extensive legislative package this year. We think that section 8 is beginning to have a wide acceptance in the field. It has many positive attributes—a deep subsidy capable of aiding the poorest of the poor, a wide income range of recipients which prevents arbitrary cutoffs.

It has adaptability for us in new, rehabilitated as well as existing housing, and it has a diversity of sponsors, private, public, nonprofit, and a subsidy which escalates with inflation.

Indeed, there is only one major problem with the section 8 program that needs to be addressed legislatively, and that is the continued lack of a financing security mechanism that will attract lenders to make mortgage money available to section 8 projects, whether that be through conventional loan financing or through the purchase of bonds issued by the local financing agencies.

This point, I think, somewhat addresses the thrust of some of the questions that members of this subcommittee asked the previous witness about the section 236 program and the section 8 program. The legislative amendment which we would support would integrate the subsidy and the financing mechanisms. This issue was discussed here just a few moments ago.

We recognize that the State housing agencies have probably been the only major vehicle that has been successful in actually financing section 8 units. And this is because the State HFA's have an independent security device, something independent of section 8 which in most cases involves "moral obligation" financing, or in some cases involves a mortgage insurance program such as Maryland.

The HFA's have a number of variant security devices, all of which are lacking in the typical HUD allocated section 8 project. Other than the State agency, the only significant source of financing for these projects to date has been through FHA-insured loans.

We believe that there are compelling advantages in having an alternative to the FHA process whenever possible because of time consumption and the very costly delays involved.

The combination of FHA processing and section 8 has been tortuous at best. FHA will not use for insurance purposes the HUD approved contract rents for section 8. There are numerous other problems.

The previous witness I think well stated it, that, in effect, you have three processes. You go through the FHA side, the HUD side and the compromise side. For that reason, our primary legislative recommendation this year is to support an amendment which will be introduced by Representative AuCoin to amend section 8(c)(4) of the Housing Act to provide that housing assistance payments with respect to a unit shall not be less than the debt service attributable to such a unit, provided that a good faith effort is being made to fill the unit and that the unit provides decent, safe and sanitary housing.

The reason for this amendment is that the lenders continue to be dubious about the security behind the loans for a section 8 project even with last year's amendment extending the vacancy period by 1 year.

We believe that these fears are unwarranted because of the many advantages which I have already spelled out, the deep rent subsidy and the broad eligibility of the program.

Nevertheless, the lenders continue to decline participation in any big manner, and this is evidenced in fact by the small number of projects which to date have been financed either through local housing agency bonds or conventionally.

The proposed amendment by assuring housing assistance payments at least equal to debt service would alleviate the fears of the lenders and thereby provide the security mechanism which is now lacking.

We also believe that such an assurance would increase the construction and the rehabilitation of needed housing in inner cities, particularly for family units. Lenders have been very reluctant to loan in such areas as they perceive the risk to be too high.

This amendment would also solve the construction of family vs. elderly units in the suburban areas as well. Elderly is the only type of section 8 housing which lenders will even look at. They won't look at financing a family unit.

The economic bottom line is that this proposed change would save Federal dollars. And that, I think, is part of the function that this subcommittee is most concerned about. The assured debt service stream would result in lower interest rate because the security for the loan would be enhanced and the interest rate on a loan is a function partially of security. If you have a better secured piece of paper, you have a lower interest rate. As HUD approved rents reflect the owners' debt services costs, these contract rents and thus the HUD subsidy payments could be decreased.

Based on my personal experience in the tax exempt market as a banker, I would estimate that the bonds of local housing authorities or their agencies or instrumentalities would sell at rates of up to 11½ percent less interest with the assured debt service backup or a savings in today's marketplace of between \$400 and \$415 a year on the bonds that would be necessary to finance a \$30,000 unit.

Such savings could be reflected in lower contract rents and therefore in Federal subsidies. In a typical 150-unit project, this could result in savings to the Government of up to \$2,490,000 over the term of the 40-year contract, or by increasing the total unit production by approximately 18½ percent.

The amendment does have a number of limitations and safeguards to protect the Government's interests. The payments can be made only if the owner is making a good faith effort to fill the unit and/or maintaining it in decent, safe and sanitary condition. As debt service is only about 60 percent of the contract rent in most cases, the owner would have every incentive to rent the unit.

We also believe that this amendment could be implemented with very little additional exposure for HUD. The amendment would only come into play when there are vacancies, and section 8's deep subsidy, which escalates with inflation, along with its wide eligibility, almost negates this risk.

Accordingly, last year when Congress extended the housing assistance payment period by 1 year in case of vacancies, the Congressional Budget Office estimated that this would be a no-cost item as the likelihood of such vacancies was small.

In other words, the amendment addresses a perceived problem in the financial community, causing a real reluctance to make money available for section 8, but not a real problem as far as Government liability is concerned.

The Department of Housing and Urban Development is well aware of the need to make the section 8 program more effective to lenders. For that reason, HUD is sponsoring an amendment to increase the permissible contract term when a private lender is involved from 20 years to 30 years. NLHA supports this amendment wholeheartedly. However, we caution that both the private and public lender have a role to play in section 8, so that the existence of a 30-year term for private lenders should not be used by HUD as a reason not to permit the 40-year term of State and local lenders.

We would like to note the role played by State HFA's in the success of the program so far. Many of our members are State HFA's. Over 50 percent of the section 8 starts have been in State agency financed projects.

We believe it is essential that such projects continue to receive section 8 funding. We therefore urge that the subcommittee make a statutory set-aside of sufficient contract authority to fund 70,000 units.

With this exception, we endorse the administration's fiscal 1977 and 1978 budget requests for the program, and we commend Secretary Harris for pursuing changes to make the program more workable.

There are some other items that our association feels still needs to be changed.

Because the community development block grant program is so intimately entwined with section 8 through the housing assistance plan mechanism, NLHA strongly supports two amendments to title I of the Housing and Community Development Act of 1974.

First, we favor amending section 105(a) to enlarge the number of eligible activities under the community development program by adding a new subsection which would permit payments to housing spon-

sors to facilitate the planning, design, and rehabilitation or construction or housing.

This proposed change would make front money available to non-profit housing sponsors. It would also permit the use of community development block grant funds to serve as an insurance fund to secure bonds sold for the construction of section 8 housing.

Under the law at present, community development block grant funds can be used for such an insurance fund only to support bonds to finance rehabilitated housing, not new construction.

Second, we believe that the financing mechanism in section 108(a), which provides for a Federal guarantee of obligations of local governments or their agencies and instrumentalities for financing the acquisition of real property, should be changed to permit the Secretary to withhold and reserve community development block grant funds from years subsequent to the year in which the loan is made for a community development project, to assure the repayment of principal and interest on the loan.

This provision should be substituted for the present unworkable provision that requires the Secretary to reserve and withhold at least 110 percent of the difference between land acquisition costs and the estimated proceeds to be derived from the sale thereof.

Further, the obligation which is issued by the local agency should be tax exempt rather than taxable as required under the U.S. Constitution. This constitutional principle is documented in the citations contained in my prepared statement.

This change, along with permitting a HUD guarantee of loans in an amount exceeding the community's community development block grant allocation for the year in which the loan is made, should facilitate the ability of local government to acquire a site for housing and to raise capital needed to start construction earlier than would otherwise be possible.

On behalf of the National Leased Housing Association, I want to thank the subcommittee for the opportunity to be with you today, and I hope that you seriously consider the comments herein. Thank you.

[The prepared statement of Mr. Goldberg, on behalf of the National Leased Housing Association, follows:]

TESTIMONY OF ARTHUR ABBA GOLDBERG
CHAIRMAN OF THE BOARD
NATIONAL LEASED HOUSING ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
HOUSE BANKING, FINANCE AND URBAN AFFAIRS
MARCH 9, 1977

MY NAME IS ARTHUR ABBA GOLDBERG. I AM CHAIRMAN OF THE BOARD OF THE NATIONAL LEASED HOUSING ASSOCIATION AND VICE PRESIDENT OF MATTHEWS & WRIGHT, INC., A NEW YORK INVESTMENT BANKING HOUSE WHICH HAS DEEP INVOLVEMENT IN THE STRUCTURING AND FINANCING OF STATE AND LOCAL GOVERNMENT FINANCING OF HOUSING AND COMMUNITY DEVELOPMENT FUNCTIONS. I AM ACCOMPANIED BY CHARLES L. EDSON FROM LANE AND EDSON, P.C., COUNSEL FOR THE ASSOCIATION.

THE NATIONAL LEASED HOUSING ASSOCIATION NOW NUMBERS OVER 425 MEMBER ORGANIZATIONS REPRESENTING A WIDE SPECTRUM OF PARTICIPANTS IN THE SECTION 8 PROGRAM - PRIVATE DEVELOPERS, FINANCIAL INSTITUTIONS, NON-PROFITS, LOCAL HOUSING AUTHORITIES, STATE HOUSING FINANCE AGENCIES AND CONCERNED PROFESSIONALS. WE ARE UNIQUE NOT ONLY IN THIS DIVERSITY OF MEMBERSHIP, BUT IN THE FACT THAT OUR ORGANIZATION FOCUSES ON ONE HOUSING PROGRAM - SECTION 8. IN THIS REGARD, LET US SAY THAT WE VIEW TESTIFYING BEFORE THIS SUBCOMMITTEE AS A HOMECOMING BECAUSE IT WAS HERE IN 1974 THAT THE PRESENT SECTION 8 PROGRAM WAS FASHIONED AND AT THAT TIME WE HAD THE PRIVILEGE OF WORKING CLOSELY WITH YOUR MEMBERSHIP AND STAFF. LIKewise, WE WORKED CLOSELY WITH YOU LAST YEAR IN

CONSIDERING AN AMENDMENT TO SECTION 8 PERMITTING HOUSING ASSISTANCE PAYMENTS FOR UNOCCUPIED UNITS FOR AN ADDITIONAL YEAR, RESULTING FROM AN AMENDMENT ORIGINALLY INTRODUCED BY REPRESENTATIVE LES AU COIN AND ADOPTED IN MODIFIED FORM IN AN AMENDMENT INTRODUCED BY REPRESENTATIVE MOORHEAD.

THE ISSUE NOW BEFORE THIS SUBCOMMITTEE IS NOT WHETHER SECTION 8 SHOULD CONTINUE, BUT THE EXTENT OF THE AUTHORIZATION FOR 1978. SECTION 8 HAS NOW PROGRESSED TO THE POINT WHERE IT IS BUT ON THE THRESHOLD OF FULFILLING ITS GREAT POTENTIAL. WITH YOUR ASSISTANCE IN THE MATTER NOW BEFORE YOU, THE PROGRAM CAN CONTINUE TO MOVE TOWARD ACHIEVING THE GOAL OF PROVIDING DECENT, SAFE, AND SANITARY HOUSING FOR THE CITIZENS OF THIS COUNTRY.

NLHA DOES NOT COME BEFORE YOU TODAY WITH AN EXTENSIVE LEGISLATIVE PACKAGE. AS EVENTS OF THE PAST YEAR HAVE SHOWN, SECTION 8 DOES HAVE A WIDE ACCEPTANCE IN THE FIELD, AS THE HOUSING COMMUNITY HAS BEGUN TO REALIZE ITS MANY POSITIVE ATTRIBUTES: A DEEP SUBSIDY CAPABLE OF AIDING THE POOREST OF THE POOR; A WIDE INCOME RANGE OF RECIPIENTS, WHICH PREVENTS ARBITRARY ASSISTANCE CUT-OFFS; ADAPTABILITY FOR USE IN NEW, REHABILITATED, AS WELL AS EXISTING, HOUSING; THE DIVERSITY OF SPONSORS - PRIVATE, PUBLIC AND NON-PROFIT; AND A SUBSIDY WHICH ESCALATES WITH INFLATION. INDEED, THERE IS ONLY ONE PROBLEM WITH SECTION 8 THAT NEED BE ADDRESSED LEGISLATIVELY - THE CONTINUED LACK OF A FINANCING SECURITY MECHANISM THAT WILL ATTRACT LENDERS TO MAKE MORTGAGE MONEY AVAILABLE TO SECTION 8 PROJECTS, EITHER THROUGH CONVENTIONAL LOANS OR THROUGH THE PURCHASE OF BONDS ISSUED BY LOCAL FINANCE AGENCIES. (WE REALIZE THAT STATE AGENCIES HAVE BEEN VERY SUCCESSFUL DURING THE PAST YEAR IN MARKETING SECTION 8 OBLIGATIONS,

BUT THIS IS BECAUSE THEY HAVE AN INDEPENDENT SECURITY DEVICE SUCH AS "MORAL OBLIGATION FINANCING" WHICH IS LACKING IN THE TYPICAL HUD ALLOCATED SECTION 8 PROJECT.) OTHER THAN THE STATE AGENCIES, THE ONLY SIGNIFICANT SOURCE OF SECTION 8 FINANCING TO DATE HAS BEEN THROUGH FHA-INSURED LOANS; NLHA BELIEVES THERE ARE COMPELLING ADVANTAGES IN HAVING AN ALTERNATIVE TO THE FHA PROCESS WHENEVER POSSIBLE BECAUSE OF THE TIME- CONSUMING - AND COSTLY - DELAYS INVOLVED. THE COMBINATION OF THE FHA PROCESS AND SECTION 8 HAS BEEN TORTUOUS AT BEST; AS JUST ONE EXAMPLE, FHA WILL NOT USE FOR INSURANCE PURPOSES THE HUD APPROVED CONTRACT RENTS FOR SECTION 8.

FOR THAT REASON, OUR PRIMARY LEGISLATIVE RECOMMENDATION THIS YEAR IS TO SUPPORT AN AMENDMENT TO BE INTRODUCED BY REPRESENTATIVE AUCOIN TO AMEND SECTION 8(c)(4) OF THE UNITED STATES HOUSING ACT TO PROVIDE THAT HOUSING ASSISTANCE PAYMENTS, WITH RESPECT TO A DWELLING UNIT, SHALL NOT BE LESS THAN THE DEBT SERVICE ATTRIBUTABLE TO SUCH UNIT, PROVIDED THAT A GOOD FAITH EFFORT IS BEING MADE TO FILL THE UNIT, AND, THE UNIT PROVIDES DECENT, SAFE AND SANITARY HOUSING. THE REASON FOR THIS AMENDMENT IS THAT LENDERS CONTINUE TO BE DUBIOUS ABOUT THE SECURITY BEHIND LOANS FOR A SECTION 8 PROJECT EVEN WITH LAST YEAR'S AMENDMENT EXTENDING THE VACANCY PAYMENT PERIOD BY ONE YEAR. WE BELIEVE THESE FEARS ARE UNWARRANTED BECAUSE OF THE DEEP RENT SUBSIDY AND BROAD ELIGIBILITY OF THE PROGRAM. HOWEVER, THEY CONTINUE TO DISCOURAGE LENDER PARTICIPATION, AS IS EVIDENCED BY THE SMALL NUMBER OF PROJECTS TO DATE WHICH HAVE BEEN FINANCED EITHER CONVENTIONALLY OR THROUGH LOCAL AGENCY BONDS. THE PROPOSED AMENDMENT, BY ASSURING HOUSING ASSISTANCE

PAYMENTS AT LEAST EQUAL TO DEBT SERVICE, WOULD SERVE TO ALLEVIATE THE FEARS OF THE LENDERS, THEREBY PROVIDING THE SECURITY MECHANISM WHICH IS NOW LACKING.

WE ALSO BELIEVE THAT SUCH AN ASSURANCE WOULD INCREASE THE CONSTRUCTION AND REHABILITATION OF NEEDED HOUSING IN THE INNER CITIES, PARTICULARLY FOR FAMILIES. LENDERS HAVE BEEN EXTREMELY RELUCTANT TO LOAN IN SUCH AREAS AS THE PERCEIVED RISK IS TOO HIGH.

BOTTOM LINE, THE PROPOSED CHANGE WOULD SAVE FEDERAL DOLLARS. THE ASSURED DEBT SERVICE STREAM WOULD UNDOUBTEDLY RESULT IN LOWER INTEREST RATES IN BOTH THE TAXABLE AND TAX-EXEMPT MARKETS, BECAUSE THE SECURITY FOR THE LOAN WOULD BE ENHANCED. FOR EXAMPLE, AS HUD APPROVED RENTS REFLECT THE OWNER'S DEBT SERVICE COSTS, CONTRACT RENTS - AND THUS HUD SUBSIDY PAYMENTS - COULD BE DECREASED TO REFLECT THE SAVINGS IN ANNUAL DEBT SERVICE WHICH COULD RESULT FROM BORROWING AT LOWER INTEREST RATES. BASED ON MY EXPERIENCE IN THE TAX EXEMPT MARKET, I WOULD ESTIMATE THAT BONDS OF LOCAL HOUSING AUTHORITIES, OR THEIR AGENCIES AND INSTRUMENTALITIES, WOULD SELL AT RATES WITH UP TO 1½% LESS INTEREST WITH THIS BACKUP - OR A SAVINGS IN TODAY'S MARKET OF BETWEEN \$400 AND \$415 A YEAR ON THE BONDS NECESSARY TO FINANCE A \$30,000 UNIT. SUCH SAVINGS WOULD BE REFLECTED IN LOWER CONTRACT RENTS AND THEREFORE IN FEDERAL SUBSIDIES. IN A TYPICAL 150 UNIT PROJECT, THIS COULD RESULT IN A SAVINGS TO THE FEDERAL GOVERNMENT OF UP TO \$2,490,000 OVER THE TERM OF THE ASSISTANCE CONTRACT (40 YEARS), OR, ALTERNATIVELY INCREASING THE TOTAL UNIT PRODUCTION BY APPROXIMATELY 18.5%.

THE AMENDMENT DOES HAVE A NUMBER OF LIMITATIONS AND SAFEGUARDS TO PROTECT THE GOVERNMENT'S INTERESTS. THE PAYMENTS CAN BE MADE ONLY IF THE OWNER IS MAKING A GOOD FAITH EFFORT TO FILL THE UNIT AND/OR MAINTAINING IT IN DECENT, SAFE AND SANITARY CONDITION. AS DEBT SERVICE IS ONLY ABOUT 60% OF THE CONTRACT RENT IN MOST CASES, THE OWNER WOULD HAVE EVERY INCENTIVE TO RENT THE UNIT.

WE ALSO BELIEVE THAT THIS AMENDMENT COULD BE IMPLEMENTED WITH VERY LITTLE ADDITIONAL EXPOSURE FOR HUD. THE AMENDMENT WOULD ONLY COME INTO PLAY WHEN THERE ARE VACANCIES, AND SECTION 8'S DEEP SUBSIDY, WHICH ESCALATES WITH INFLATION, ALONG WITH ITS WIDE ELIGIBILITY, ALMOST NEGATES THIS RISK. ACCORDINGLY, LAST YEAR WHEN CONGRESS EXTENDED THE HOUSING ASSISTANCE PAYMENT PERIOD BY ONE YEAR IN CASE OF VACANCIES, THE CONGRESSIONAL BUDGET OFFICE ESTIMATED THAT THIS WOULD BE A NO-COST ITEM AS THE LIKELIHOOD OF SUCH VACANCIES WAS SMALL. IN OTHER WORDS, THE AMENDMENT ADDRESSES A PERCEIVED PROBLEM IN THE FINANCIAL COMMUNITY, CAUSING A REAL RELUCTANCE TO MAKE MONEY AVAILABLE FOR SECTION 8, BUT NOT A REAL PROBLEM AS FAR AS GOVERNMENT LIABILITY IS CONCERNED.

THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT IS WELL AWARE OF THE NEED TO MAKE THE SECTION 8 PROGRAM MORE EFFECTIVE TO LENDERS. FOR THAT REASON, HUD IS SPONSORING AN AMENDMENT TO INCREASE THE PERMISSIBLE CONTRACT TERM WHEN A PRIVATE LENDER IS INVOLVED FROM 20 YEARS TO 30 YEARS. NLHA SUPPORTS THIS AMENDMENT WHOLEHEARTEDLY. HOWEVER, WE CAUTION THAT BOTH THE PRIVATE AND PUBLIC LENDER HAVE A ROLE TO PLAY IN SECTION 8, SO THAT THE

EXISTENCE OF A 30-YEAR TERM FOR PRIVATE LENDERS SHOULD NOT BE USED BY HUD AS A REASON NOT TO PERMIT THE 40-YEAR TERM OF STATE AND LOCAL LENDERS.

IN THIS REGARD, NLHA WANTS TO TAKE NOTE OF THE CRUCIAL ROLE PLAYED BY STATE HOUSING FINANCE AGENCIES IN THE SUCCESS OF THE PROGRAM THUS FAR. OVER 50% OF THE SECTION 8 STARTS HAVE BEEN IN STATE AGENCY PROJECTS. NLHA BELIEVES THAT IT IS ESSENTIAL THAT STATE AGENCY PROJECTS CONTINUE TO RECEIVE SECTION 8 FUNDING. ACCORDINGLY, WE URGE THAT IN CONNECTION WITH YOUR 1978 AUTHORIZATION FOR THE PROGRAM, THE COMMITTEE MAKE A STATUTORY SET-ASIDE OF SUFFICIENT CONTRACT AUTHORITY TO FUND 70,000 UNITS. WITH THIS EXCEPTION, WE WHOLEHEARTEDLY ENDORSE THE ADMINISTRATION'S FISCAL 1977 AND 1978 BUDGET REQUESTS FOR THE PROGRAM AND COMMEND HUD SECRETARY HARRIS FOR PURSUING ADMINISTRATIVE CHANGES TO MAKE THE PROGRAM MORE WORKABLE.

BECAUSE THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM IS SO INTIMATELY ENTWINED WITH SECTION 8 THROUGH THE HOUSING ASSISTANCE PLAN MECHANISM, NLHA STRONGLY SUPPORTS TWO AMENDMENTS TO TITLE I OF THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1974.

FIRST, WE FAVOR AMENDING SECTION 105(A) TO ENLARGE THE NUMBER OF ELIGIBLE ACTIVITIES UNDER THE CD PROGRAM BY ADDING A NEW SUBSECTION WHICH WOULD PERMIT PAYMENTS TO HOUSING SPONSORS TO FACILITATE THE PLANNING, DESIGN, AND REHABILITATION OR CONSTRUCTION OF HOUSING. THIS PROPOSED CHANGE WOULD MAKE FRONT MONEY

AVAILABLE TO NON-PROFIT HOUSING SPONSORS. IT WOULD ALSO PERMIT THE USE OF COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS TO SERVE AS AN INSURANCE FUND TO SECURE BONDS SOLD FOR THE CONSTRUCTION OF SECTION 8 HOUSING. UNDER THE LAW AT PRESENT, CDBG FUNDS CAN BE USED FOR SUCH AN INSURANCE FUND ONLY TO SUPPORT BONDS TO FINANCE REHABILITATED HOUSING.

SECONDLY, WE BELIEVE THAT THE FINANCING MECHANISM IN SECTION 108(A), WHICH PROVIDES FOR A FEDERAL GUARANTEE OF OBLIGATIONS OF LOCAL GOVERNMENTS OR THEIR AGENCIES AND INSTRUMENTALITIES FOR FINANCING THE ACQUISITION OF REAL PROPERTY, SHOULD BE CHANGED TO PERMIT THE SECRETARY TO WITHHOLD AND RESERVE CDBG FUNDS FROM YEARS SUBSEQUENT TO THE YEAR IN WHICH THE LOAN IS MADE FOR A COMMUNITY DEVELOPMENT PROJECT, TO ASSURE THE REPAYMENT OF PRINCIPAL AND INTEREST ON THE LOAN. THIS PROVISION SHOULD BE SUBSTITUTED FOR THE PRESENT UNWORKABLE PROVISION THAT REQUIRES THE SECRETARY TO RESERVE AND WITHHOLD AT LEAST 110 PERCENT OF THE DIFFERENCE BETWEEN LAND ACQUISITION COSTS AND THE ESTIMATED PROCEEDS TO BE DERIVED FROM THE SALE THEREOF. FURTHER, THE OBLIGATION WHICH IS ISSUED BY THE LOCAL AGENCY SHOULD BE TAX-EXEMPT RATHER THAN TAXABLE AS REQUIRED UNDER THE U.S. CONSTITUTION (SEE GENERALLY LEFKOWITZ, "THE UNCONSTITUTIONALLY OF A FEDERAL TAX UPON STATE AND MUNICIPAL BOND INTEREST: THE CONSTITUTIONAL IMMUNITY OF STATE AND MUNICIPAL SECURITIES" NEW YORK STATE BAR JOURNAL, JANUARY 1970, P. 67-78.) THIS CHANGE, ALONG WITH PERMITTING A HUD-GUARANTEE OF LOANS IN AN AMOUNT EXCEEDING THE COMMUNITY'S CDBG ALLOCATION FOR THE YEAR IN WHICH THE LOAN IS MADE, SHOULD

FACILITATE THE ABILITY OF LOCAL GOVERNMENT TO ACQUIRE A SITE FOR HOUSING AND TO RAISE CAPITAL NEEDED TO START CONSTRUCTION EARLIER THAN WOULD OTHERWISE BE POSSIBLE.

ON BEHALF OF THE NATIONAL LEASED HOUSING ASSOCIATION, I WANT TO THANK THE COMMITTEE FOR THE OPPORTUNITY TO BE WITH YOU TODAY.

Mr. ASHLEY. Thank you, Mr. Goldberg, for your excellent statement.

I wonder if your major legislative recommendation was advanced to the Department of Housing and Urban Development as a possible component in that Department's housing package for 1978?

Mr. GOLDBERG. I think my counsel would be in a better position to answer that question.

Mr. EDSON. We submitted it to them and they are now considering it. It probably was not submitted in time to catch their early submission of their 1978 package. They still may come before the subcommittee and support it. It is under active consideration right now, Mr. Chairman.

Mr. ASHLEY. Well, do you think that we can rely on the Department to get in touch with us if they want serious consideration of it, or should we direct the communication to the Department?

Mr. EDSON. Certainly it would be up to your discretion. I think often when an amendment is presented, the Committee does write over to the Department for its views. And I think it would be very helpful in this case. They have so many things on their mind right now that they might not be giving it complete focus absent a little nudge from the subcommittee.

Mr. ASHLEY. This tends to represent a very substantial departure from the position taken in 1974, in the so-called AuCoin amendment.

What we are really doing is going from a year or a year and a half to as much as 40 years. And obviously, there is going to have to be some very persuasive and considerable justification if HUD is going to accept this, and if this subcommittee is to give it serious consideration.

Mr. GOLDBERG. I think the major point here is that the real financial risk to the Government is minimal. I think it is a perceived risk by the financial community.

And you must recognize, as I am sure you all do, that the financial community has x dollars to lend for various types of projects. It is going to lend, first and foremost, on what it feels is the most secure projects.

So in terms of availability of dollars that go into a specific area, the type of mechanism that you are dealing with is going to act either as an incentive or a disincentive.

And once dollars are brought into the area, then the strength of the financing mechanism is going to either increase or decrease the interest rate, the risk factor as perceived by the lender which may be—and in many cases is—different than the actual risk factor.

But in the financial world, speaking as one who is a banker, I can safely state that perception is the critical factor. It is the perception of reality that counts, not reality. When traders trade stocks or bonds, what they are dealing with is their perception of the reality. There is a discount factor after the news happens. There is always a rumor around Wall Street. And that is a perception of reality. And what you are dealing with is people's perception, not the actual reality.

And I think it is important that you understand that there is no risk involved here because the contract authority has been allocated; it does not affect your budget authority and with the type of pro-

gram that has been established, you will probably not have any vacancies.

But as long as you deal with that reality, you must deal with the other reality, that financial people have a perception of reality and you have to deal with their perception.

Mr. ASHLEY. I wonder to what extent you are addressing yourself to real risk or the perceived risk and thinking back to the 1974 debate on this point. I believe I am right in saying that Mr. Brown and others strongly took the view that it was as well to have the developer involved as well as the Federal Government. And I am not sure that at this time, that I have been persuaded to the contrary.

I can see precisely what you are saying, Mr. Goldberg. I can understand that lenders might perceive a risk here that is not real and would act accordingly. But my God, if we are to address ourselves to every perceived risk and to respond to that perceived risk as suggested here, and it does seem to me that that may not represent a very equitable basis, after all, the developer stands to make some money here. And the lender stands to make some money.

And you pointed out in your testimony that debt service is about 60 percent of the contract rent. Where does the other 40 percent go?

Mr. GOLDBERG. That is operating expenses, basically.

I would like to comment, though, on two aspects of what you have commented upon. First, the developer, in fact, still is at risk because particularly during the construction period, the developer has to get his payment or performance bonds and get the project built within budget or face serious financial loss. The developer must provide a letter of credit in many cases.

There is still a construction risk during the construction period that the developer, in fact, is very much involved with. Depending upon whether you have a PHA project, or whatever he remains in an ownership position, he will remain involved as well.

In terms of the lenders, it is true, a lender in many cases—certainly if I was a lender, I would prefer getting a 9-percent interest rate than a 6-percent interest rate.

But what we are coming before you today and saying is that we would rather see a 6-percent interest rate here than a 9-percent interest rate. That this will save the Federal Government money. The interest rate is one of the vital components that makes up the cost. So that, in fact, it is going to save the Federal Government money in the final analysis, not increase the Federal Government's exposure.

Mr. EDSON. Mr. Chairman, I might add a little bit to the history of 1974. And you were right on the position of the then administration. But at that time this subcommittee made a change in this proposal, and that was to permit FHA financing, whereas their proposal would have excluded it.

By that you put the Government at a 100-percent risk for 40 years; a far greater risk than what we are proposing here. Indeed, we think that this will be less risk to the Government than the FHA-insured projects which are the only other projects being done other than the State agency.

Mr. ASHLEY. In the language of section 8(c) (4) of the act, we find the language, no such payment will be made after such 60-day period,

one, if the unoccupied unit is insured under the National Housing Act, except pursuant to section 244 of the act or, two, if the Secretary determines that the dwelling unit is in a project which provides the owner with revenues exceeding the costs incurred by such project.

Would it be intended that this language be changed?

Mr. EDSON. The draft amendment that I believe Congressman AuCoin introduced does not have that proviso in there. Not because of any philosophical objection to it, because we think it is sound; it is just the difficulty of trying to compute the term.

I would have no objection to an inclusion of that if the language could be clarified.

If the staff and the members will recall, last year we had some difficulty drafting that provision because it is just hard to draft.

But no problem at all with the concept.

Mr. ASHLEY. Mr. Wylie?

Mr. WYLIE. Well, that was—the language I got into a little earlier. You say you have no difficulty with the concept, but some difficulty with the language. Would you add these words in the committee print to which I referred a little earlier that said these payments could be made either during the initial period or subsequently? --

Mr. GOLDBERG. That is what the regulations say, for 1 year. And in fact that—what we are suggesting is a removal of the 1-year limitation.

Mr. WYLIE. That would be 40 years then?

Mr. GOLDBERG. To make it whatever the contract life is, for the life of the contract.

Mr. WYLIE. The other day, under our bill, under the section 8 program it would be 30 years.

For the conventional loan.

Mr. GOLDBERG. Yes. The 30 years is the amendment that HUD has introduced for the private lender and certainly if it is for 30 years, then the suggestion would be here that the payment would in effect be there for 30 years.

If it were a public agency, it would be 40 years.

Mr. WYLIE. Would this encourage more participation in the section 8 program as distinguished from the FHA program?

Mr. GOLDBERG. Very definitely. Very, very definitely. There is no question whatsoever that if you have this type of security mechanism involved you would have a tremendous influx of capital coming into this program area and, furthermore, I think you would have many people utilizing this vehicle instead of FHA and, as Mr. Edson indicated earlier, one of the benefits here is that by doing this you will be lessening the Government's risk because in the FHA you would have 100-percent insurance.

Mr. WYLIE. The mortgage bankers suggested that we provide this same sort of risk security in the FHA program.

Mr. EDSON. Just a personal opinion. I have no objection to it although I don't see the same need for it if you have FHA insurance.

Mr. WYLIE. You are saying that you don't think there is a risk.

Mr. ASHLEY. I think what he is saying is that there is already a 100-percent absorption of risk.

Mr. GOLDBERG. We have had many projects in my firm, where we were looking at the potential for financing and where in order to make

the project financeable, the mortgage comes out at one level, and with the insurance, it comes out at another level, and you have got this gap in between and you say, well, thank you very much, and go back and try to find another way of processing it.

Mr. WYLIE. So you think there would be a shifting of participation in the private sector through your program from FHA programs?

Mr. GOLDBERG. Very definitely. I think that people would find this approach a much more expeditious way of proceeding. And, in fact, there is some evidence of this certainly in the old section 23 program.

You had involvement of private lenders, you had involvement of tax exempt lenders. And, in fact, people did not have to go through the FHA route there, where you had some type of a security mechanism that was perceived as being a very sound one.

In fact, it was more secure than that which we are suggesting here.

Mr. ASHLEY. Mr. Evans?

Mr. EVANS. Mr. Chairman, I have no questions at this time other than to comment that I think it is helpful for you to focus your comments on the problem, the problems that you perceive with section 8, and I think that we would all agree that we want to attract lenders to this type of project, and the question now is how to go about that.

Mr. GOLDBERG. Thank you, sir.

Mr. ASHLEY. Mr. Patterson?

Mr. PATTERSON. Thank you, Mr. Chairman.

Mr. Goldberg, I want to address the proposed amendment for a minute.

I think on page 5 you speak of the limitations and safeguards to protect the Government's interest. Payments can be made only if the owner is making a good faith effort to fill the unit and/or maintaining it in a decent, safe and sanitary condition.

Does that mean effort to fill and maintaining it or does that mean or?

And/or does not mean anything to me.

And I don't have the amendment before me. So I would like to have some clarification on that.

Mr. GOLDBERG. It should be and.

Would you delete the word "or" please?

Mr. PATTERSON. All right. Thank you.

The other question I had is, in the same regard, you indicated that the incentive would be there to rent units because debt service would be only about 60 percent of what the rental value would be, the contract rent.

I have not thought it through, but I wonder if you have, in terms of taxation, you know, another government policy of income taxation and the exemptions from deducting interest and other items from rental housing, as a business.

Would that incentive still be there on balance. I mean, or would someone, for example, find that it might be good to leave all these x number of units unavailable or open, vacant, and then, of course, they don't have to worry at either end?

If there is a guarantee on the debt service, then you have a floor, so you don't have to worry.

And, on the other hand, is there really enough incentive with the income tax laws to seek full occupancy?

Mr. GOLDBERG. I have not thought through the question of the income tax laws. But, as a matter of economic reality, I think there is no question but that the owner of the property, if he is only meeting debt service, is not making a profit at all. And certainly there is a very, very great incentive for him to rent up so he can have a profit margin somewhere in there whether it be a PHA owner or a private developer owner.

And I don't mean profit going into one's pocket, but profit that they would utilize or other housing programs which may be a surplus in the cash flow if they have 100 percent occupancy.

Mr. PATTERSON. I understand that basically would be true. But there are those who suffer a loss, tax-wise, each year and, of course, they appreciate and the value of the property appreciates and they have income from another source, maybe, if they are a medical doctor or something, and they invest in this sort of thing.

Mr. GOLDBERG. I think you are referring to tax incentives and generally that relates to the depreciation, which is a noncash type of item. So, therefore, it does not relate to the cash flow aspects. Depreciation is a noncash item.

Mr. KOLODNER. Of that difference, that is between the approximately 60 percent of contract rent attributable to debt service and the full contract rent, I would say, safely, 95 percent is operating expenses. It would be hard for an owner to have to make up that difference from his own cash resources. He would gain no advantage through any tax shelter laws, with that magnitude of difference.

Mr. PATTERSON. Thank you.

In regard to section 8, you know, I have only been around Congress a couple of years, we have beat it to death in both directions, I guess, I was not a part of the drafting of the legislation, and Secretary Harris now says we can make it work.

Let me ask you this, has this really worked at all and do you think the kinks can be worked out so that section 8, in fact, can be productive?

I assume you do, but I would like to hear you expand on it, up to now with section 8. Frankly I am very dissatisfied with it.

On the other hand, in the future I see it as possibly a good vehicle. And I would like you to comment on it.

Mr. GOLDBERG. I think the industry certainly would share your views on both factors.

The problem is, I think, that when you have stops and starts of different types of governmental housing programs, an industry tries to gear up, they try to learn the rules of the game. Once, they learn the rules, there is no more program. They start all over again at ground zero. It is sort of like playing yo-yos.

So that I think that section 8 is on the books. It is here. It exists. It is potentially a very viable program. It has a lot of good features to it. I think the major missing ingredient is that there has not been an adequate financing device within it.

There is no question but that some of the old programs were working very well. I think, in my own personal opinion, I think that there was a great bill of goods sold in terms of the fact that in the old days some of the housing programs I thought were quite effective, like sec-

tion 23, which was taken off the books or section 236, I think there was a lot of effectiveness in some of those programs. And I think that whatever alleged abuses may have been involved in those programs probably could have been handled. But that was not, in my own personal opinion, the focus of the administration at the time and they were convinced that they wanted to try and rearrange all of the programs and they succeeded.

But with what we have on the books is capable of producing—the industry is going to retool, they have learned a whole new language, a whole new program and they realize what the weaknesses are. And that is why we are here. And it has taken a while to realize what the basic differences are.

Mr. EDSON. If I may, we have one of our developer members from southern California from the Los Angeles area here today, Tom Safran, who perhaps could tell you how it is working in southern California, and what is needed to make it work.

Mr. PATTERSON. You know how to hit me where I live.

Mr. EDSON. I though it might have some local interest.

STATEMENT OF TOM SAFRAN, DEVELOPER, SOUTHERN CALIFORNIA AREA

Mr. SAFRAN. Good afternoon.

My name is Tom Safran, a developer in the southern California area. And I am working on several of these projects in the bay area. And I am working on two projects in your district, Congressman Patterson, both elderly, however.

A comment, section 8 works and is working very well subject to one problem. In every project I am involved with, which is 12 projects, they are all elderly, and we are using section 221(d)(4) financing. And it would work, and is working subject to HUD approving a sufficient rent.

And based upon the revised regulations that the Department is giving—a more liberal interpretation, the whole conflict over the contract rent determination and the factors that are involved, the program will be feasible and quite active in our district. And based upon a meeting of the NLHA developers, who met in Denver 1½ months ago, section 8 is beginning to work throughout the country. Related to the issue at hand here regarding financing, I can say having talked to some of the biggest lenders throughout California—the banks operate statewide, they operated and financed the old section 23 new construction program—and they have been unwilling to loan or not interested in section 8.

Under the old section 23 program, they guaranteed a payment of the full rent for the life of the term of the loan, of the subsidy contract, which was 20 years. However, today there is no such guarantee and I can say that, provided the two changes, the payment for principal and interest guaranteed, together with the 30-year term, would give us the 80-percent loan, a 30-year term, and a more favorable rate of interest.

The lenders have said, "We would be definitely more interested in looking at these projects, and provide you perhaps with a quarter per-

cent interest lower, a 30-year term instead of 20 years, and an 80 percent loan to value, instead of the normal 75 percent."

So, with all of these projects are working on, elderly to begin with, we could get a more favorable active interest on the part of lenders for conventional financing.

Whereas, now they say, "Well, forget it."

As a result we have all been willing to take the extra 3, 4, 5, 6 months' delay in dealing with section 221 (d) (4) financing.

So, that's speaking from my own experience.

Mr. PATTERSON. The 30-year provision you are referring to is on the floor tomorrow, I am advised. In the event you might not already know that, you may want to stay over another day.

The last question I have is, we heard testimony earlier this afternoon from the National Association of Home Builders that there is too great an emphasis on section 8, new housing, I mean existing housing. And they would rather see more emphasis on the new.

I am wondering what your response, I am wondering if you share that same concern.

You deal, I assume, with both existing and new. Is that correct?

Mr. GOLDBERG. That is correct.

Mr. PATTERSON. What do you think of the balance?

Mr. GOLDBERG. I don't think there has been enough new construction. And I think the reason for that is because it just could not be done. Certainly, as was indicated, most of these projects are elderly. So there are no family units at all being done.

The problem is that in the previous administration, they were very concerned to try to show a track record. They wanted to come back to Congress and they wanted to say, "This is what we have done. We've got this many starts on the books."

It was easier for them to be able to put it into existing units, than to try to have new construction, because there was no way of getting the new construction going.

So I think that the reason why that imbalance exists, I think that imbalances occurred because of the political problem, they wanted to prove that the program worked, that they were producing.

Mr. PATTERSON. Thank you. I have no further questions.

Mr. EVANS of Indiana [presiding]. I guess I will stand in as acting chairman.

Mr. Wylie?

Mr. WYLIE. I wanted to follow up on one point which was mentioned earlier. What would be your opinion about the conventional section 8 projects if GNMA purchases were prohibited?

Mr. GOLDBERG. I guess we have no objection to it.

Mr. EDSON. FHA insured, perhaps you might have been thinking of FNMA. There is going to be a FNMA conventional program which will allow purchases under section 8 which will be fine, it may bring more money into the field.

There are GNMA purchases now under the 7½ percent FHA only.

Mr. WYLIE. I am talking about conventional section 8, though.

Mr. GOLDBERG. I think Mr. Kolodner would like to add something to that.

Mr. KOLODNER. Thank you.

Mr. Wylie, with the GNMA program, there has to be sufficient points built in as a discount, in order to produce a yield on the mortgage comparable to the secondary market yield requirements. That is significantly higher than the yield which might be attainable if there was tax-exempt financing used. And that would restrict the amount of housing which could be produced through that type of vehicle, because of the higher interest rates.

Mr. WYLIE. Did you want to comment on that?

Mr. GOLDBERG. Mr. Safran?

Mr. SAFRAN. A developer looks to find the best possible financing you can get, and what would be available, and weigh his factors of how long it will take with HUD versus conventional, and is it worth it?

As an example, right now in California, you could get for section 8, if they like your location, and they are very particular about location, we could get a 20-year loan with possibly a 30-year amortization schedule, 9.24-percent interest and a 5-percent loan.

If the terms were 30 years, if we guaranteed the principle and interest payment, all of that would improve. If you would come up with that FNMA purchase program for conventional GNMA, excuse me, for conventional loans, it would greatly enhance and make the loans more desirable.

With those three changes particularly, or even without the debt service change, I would have to say, but with the 30-year change in the purchase program, the conventional program would be very attractive to private sponsors.

Mr. KOLODNER. The contemplated GNMA conventional multifamily mortgage purchase program would neither extend the term nor increase the value ratio, as I understand it.

Mr. WYLIE. Thank you.

You made the point that I was attempting to make with the other witness a little earlier. And that is that it seems to me as if we develop these programs, we learn that the people in the business may change it around, and it is hard for the layman to follow what is going on.

And I thought that the section 8 program was designed to replace two or three programs. At least that is what we were told when the section 8 program was designed to replace the section 23 programs, and section 236 and possibly public housing.

Is that not accurate as far as your understanding is concerned?

Mr. GOLDBERG. I think the concept is accurate, that the section 8 program is designed to be sufficiently flexible to cover what was previously a wide range of programs. However, the problem is that in trying to design sometimes a new package, we frequently leave out necessary ingredients.

It is kind of like when my wife decides to cook a dish for the first time. She leaves something out and I say, this doesn't taste so good. What did you do wrong?

She says, "Well, I did it all. Maybe I forgot the rock salt or something." [Laughter.]

It is the same thing here. I think you designed a flexible package that covers the broad range of housing programs but forgot the financing, and that is really the key to the whole thing.

Mr. WYLIE. Thank you very much.

Mr. EVANS. Mr. Patterson?

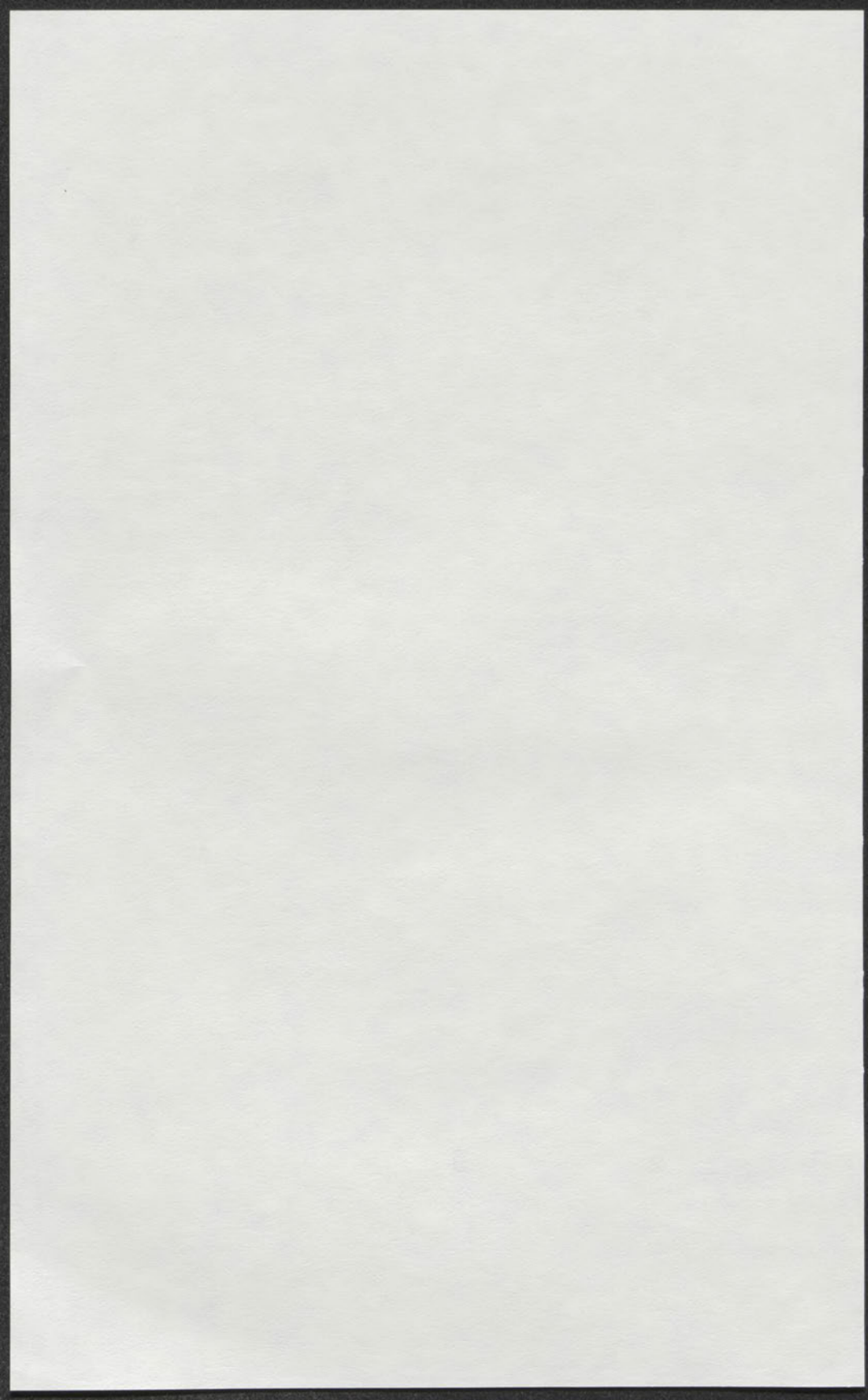
Mr. PATTERSON. I have no further questions.

Mr. EVANS. All right. We will adjourn the meeting.

I thank all of you gentlemen for testifying this afternoon. And your testimony certainly will be helpful to the subcommittee, and the subcommittee now stands adjourned subject to the call of the Chair.

Mr. GOLDBERG. Thank you.

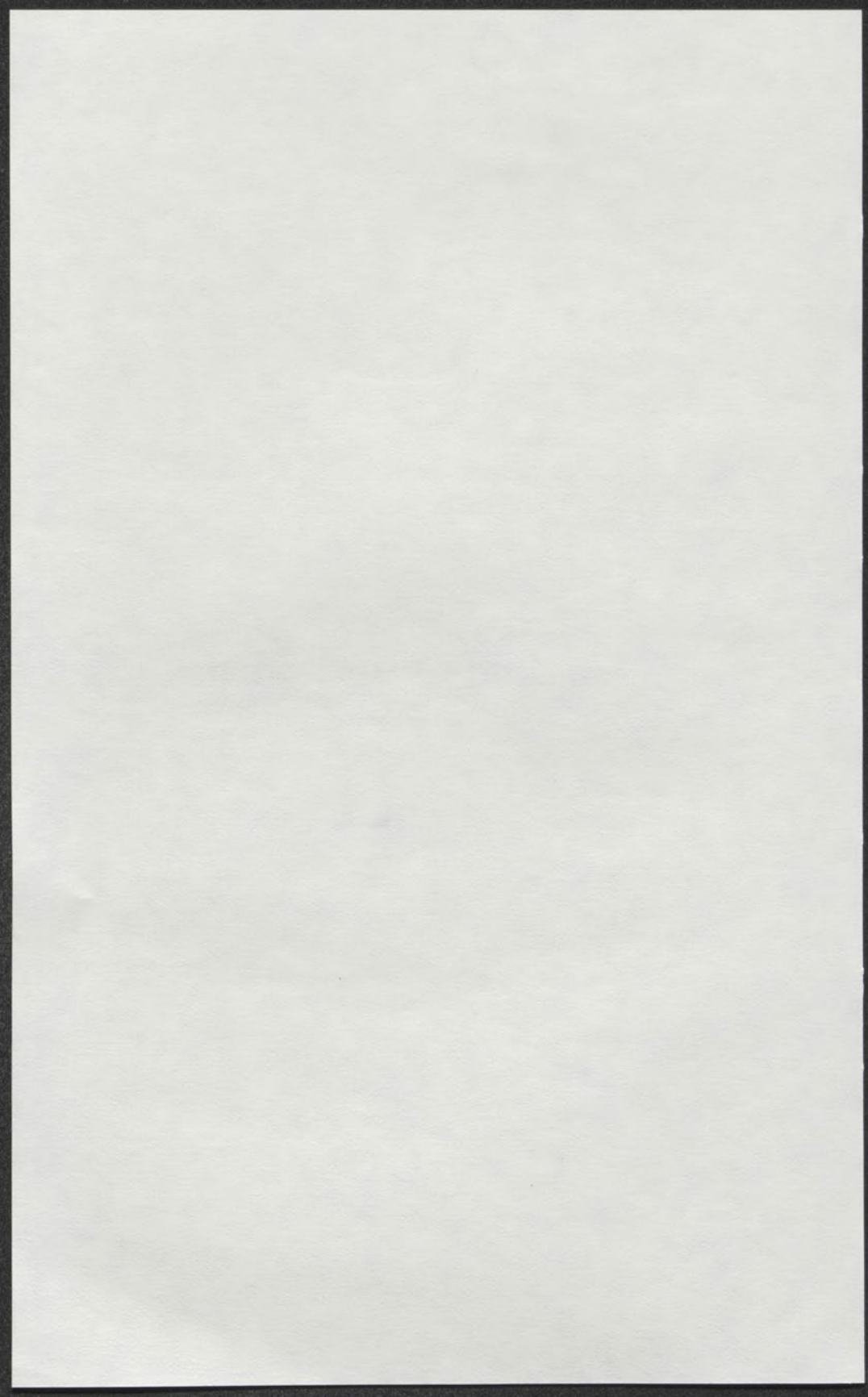
[Whereupon, at 4:25 p.m., the hearing was adjourned, subject to the call of the Chair].



APPENDIX

THE FOLLOWING MATERIAL WAS SUBMITTED
FOR INCLUSION IN THE RECORD

(2531)



STATEMENT OF HON. RICHARD L. OTTINGER, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF NEW YORK ON REAUTHORIZING THE COMMUNITY DE-
VELOPMENT BLOCK GRANT PROGRAM

Mr. Chairman, I am delighted to have this opportunity to testify on the future of the Community Development program.

Let me begin by applauding the recent initiative of the Secretary of the Department of Housing and Urban Development, Mrs. Harris. The proposal that she presented to this Subcommittee several weeks ago reflects an energetic and earnest approach to solving the problems of the nation's urban areas.

I was particularly pleased by the new formula which the Secretary proposes to implement. For quite some time, I have felt that the current Block Grant formula inadequately addresses the needs of the most severely deteriorating urban areas, particularly in the older Northeast and Midwest regions. In January of this year, I introduced H.R. 2113, a bill that would add age of housing to the formula. I was, therefore, very pleased to learn that this important measure of urban need was included in the Administration's program.

In addition, the new Urban Action program seems an innovative approach to the economic dimensions of inner city blight, and I look forward to learning further details regarding the operation of that new program.

I must, however, join with other witnesses who have appeared before the Subcommittee to question whether the Administration's proposal adequately meets the needs of the smaller cities of the United States.

In particular, I am concerned about the impact which the reduction of hold-harmless grants will have upon those entitlement and non-entitlement cities that are presently engaged in effective redevelopment programs. In White Plains, New York—for, example—the city has been able to proceed with a major rebuilding plan. The program is just catching hold, as a small and dedicated staff works with citizens organizations to rehabilitate and conserve the existing housing stock, to replace obsolete utilities serving these neighborhoods and to provide essential social service programs not otherwise funded by the Congress. To permit this successful program to falter now due to a sharp drop in the funding level—from \$3.7 million per year to an annual \$594,000—would be disastrous for the people of White Plains.

For those cities which have planned their community development activities on the basis of the funding they have received for the last three years, and are now making real progress, the sharp reduction caused by the phaseout of hold-harmless funding will deliver a severe blow to the struggle against urban blight. There must be stability in such programs. You can't turn them on and off like a spigot.

Mr. Chairman, I am aware of the problems that have been documented in several reports, concerning the use of community development funds for purposes that are not in line with the principal objectives of Title I. Those funds should be used solely to provide a suitable living environment for low and moderate income people.

The way to solve this problem, however, is not to cut off funds to those cities that are doing a commendable job, but rather to insist through better defined guidelines and diligent administrative oversight that communities use the money they are allocated for the purposes intended by the Act.

The Administration has already recognized the need to insure stability of funding through the mechanism of a dual formula. Let us then implement a "triple formula," where the third option available to cities would be the continuation of the hold-harmless grant.

Finally, Mr. Chairman, I would like to bring to the attention of the members of the Subcommittee a very immediate problem in the administration of the block grant program. One of the cities in my district—White Plains, New York—has been notified that the 1973 Census estimates indicate that the city's population has fallen just below 50,000. As a result, HUD has cancelled its status as a metropoli-

tan city, indicating that it would no longer be eligible for entitlement grants. I believe that the same situation exists in Covington, Kentucky.

The effect of this decision clearly contradicts the intent of the Administration's most recent Community Development policy statements. Mrs. Harris declared in her testimony before this Subcommittee that the Federal government is committed to fighting the decline of "neighborhoods—the traditional building blocks of a great city." The inclusion of "growth lag" as a factor in the entitlement formula exempts the Federal commitment to this goal. For the Administration now to suspend entitlement status to those cities where the population is falling below 50,000 would clearly contradict its initiative against urban decline and the critical necessity for stability in urban development programs.

Furthermore, a close scrutiny of the causes for the decline in population would indicate that a suspension of funding to cities like White Plains would penalize them for having undertaken substantial urban redevelopment programs. In the course of community development and categorical programs of recent years—involving urban renewal, rehabilitation and highway construction—some dislocation has taken place, enough to drive the population below 50,000. When new and rehabilitated housing is completed, additional persons will migrate back into the inner city.

Congress should make one of two adjustments in the statute to correct this situation. First of all, legislation should be enacted to insure that any city which qualified as a metropolitan city in 1974, when the program was initiated, should remain a metropolitan city for the life of the program. This is the approach that I used in my own bill.

Alternatively, at a minimum the statute should be altered to stipulate that the estimate of a city's population would include the population which is estimated to reside in housing units completed, under construction or planned in conjunction with the urban renewal and community development programs.

I urge the Subcommittee to include amendments along these lines when the final legislation is marked up.

Mr. Chairman, during the first three years of the Community Development program, we have made some progress in attacking the problems of urban areas. However, if the Federal government is intent on actually providing "decent housing and a suitable living environment" for all Americans, then much remains to be done.

The changes that have been proposed by the Administration are an impressive step toward providing the assistance that declining cities so urgently need. But let us not ignore the smaller urban areas in the country. The poor and ill-housed in these cities are just as poor and just as ill-housed as those who live in New York or Detroit or Newark. And the Federal government has no less a commitment to serve them.

STATEMENT OF HON. JAMES L. OBERSTAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA REGARDING REAUTHORIZATION OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

Mr. Chairman, and distinguished members of the Subcommittee, thank you for this opportunity to share with you some proposals for revision and extension of the Community Development Block Grant Program.

The Community Development program has made a major contribution to improving the quality of life in many American cities and towns. Nonetheless, HUD's track record should be carefully examined, as your committee is doing, to help Congress evaluate the strengths and weaknesses of the legislation, and guide us in developing a more effective program.

Following is a list of some of the key areas of concern I would like to see addressed by Congress:

- (1) Over-all funding should be increased.
- (2) The non-metro share should be increased to more adequately reflect the relative needs of rural areas. GAO figures indicate that a 65/35 percent split would be far more equitable than the present 80/20 percent split. Non-metro areas have been badly short-changed under the current formula, which they deeply resent. I strongly support a 65/35 percent formula. While this figure would apply to

total national funding, it would likewise be more equitable to allocate funds within states on the basis of the urban/rural balance in each State.

(3) The Administration's proposed Urban Development Action Grants program should be approved, but specific provisions should be included to guarantee small towns access to these funds.

(4) Provisions are needed to permit communities with extensive needs to file applications for a multi-year development program, while continuing the present system of annual applications for communities with limited needs.

(5) A designated percentage of the funds should be set-aside for Native American reservations and communities on a national basis, so they do not compete with other communities within each State.

(6) Application forms and procedures for small towns should be simplified and shortened.

(7) States should have a role in the administration of the program. Since States vary in their internal structures and delivery mechanisms, HUD could enter into cooperative working agreements with individual States, covering, for example, participation in the determination of ranking procedures.

(8) Section 811 should be funded so that States can provide technical assistance to small communities which do not have the resources or know-how to apply for assistance.

(9) Small communities should be allowed to use CD funds for housing rehabilitation and social services without reference to other CD activities.

Again, thank you, Mr. Chairman, for permitting me to express my views. I appreciate the time and energy you and the other members of the subcommittee have devoted to this legislation and know that communities all over the United States will benefit from your efforts.

STATEMENT BY HON. E (KIKI) DE LA GARZA, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman, I respectfully urge approval by your Committee of my bill, H.R. 319, to provide that certain places within standard metropolitan statistical areas be considered rural areas for purposes of Title V of that Act.

The purpose is simply to make small cities included in standard metropolitan statistical areas eligible for loans under the Rural Housing Program.

The Farmers Home Administration is authorized under existing law to make loans in towns with population between 10,000 and 20,000 only if they are not included in a standard metropolitan statistical area. In addition, a determination must have been made by the Secretary of Agriculture and the Secretary of the Department of Housing and Urban Development that a serious lack of mortgage credit exists.

The latter provision would not be affected by H.R. 319. Only the stipulation regarding standard metropolitan statistical areas would be removed. It is not equitable or just that small cities should be penalized solely because they are located in such an area when they are not in fact a part of the specific SMSA. There are such towns in my District, as I am sure there are in other Congressional Districts, and I would like to see their citizens treated fairly.

Thank you for your consideration, Mr. Chairman.

STATEMENT BY HON. BENJAMIN A. GILMAN, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF NEW YORK, ON COMMUNITY DEVELOPMENT

I appreciate this opportunity to testify before this subcommittee on the important issue of Community Development Funds. This funding is of prime importance and interest to the communities in my own 26th Congressional District, which, like most of the urban Northeast, is engaged in the war against urban blight.

Rockland County, in my District, has been classified an urban county, and has utilized the \$817,000 received in 1976 to rehabilitate homes, renovate senior citizen centers, and remove barriers to the handicapped.

The Village of Nyack, in Rockland County, has been extremely hard-hit by urban blight. Located on the Hudson River in the transportation corridor ten miles north of New York City, Nyack was affected within the past twenty years by a rapid growth of shopping centers outside the community and an influx of immigrant population into the downtown region. However, the leaders of Nyack, with far-sighted leadership, utilizing two years of community development block grants, have begun to rebuild and renovate their downtown neighborhoods. Nyack received over half a million dollars in CD funds over a two-year period.

My hometown of Middletown, New York, a city of over 20,000, has been impacted by the decline so common to small cities in the northeast. Desirous of getting away from narrow streets and a lack of parking in the downtown section, businesses made a mass exodus to new, spacious shopping centers outside the city limits, leaving vacant buildings to decay. However, the community leaders sat down and mapped a positive program to redevelop the stricken areas. After receiving two years of Community Development funds, including \$431,000 last year, Middletown is on its way toward achieving its dream of a vibrant downtown. Through code enforcement, rehabilitation and related public improvement programs, Middletown is beginning to roll back the tide of urban decay.

The village of Spring Valley, a rapidly-growing suburban community, is being faced with the prospect of newly-built housing developments outside the village attracting residents and businesses away from the core. Spring Valley has used Community Development block grants for improvements to the business district, completion of the construction of a neighborhood facility, a program of demolition of dilapidated structures, code enforcement, to keep its shrinking tax base within the limits of the Village.

The City of Port Jervis, located at the tristate borders of New York, New Jersey, and Pennsylvania, was at one time a major transportation center. The decline of the railroads severely affected the Port Jervis area. Rehabilitation and expansion of the Senior Citizens Center, construction of a park on Church Street, construction of a city playground, street reconstruction and improvements, and implementation of a storm sewer plan were all carried out by Port Jervis' city fathers, with the utilization of community development funding.

Last Friday, your subcommittee heard testimony by James Taylor, City Manager of Newburgh, an historic community in the Hudson River Valley. Mr. Taylor told you about Newburgh's ambitious community development program, which has given top priority to the upgrading, on a neighborhood basis, of the city's existing housing, and undertaking greatly needed physical improvement to the city's streets. As an Entitlement city, Newburgh has received \$2.11 million in each of the past two years.

In summary, the 26th Congressional District of the State of New York is proof positive that Community Development does work, and that this vitally needed program is essential to the survival of the urban communities in the Northeast.

However, I would like to make some constructive comments concerning the continuation of this important program.

I have been informed that the current formula would phase out municipalities with populations of less than 50,000 over the next three years. That could impose a severe restriction upon our smaller communities.

Newburgh, for example, will receive an additional \$2.11 million in the upcoming fiscal year, but would be reduced to \$1.4 the following year, \$750,000 the year after that, and thereafter never be eligible for funding again.

I believe that it is essential that the current level of funding for Community Development "hold-harmless" communities be extended without regard to population for at least an additional three-year period.

Our smaller communities should not be penalized for having a population of less than 50,000. The recent public works act expended most of its funding in the large, metropolitan areas at the expense of the small urban communities. It would be a tragic mistake for the Community Development program to "put all its eggs in one basket," expending its resources in the metropolitan regions while our smaller urban centers decay.

Our communities are looking forward to the continuation of this vital community development program, affording them a chance to revitalize.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 11, 1977.

HON. THOMAS L. ASHLEY,
Chairman, Subcommittee on Housing and Community Development, House Committee on Banking, Finance and Urban Affairs, Washington, D.C.

DEAR MR. CHAIRMAN: This letter and its attachments relate to continuation of the Housing and Community Development Act of 1974. I would be sincerely appreciative if my letter and the attachments can be included in the official record of the Subcommittee's hearings on the Housing Authorization Act for Fiscal Year 1978.

The attachments are materials made available to me by Mr. John Anthony, Executive Director, Region VI Planning and Development Council, Fairmont, West Virginia; and Mr. Terry Tamburini, Executive Director, Mid-Ohio Valley Regional Council, Parkersburg, West Virginia. Both of these planning agencies have worked extremely closely with local communities and HUD on implementation of the Community Development Block Grant (CDBG) program on a multi-county basis in West Virginia. For that reason, I consider these two gentlemen's views to be based on working experience and encourage you and the Subcommittee staff to give their observations and recommendations careful consideration. Much of what they say can no doubt be extrapolated to reflect the CDBG situation in other parts of the Nation.

I might point out that in the First District of West Virginia, we have experienced all four types of CDBG funding. We have "hold harmless" grantees, entitlement communities, Metropolitan Area Discretionary Balance recipients and Non-Metropolitan Area Discretionary Balance communities. Thus, we are intimately familiar with the benefits and problems associated with all aspects of the CDBG program.

Let me say, too, that the CDBG program has had a beneficial impact on West Virginia and many of its communities. As Mr. Anthony explains in his letter, the Pittsburgh Area Office of HUD, which services West Virginia, has stated that 74 projects were funded in the State during the first two years of the CDBG program as compared with 11 projects across the state during the 25-year history of the old Urban Renewal Program. Thus, it is fair to say that the CDBG program is reaching more areas and producing badly needed community improvements that could not be realized under the HUD program as it was organized prior to passage of the Housing and Community Development Act of 1974.

However, there are various aspects of the CDBG program that cause me some concern, including:

(1) *Discriminatory Administrative Regulations.*—Entitlement and hold-harmless communities have great latitude in determining how to spend CDBG funds. At local discretion, a community's allocation can be used for a variety of capital improvement program or service activities. This, then, is truly a "block grant" program with wide latitude for community leaders to establish priorities. Regrettably, however, the CDBG program for Metropolitan and Non-Metropolitan Area Discretionary applicants does not offer similar local option. In fact, HUD, through program guidelines and regulations, has practically turned this part of the CDBG program into a categorical grant. HUD tells the communities what they can apply for and local priorities or needs are ignored unless they happen to coincide with the priorities established by HUD. This is a serious frustration for local community leaders, and it is my hope that the subcommittee will take a close look at this problem. Some method should be developed to consider local priorities and needs when reviewing Metropolitan and Non-Metropolitan Discretionary applications. Unless that happens, we will continue to see sharp contrasts in activities benefiting from CDBG funds—sometimes within the same county. For example, an entitlement community can use CDBG allocations to build a fire station, but a Non-Metropolitan Discretionary applicant cannot.

(2) *Instability of Program Regulations and Guidelines.*—This problem particularly affects Non-Metropolitan and Metropolitan Area Discretionary applicants. During the first three years of the CDBG program in West Virginia, ap-

plicants in these categories have been faced with vastly altered program guidelines and regulations each year. The first year HUD mandated an emphasis on projects to reduce threats to public health and safety. But in the second year, the emphasis was switched to sewer and water projects.

In Fiscal Year 1976, the HUD-mandated emphasis was changed again and priority was given to applications dealing directly with housing proposals. This has naturally thrown potential applicants into an annual tizzy. How can a community expect to "play the game" if the rules keep changing constantly? If we are going to have HUD-mandated priorities for Non-Metropolitan and Metropolitan Area applicant's (and I have already discussed the inequities of that approach above), the very least we can do is assure that there is some consistency in the guidelines and regulations governing this portion of the CDBG program.

(3) *Need for Entitlements to Medium-Sized Towns.*—Mr. Anthony discusses this subject very well in his letter (see attachment No. 1). Medium-sized towns that lie outside SMSA's share many problems with similar size towns that happen to fall within an SMSA. However, they are not assured of a reliable source of CDBG funding. They have to compete with all other Non-Metropolitan Discretionary areas, regardless of size, and have no guarantee they will be funded from one year to the next. As an example, while Weirton, West Virginia, (population 27,131 and the entitlement community in the West Virginia portion of the Steubenville, Ohio/Weirton, West Virginia, SMSA) is guaranteed through entitlement more than \$200,000 annually, Clarksburg, West Virginia, (population 24,814) has no assured source of CDBG funding. Yet, Clarksburg, the urban center of a county with 73,028 persons, faces the same problems as Weirton, the urban center of a county with 39,749 that just happens to fall within an SMSA. Entitlements for communities such as Clarksburg that happen to fall in Non-Metropolitan areas is something I encourage the Subcommittee to give serious consideration.

(4) *Metropolitan Area Discretionary Balance.*—A major problem with the CDBG program in its first year of operation has been the woeful lack of funding available to Metropolitan Area Discretionary Balance communities. I realize this situation evolved when an unexpectedly large number of so-called "urban counties" qualified for priority funding. Yet, this is of little solace to those communities that have suffered from under-funding as a result. As an example of the hardships, let me again cite the West Virginia portion of the Steubenville/Weirton SMSA. This portion of the two-state SMSA contains two counties with a combined population of 69,434. The central city (Weirton) has a population of 27,131, or 39 percent of the total. Yet, Weirton under the entitlement program in Fiscal Year 1975 got twice as much CDBG money as was available to the other local governmental jurisdictions responsible for providing services to 61 percent of the population of the area. These figures illustrate why local elected leaders in Metropolitan Area Discretionary Balance communities feel cheated by the CDBG program. Assuring adequate funding in this portion of the CDBG program should be high priority in the extension legislation.

(5) *Urban-Rural Distribution of Funds.*—Mr. Anthony discusses the existing 80-20 split in distribution of funds extensively in his letter and in his attachments (No. 2 and No. 4). As the GAO states: "If the Congress intended to distribute Community Development Block Grant funds on the basis of needs, as evidenced by the variables used in the Community Development Block Grant formula, then the Congress should change the statutory 80/20 percent funding allocation. . . ." GAO recommends a 66/34 split. I would encourage the Subcommittee to give the GAO recommendation, which is strongly endorsed by Mr. Anthony, very serious consideration. Our rural areas have many urgent needs which could be better served by a more generous allocation of CDBG funds.

Mr. Chairman, I appreciate the opportunity to comment on the CDBG program and will be grateful for your consideration of my views and those of my constituents as the Subcommittee deliberates extension of the Housing and Community Development Act of 1974.

With very warm personal regards, I remain

Sincerely,

ROBERT H. MOLLOHAN,
Member of Congress.

[Attachment No. 1]

THE REGION VI
PLANNING AND DEVELOPMENT COUNCIL,
Fairmont, W. Va., February 9, 1977.

Congressman ROBERT H. MOLLOHAN,
Cannon House Office Building,
Washington, D.C.

DEAR CONGRESSMAN MOLLOHAN: As you are aware, Congress will be holding oversight hearings, this Spring, on the HUD Community Development Act. The purpose of these hearings will be to determine if any legislative changes need to be made to improve the impact of this legislation.

Let me, at the outset, commend you for your past activities related to this legislation. It is, generally speaking, a fine piece of legislation which has had considerable impact in many of our West Virginia towns and counties. Parenthetically, I would mention that the HUD Pittsburgh office is also pleased with the impact of this legislation in West Virginia. Mr. Lynn Daniels of HUD Pittsburgh has informed me that he has 74 active Community Development projects in West Virginia after two years of the present act while HUD had only 11 projects in West Virginia during the 25 years life of the Old Urban Renewal Program. Mr. Daniels also is pleased with the "visibility" of the West Virginia projects as compared, for example, to the way that many of our larger cities, such as Pittsburgh, have spent their funds. I should note that Mr. Daniels is a very competent operative and is very much "on our side."

There are several things which should be changed in any amended legislation. Please note that my comments are almost totally related to the "discretionary" fund because of our 6 counties and 38 towns, only Grafton is eligible for CD funding other than discretionary.

The first problem that we face is the Congressional mandated 80/20 split between metropolitan and non-metropolitan areas. I call your attention to a report prepared by the General Accounting Office (see Attachment No. 2), in which GAO clearly points out that, using HUD's own criteria on poverty and overcrowding, the funding split should be 66/34 rather than 80/20. If possible this legislation mandated ratio should be changed.

Second, Region VI (and I believe many other areas in this Nation) have too many communities eligible for CD for you, and for us, to be able to secure funding for them on a regular basis. In short, three times as many communities are made angry each year as are made happy when CD grants are awarded. One way to solve this type of problem is to restrict the number of communities and counties that are eligible for HUD CD funds by placing a lower limit of eligibility on HUD CD at 5,000 plus population. This would reduce the eligible units in Region VI to 11 (six counties and five towns).

The corollary of this is, to adequately fund the Rural Development Act. With a bottom population limit of 5,000 on HUD CD, the remainder of our towns could seek funding from the Rural Development Act. Please note that most of the monies currently available from the Rural Development Act are loans. In all fairness, why should rural America have only loans available to it, while urban America has access to 100 percent grants. Please do not construe my rhetorical questions as any criticism of you and your past efforts to help the people of West Virginia. The vast number of West Virginians, myself included, have a deep respect for the role you have played in helping us. We also know that you will continue to help us in the future.

Third, current legislation provides CD funds to entitlement communities for the asking, while discretionary communities are required to compete for funding on an annual basis. Please realize that the magnitude of this competition causes exhaustion to the regional "Government Assistance" teams. I say this not in complaint. I can assure you that we will continue to put out the required effort to secure CD funds regardless of the personal cost. But please understand that our regional governmental assistance teams are a valuable resource to you, in that they provide the mechanism to allow you to pour CD funds into this State and be assured that it will be used properly. To continue to physically and mentally

exhaust them in a unfair competition is not in your best interest nor in ours, nor in that of the people of West Virginia. I think that some clause should be placed in the legislation that will permit a town or county to be placed in the entitlement category after, say, three years of finishing their discretionary funds in a timely way. Please note Attachment No. 2 from HUD which identifies the need to have rural areas secure CD funding on an entitlement basis.

Fourth, we in Region VI would like to see our major cities and towns funded on an annual basis. Cities such as Bridgeport, Clarksburg, Fairmont, Grafton and Westover are best equipped administratively to spend CD funds wisely. This would not require any legislative change. Your support in this position with HUD Philadelphia and HUD Pittsburgh would help them to focus on this particular need.

In my capacity as staff advisor to the Non-Metropolitan Development Policy Committee of the National Association of Regional Councils, I will advocate the position described above. I'm hopeful that myself and others can get NARC to support this position in the oversight hearings. My proposal to this committee is included as Attachment No. 3.

I would be willing, if you deem it desirable, to testify before the appropriate sub-committee related to the issues described above.

In any case, I hope you will help Region VI and other parts of rural and small town America in solving this problem. Thank you again for your many instances of aid in the past.

Sincerely,

JOHN D. ANTHONY,
Executive Director, Region VI.

[Attachment No. 2]

EXCERPT FROM REPORT BY THE COMPTROLLER GENERAL OF THE UNITED STATES : WHY
THE FORMULA FOR ALLOCATING COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS
SHOULD BE IMPROVED

Department of Housing and Urban Development

The formula used by the Department of Housing and Urban Development to distribute Community Development Block Grants results in inequities in the allocation of funds to communities. That formula should be improved by adjusting for regional cost-of-living differences and by having all elements of the formula referable to the same date.

This report also discusses the allocation of Community Development Block Grant funds between metropolitan and nonmetropolitan areas and the effects of counting poverty twice in the formula.

CHAPTER 4 : POSSIBLE IMPROVEMENTS TO THE 80/20 PERCENT ALLOCATION AND
DOUBLE-WEIGHTING POVERTY

According to the Department of Housing and Urban Development, the Community Development Block Grant formula allocates funds on the basis of needs according to a recipient's amount of population, poverty, and overcrowded housing. However, the Housing and Community Development Act of 1974 provided that, (1) 80 percent of the amount of funds be distributed to standard metropolitan statistical areas and 20 percent to non-standard metropolitan statistical areas and (2) poverty be given double weight in the CDBG formula. The 80/20 percent allocation of funds between SMSA's and non-SMSA's is not consistent with the extent of population, poverty, and overcrowded housing which exist in SMSA's versus non-SMSA's.

In addition, our analysis of the formula revealed that many cities with large levels of poverty received less than they would have received if poverty had been weighted only once instead of twice.

The 80/20 percent allocation.—The 80/20 percent allocation of funds between SMSA's and non-SMSA's, as provided for in section 106 of the act, favors SMSA's over non-SMSA's in the allocation of CDBG funds. The demographic values used by HUD for the fiscal year 1975 allocations do not reflect an 80/20 percent division of population, poverty, and overcrowded housing between SMSA's and non-SMSA's as shown in the following table.

SMSA/Non-SMSA percentages for 3 variables

SMSA :	
A. Population	73
B. Poverty	60
C. Overcrowded housing	69
D. Weighted average (A plus 2B plus C divided by 4)	66
Non-SMSA :	
A. Population	27
B. Poverty	40
C. Overcrowded housing	31
D. Weighted average (A plus 2B plus C divided by 4)	34

Source: Community development block grant program: 1st Annual Report, Department of Housing and Urban Development, table B.1.

The table shows that using any of the three variables or combination of the variables to divide the funds between SMSA's and non-SMSA's will lower the amount of funds going to SMSA's, relative to the 80 percent mandated in the law. For instance, if all variables were combined as in the formula, SMSA's would receive 66 percent of the funds or a reduction of 17.5 percent, while non-SMSA's would get 34 percent of the funds or an increase of 70 percent.

Conclusions.—The 80/20 percent allocation of CDBG funds between SMSA's and non-SMSA's is not consistent with the actual distribution of population, poverty, and overcrowded housing in those areas. If the funds were distributed based upon the actual amounts of population, poverty, and overcrowded housing in SMSA's and non-SMSA's, the funds would be distributed between the two areas in a 66/34 percent split, based upon the data used in the fiscal year 1975 allocations.

Recommendations to the Congress.—If the Congress intended to distribute Community Development Block Grant funds on the basis of needs, as evidenced by the variables used in the Community Development Block Grant formula, then the Congress should change the statutory 80/20 percent funding allocation between standard metropolitan statistical areas and non-standard metropolitan statistical areas and permit the Department of Housing and Urban Development to allocate funds on a basis which approximates the actual differences in the demographic values between the standard metropolitan statistical areas and non-standard metropolitan statistical areas.

If the Congress wanted the areas with higher poverty ratios to receive the most funding then the formula should be revised. One solution would be to assign recipient communities of Community Development Block Grant funds the greater of the amounts from weighting poverty once and twice in the formula—with all allocations then reduced by the same percentage so that total allocations will equal the amount appropriated.

Suggested language for revising the act to achieve our recommendations is included as appendix I.

[Attachment No. 3]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
OFFICE OF THE ASSISTANT SECRETARY
FOR CONSUMER AFFAIRS AND REGULATORY FUNCTIONS,
Washington, D.C., December 24, 1976.

DEAR FRIEND: The mayor of Eufaula, Oklahoma, said the Community Development Block Grant (CDBG) program was working well. The lawyer from the Berkeley, California, National Housing Law Project said it had serious flaws.

More than 150 individuals crowded the conference room in HUD Headquarters, to present their views to the December 7th consumer forum. They came from Florida, Michigan, Ohio, Illinois, New Jersey, New York, from all over the country.

Acting Assistant Secretary for Community Planning and Development, Warren H. Butler, whose office administers the CDBG program has been most cooperative in this process and was present with members of his staff, to listen, to discuss, to agree and to dissent.

The 7-hour forum, with its tapestry of people from small towns and big cities, some with praise and some with complaints, with its energetic give-and-take

between community group representatives and HUD policy-makers, was the dramatic highpoint of an arduous and lengthy process.

* * * * *

The problems of rural and smaller towns were also reflected in the meeting's discussion. The Housing Assistance Council spoke to the need to end year-by-year rural funding, while an Oklahoma development district council member asked for revised application procedures to end the necessity for repeating the total process over each year.

* * * * *

Though Mr. Butler, both in his discussion and written paper, differed with many of the citizen groups' findings, he spelled out a number of recommendations which he was actively considering, including:

"Inclusion in the performance standards of a requirement that citizens be provided a status report of progress in executing the community development program.

"Indication by the recipient, in the performance report, of whether or not the views of citizens were the basis for any decision on how block grant funds were used and/or the extent to which citizens planned housing activities.

"Preparation of a monitoring guide/manual for the specific use of consumer groups that summarizes the key aspects of the regulations, handbooks, administrative policy letters, and manuals.

"The manner and extent to which informational techniques on the preapplication and application process can be improved."

A number of recommendation concerning the question of "maximum feasible priority" were also provided by Mr. Butler.

By the end of the day, the forum had reached a consensus on the need for number of legislative changes in both CDBG purpose and procedures:

Provide grants for staff and technical assistance to make citizen participation an effective force.

Clarify the dollars and resources that should go to serve low- and moderate-income persons.

Change the formula for rural areas, to end one-year-at-a-time funding.

Alter the statutory provision that gives to local officials sole program responsibility.

A parallel set of regulatory changes was also recommended by the forum:

Use discretionary money to fund training and technical assistance for citizen participation.

Mandate minimum standards for citizens participation throughout the process, including pre- and post-application and in the monitoring and evaluation stages.

Structure standards for citizen hearings and meetings, create three types of meetings for giving citizens information about the program, getting information from them about their priorities, getting their views on the final proposal.

Review each local government's system for consumer complaint handling.

Respond to serious complaints that have merit and at the same time withholding the community's application approval.

Develop task forces, comprised of citizen groups in each community, to monitor and evaluate, and to provide staff back-up for citizen participation.

Develop models of what is and is not acceptable for citizen participation, and measure communities against these models or their equivalent.

Develop stricter enforcement procedures, including independent review by HUD of each local government's response to complaints.

In general, it was agreed that all these recommendations and issues raised were interrelated, emphasizing the need for a clearer understanding of the CDBG objectives and standards against which consumer groups can judge both the community and HUD adherence to these goals.

[Attachment No. 4]

COMMUNITY DEVELOPMENT POLICY

The 80/20 percent allocation of funds between SMSA's and non-SMSA's, as provided for in section 106 of the Housing and Community Development Act of 1974, favors SMSA's over non-SMSA's in the allocation of Community Development Block Grants funds. The demographic values used by HUD for the Fy

1975 allocations do not reflect an 80/20 percent division of population, poverty and overcrowded housing between SMSA's and non-SMSA's. The actual weighted average using HUD's own criteria shows that the legislative formula should be 66/34 percent rather than the 80/20 percent now used.

Congress will have oversight hearings in the spring of 1977 concerning amendments to the Community Development Block Grant Program.

The non-metropolitan development committee should make the following recommendations to the NARC policy board concerning CDBG:

1. The CDBG program was meant to be an urban program. At present, it is being used in the rural United States as a substitute for the Rural Development Act, therefore, (a) Fund the Rural Development Act and, if funded, (b) legislate a lower population limit of 5,000 on municipal and county applicants for CDBG funds.

2. The rural parts of the United States usually receive CDBG funds from the discretionary section of the act. They are forced to compete annually, whereas, the urban units of government are handed this money, therefore, (a) discretionary funds should be allocated on a subarea basis and distribution of these funds should be made by the local governments based on the statute, HUD guidelines and regional priorities.

3. Rural United States is discriminated against by the 80/20 percent distribution of CDBG funds which has been legislated by Congress. A GAO report shows that HUD's criteria indicates a 66/34 percent split, therefore, alter the legislated formula to 66/34 percent from 80/20 percent.

4. Guidelines for discretionary CDBG applicants are restrictive compared to metro guidelines, therefore, return CDBG grants to their original congressional intent by denying HUD the right to write guidelines which restrict use of discretionary grants.

5. The 701 program is having difficulty being funded, therefore, add a section to the CDBG act which sets aside specific funds for local and regional long range planning as a substitute for 701 funds.

[Attachment No. 5]

MID-OHIO VALLEY REGIONAL
PLANNING AND DEVELOPMENT COUNCIL,
Parkersburg, W. Va., February 18, 1977.

Mr. THOMAS CARROLL,
Deputy Director, The Governor's Office of Federal-State Relations, The State
Capitol, Charleston, W. Va.

DEAR MR. CARROLL: Pursuant to your request, I am outlining for you our primary impression of the non-metro area allocation of West Virginia funds under the Community Development Block Grant (CDBG) portion of the Housing and Community Development Act of 1974. I will cite our two primary objections and follow this with the reasons for our negative impressions.

(1) The CDBG program was originally intended to assist in the provision of community facilities vital to the improvement of the community infrastructure as perceived by the individual community. Yet many of our member's most vital programs for long-run managed community viability were given little consideration.

(2) Non-metro communities in West Virginia seem to have been judged with different criteria than non-metro communities in other states, e.g., Ohio despite the fact that HUD is a Federal or interstate agency.

The principal reasons for our disappointment are as follows:

(1) The non-metro portion of our Region is, generally speaking, still looking for the basis of community development, i.e., water and sewer. Our rural officials feel that only with a solid foundation of effective community facilities can balanced growth be accomplished. Obtaining water for homes which have no predictable or safe supply of water must be regarded as addressing one of the primary symptoms of housing substandardness. Conversely rehabilitating substandard units without providing a quality water supply is an empty gesture in many cases. And locating low-income housing complexes in rural areas devoid of a long-range utility system is not serving the people;

(2) For the first time we employed a thorough and systematic citizen participation process to elicit project input. Four of our projects (all water systems) were considered top priority items by local officials and Health Department; De-

partment of Natural Resources; and Soil Conservation Service personnel. Yet they ranked low when compared with HUD criteria weighted toward housing;

(3) It is difficult for our members to decide to develop and implement housing rehabilitation programs on their own initiative when they seem to be duplicating similar efforts by the State itself (CDBG grants fiscal year 1976 and fiscal year 1977). Nobody is questioning the need for housing nor our member's commitment to a quality home for each of their residents. But coordination and prioritization seem to be neglected.

We do not mean to disparage the efforts of the other more successful applicants for CDBG assistance. There can be no doubt that past funding has not been kind to those larger yet non-metro West Virginia cities who are more sophisticated in the project design. We also do not wish to be interpreted as opposed to the job HUD is doing under great pressure. With almost no help HUD, a primarily urban oriented agency, is faced with the ambivalent situation of helping lay the developmental framework of rural America. They are in need of either financial support or horizontal assistance from other Federal and State sources. It seems that HUD is caught on the proverbial fence; there's a great community facility vacuum and they with an urban background and limited finances are being asked to fill the void. It hardly seems fair to HUD or to West Virginia.

The Pittsburgh Area Office staff have been sympathetic to the Mid-Ohio Valley's situation and are cognizant of our problems. It is our impression that the CDBG program worked more effectively (although maybe not as efficiently) in its first years of existence when the Area Office personnel who are sensitive and knowledgeable people had more flexibility and discretion in funding decisions.

We also applaud the State's efforts in behalf of improving the community facility base in West Virginia and thank you for allowing us to respond.

With best wishes,

TERRY TAMBURINI, *Executive Director.*

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 16, 1977.

Hon. THOMAS L. ASHLEY,
Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance, and Urban Affairs, Washington, D.C.

DEAR CHAIRMAN ASHLEY: Enclosed for the Subcommittee's consideration is a letter I have received from John G. Roach, the Director of the Community Development Agency in St. Louis, concerning the Community Development block grant program.

As Mr. Roach's letter explains, the shift from categorical assistance to a program of block grants has given St. Louis flexibility for tailoring a development program to the City's needs. At the same time, it has fostered a comprehensive approach to redevelopment, thereby permitting the City's plan to address interests of all groups and strike a balance among the many demands on the City's services.

The letter from CDA also explains the advantages of the Administration's proposals for revising and expanding the program. In particular, the recommended two-part formula, which would reflect the age of housing and the degree of population decline, will assure the allocation of community development funds to cities like St. Louis which have suffered growing dependency on public services but declining tax bases which continually undermine their ability to meet demands. The revised formula and increased level of funding would significantly increase St. Louis' entitlement which has been spread very thinly throughout the City since the Community Development Act was passed in 1974.

The Urban Community Development Action grants, included in the Administration's program, would be ideally suited to the sections in St. Louis which have suffered severe physical decline and economic deterioration. In fact, Secretary Harris' testimony on possible projects that might be funded with the special action grants described several cases that could well be in St. Louis. The City's block grants to date have been inadequate to provide the level of assistance needed to turn these areas around without permitting blight to spread to less severely deteriorated neighborhoods.

Approval of the Administration's community development program would make a significant contribution toward revitalization of St. Louis and other cities. I urge the Subcommittee's favorable consideration of these proposals and would be more than willing to assure passage when such legislation comes before the full House.

Yours very truly,

RICHARD A. GEPHARDT, *Member of Congress.*

CITY OF SAINT LOUIS, COMMUNITY DEVELOPMENT AGENCY,
St. Louis, Mo., March 11, 1977.

Re: 77-05-02-0103A

HON. RICHARD A. GEPHARDT,
Congressman, Missouri 3d District,
St. Louis, Mo.

DEAR CONGRESSMAN: A great number of proposals for community development and neighborhood preservation have surfaced this year as the Housing and Community Development Act of 1974 comes up for extension. It would be very difficult for us to review all of these proposals, and indeed, we do not have copies of most of them.

Nonetheless, we are very concerned that the major advances achieved in the 1974 Act not be reversed by any hasty retreat from the block grant approach to the old categorical grant system in the hope of focusing on needs of lower income persons.

Before discussing our thoughts on the reforms that we believe most appropriate for your support, we believe that a review of the nature and intent of the 1974 Act is in order. We have underscored language where we believe the provisions of the 1974 Act are of particular application to St. Louis City.

The passage of the Housing and Community Development Act of 1974 was a major departure in Federal policy on local community development. It was and remains a departure largely in terms of methods rather than objectives.

Congressional objectives are well stated by the Act (see Public Law 93-383) and are consistent with the objectives of prior legislation amended or replaced by the Act. Briefly these findings and objectives are that:

(a) The Nation's urban communities face critical problems arising from the growth of population in urban areas and the concentration of lower income persons in central cities; and

(b) The welfare of the nation depends on the establishment of viable urban communities and requires more systematic and sustained federal, state, and local efforts to eliminate blight, conserve and renew older areas, improve the environment of lower income families and to develop new centers of population growth and economic activity; and

(c) The consequent general objective of the community development portion (Title I) of the Act is the development of viable urban communities by providing decent housing, suitable living environments and expanding economic opportunities, principally for persons of low and moderate income.

Federal assistance provided is intended to advance these objectives in the following, more specific ways, principally for low and moderate income communities:

(a) The elimination of slums and blight and the prevention of blighting influences and property deterioration,

(b) The elimination of detrimental health and safety conditions through code enforcement and related activities,

(c) The conservation of the existing housing stock,

(d) The expansion of community services which are essential to community development,

(e) The creation of a more rational arrangement of land uses,

(f) The reduction of socio-economic segregation by deconcentration of housing opportunities for the poor and by the attraction of persons of higher income, and finally,

(g) The restoration of historically significant properties.

The HUD regulations which implement the Act repeat these objectives with the further provision that Federal funds are not to be used to reduce substantially the amount of local financial support for community development.

These objectives are to be realized through an annual application process in which the Act requires that urban communities set forth a three year community development plan which is consistent with regional and national growth policies.

The annual application must also specify a short term program, which describes activities, costs, and other resources available and which is designed to eliminate or prevent blight where such conditions exist and provides improved services in such areas where such services are appropriate for community development purposes. The annual application must also contain a Housing Assistance Plan which proposes locations for assisted housing with the intent of revitalizing or stabilizing neighborhoods, promoting greater housing choice and avoiding concentrations of lower income families.

The applicant community must also assure that it has provided adequate information to the public about the amount of funds available and the type of activities that are eligible. Public hearings must be held to obtain the views of citizens on community development needs. The applicant must also provide citizens an adequate opportunity to participate in the development of the annual application, but the elected government of the applicant City is held exclusively responsible for the content and execution of the Program.

In addition, the applicant community must certify that its program has been developed to give "maximum feasible priority to activities which will benefit low or moderate income families or aid in the prevention or elimination of slums or blight."

HUD is required to approve any application which is not plainly inconsistent with community development needs and pertinent data.

These provisions of law and regulations are consistent with long standing national objectives. These new methods allow much greater local control of community development planning and spending as well as permitting a much more flexible range of possible activities which can be supported. In addition, these methods greatly enhance the responsibility of elected officials who are made primary decision makers by the new Act. Old requirements limiting community development to certain narrow activities in small, designated areas with planning subject to direct HUD intervention and supervision have been abolished, as have rigid citizen participation requirements which resulted either in the creation of extra-legal, special purpose legislative bodies not subject to effective popular control or led to the manipulation by bureaucrats of "citizen participants."

Each major change from old to new community development methods was a Congressional response to dissatisfaction with shortcomings in previous categorical grant programs, primarily Urban Renewal and Model Cities.

The strong intent of Congress to increase local discretion and flexibility and to place greater responsibility in local elected officials is made very clear by the Joint Explanatory Statement of the Committee of Conference which resolved the differences between the House and Senate versions of the Act.

The Conference Committee chose not to require that community development activities and benefits be limited to designated areas. Rather, the Committee chose and the Congress approved the expenditure of funds to eliminate slums and blight wherever such conditions may exist.

The Committee rejected a Senate provision which would have required that 80% of an applicant's grant be used for activities *directly* benefiting lower income families. Instead, the local elected officials are left responsible for determining and certifying what constitutes "maximum feasible priority" for activities, which, in their discretion, best benefit low and moderate income families or eliminate slums and blight.

Another Senate provision requiring public hearings in advance of land acquisition and also requiring hearings at least 30 days prior to submitting applications as well as requiring applicants to involve residents of "project areas" in the execution of development activities and to provide "adequate resources" for their participation was amended. The rigid public hearing requirements were deleted and the Conference Committee's language makes clear that the involvement of residents in project execution and the provision of resources for their participation is discretionary with the applicant.

The discretion of local elected officials was further enhanced when the Conference Committee rejected numerous specific limitations on possible programs. For example, the Committee rejected a provision requiring applicants to provide one for one replacement of housing units demolished in the course of the Community Development Program. Also rejected were required building and safety codes, the provision of funds to other units of government within the applicants jurisdiction and a 20% limitation on expenditures for public services.

Finally, the intent of Congress to maximize the role of local government is clear in the Conference Committee's deliberate limitation of HUD's power to review applications for funding. The Senate bill authorized the HUD Secretary to approve or disapprove an application on the basis of the program proposed. The House language was adopted instead. It requires the Secretary to approve applications unless he determines that the applicant's statement of community development needs is plainly inconsistent to meet its stated needs. The HUD Secretary may not substitute his judgement for that of the local elected officials as to what community development needs exist and how to treat them unless local decisions are plainly inappropriate.

The intent of Congress to respect the local electoral and decisionmaking processes, and, by implication, to strengthen them by adding to the responsibilities of local elected officials and limiting the oversight role of the Federal bureaucracy is one of the most important changes in community development methods contained in the Housing and Community Development Act of 1974. Self-appointed critics/advocates of local policies who continue to presume that HUD can and will adjudicate policy differences between themselves and local elected officials have not yet realized that the overriding intent of Congress is to make existing local government work better, more democratically in the community development field rather than to rely upon the "objective disinterest" of a Federal employee or the genteel elitism of those who presume that they speak for the people while disdaining election by them. In furtherance of this general policy, the Congress wisely removed many limitations which would hamper local discretion while remaining firm in its general intent to constructively augment local communities' efforts to solve the problems of urban decay.

In St. Louis, this policy is a major improvement over previous categorical grant programs. Now, the entire City may participate in formulation of policy by participating in the political process. No portion of the City is entirely excluded from the benefits of expenditures. Federal resources may now be turned to the benefit of a future vision of St. Louis City which is a product of broad political consensus.

From this perspective, it may be pointed out that the future health and vitality of St. Louis City, as a whole, is the most important single objective which will provide maximum feasible priority for the needs of the entire region's lower income persons among whom immobility, sickness, age, and other conditions create a special dependency upon a healthy, vital urban community.

Proposed changes in Federal urban policy which would require central cities to provide greater emphasis on meeting the needs of the poor within neighborhoods confined by a white, suburban noose will not offer long term relief to the problem of central city decay. Central cities must be viewed as whole, balanced communities. Where they are not socio-economically balanced, as most are not, they must be helped to achieve a self-sustaining balance which will terminate future need for Federal assistance. Failure to achieve such a self-sustaining balance will defeat the national objectives of preserving central cities and creating viable, integrated urban communities.

No great city can remain a vital center if it becomes dependent on Federal subsidies and welfare. The kind of assistance central cities require is help toward full economic and social recovery.

With these considerations in mind, we urge your support for changes in the funding formula based on age of housing which we believe to be an extremely accurate indicator of the full range of problems that represent urban decay.

Age of housing is also an excellent indicator of tax base erosion which requires first the elimination of municipal capital improvement and investment programs leading to degradation of basic public facilities, i.e., streets, curbs, sidewalks, lighting, sewers, etc. Age of housing is also the best indicator of the collapse of the private housing, real estate and insurance markets which requires action to restore private participation rather than actions that enlarge public participation (subsidy) through public housing and similar activities. Age of housing is also a sure indicator of increasing public service demands such as trash and disease control, code enforcement and related activities.

We strongly endorse the age of housing formula concept and believe it to be most consistent with neighborhood preservation objectives.

Any attempt to concentrate or focus community development activities should be geared to median age of the housing stock rather than social or income characteristics. Such an emphasis would best reflect actual neighborhood preserva-

tion needs and reduce the welfare orientation which some would mistakenly impose on an essentially physical development program.

Concurrently, we believe greater emphasis should be placed on physical rehabilitation of housing and public facilities as well as creating new residential amenities in older areas such as new parks, playgrounds, public and private institutions and so forth.

Finally, we note that there is a continuing Federal interest in direct participation in housing rehabilitation and new construction. Well intended as this may be, St. Louis City's experience with HUD-FHA suggests that direct Federal participation is unworkable. Alternatively, we suggest emphasizing secondary mortgage market intervention with particular emphasis on encouraging mortgage credit for housing and commercial rehabilitation. While this will not be popular with public housing and subsidy advocates, we suggest that the HUD-FHA approaches have retarded urban recovery more than they have helped while simultaneously distorting local planning and decision making. Please, central cities do not need more public housing. Emphasis should be placed on restoring and maintaining the existing stock of public and FHA insured housing, much of which is vacant and/or deteriorating.

We hope this will be of assistance to you.

Very truly yours,

JOHN G. ROACH, *Director.*



NATIONAL ASSOCIATION OF REALTORS

Harry G. Elmstrom
PresidentH. Jackson Pontius
Executive Vice President

Albert E. Abrahams, Staff Vice President

Government Affairs
925 15th Street, Washington, D.C.

March 21, 1977

Honorable Thomas L. Ashley, Chairman
Subcommittee on Housing and Community Development
House Banking, Finance and Urban Affairs Committee
House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

It is the understanding of the NATIONAL ASSOCIATION OF REALTORS® that the hearings held by the House Subcommittee on Housing and Community Development from February 28 to March 9 were for the primary purpose of receiving testimony on 1978 funding authorizations for existing HUD programs and continuing those programs, as well as receiving testimony on various substantive amendments to those programs. It is our further understanding that while witnesses were not, of course, prohibited from presenting testimony on entirely new proposals and ideas, the Subcommittee preferred that such matters be presented at a later time.

Accordingly, this Association did not appear as a witness at the hearings. We are now considering a number of new proposals to assist in the revitalization of our cities and halting the spread of urban blight. At this very time, our Legislative Committee and other decision-makers are meeting to decide our policy with respect to these new proposals. We hope to finalize consideration of these matters within the very near future. That is why we hope that we will have the opportunity to present these proposals before you and your Subcommittee for consideration later on this year.

Notwithstanding, the National Association of REALTORS is vitally interested in the legislative proposals which were the subjects of your hearings. We respectfully request that this letter containing REALTOR positions on those subjects be carefully considered by the Subcommittee in its further deliberations of those proposals. It is also requested that this letter be made a part of the hearing transcript.

You are presently considering proposals to extend both the regular and emergency federal flood insurance programs. REALTORS generally support the concept of the federal flood insurance program. We believe an accurately mapped and actuarially sound program is the key to a national flood insurance program. However, our Association has been continually troubled by certain aspects of the program.

The accuracy of the 100-year flood hazard boundary maps has been questioned in a number of circumstances. It is our understanding that there are alternative methods to determine 100-year flood levels that may be more accurate than the methods presently being employed. We urge the Subcommittee to direct the Federal Insurance Administration to investigate alternative methods. In light of the continuing controversy over the accuracy of the flood hazard boundary maps, we request that a 50-year flood level standard be considered in lieu of the present 100-year flood level criteria. This reduction in the flood level standard would exempt areas with a very low frequency of flooding where much of the controversy is generated.

We are also concerned and troubled by the punitive enforcement measures in the denial of conventional financing by federally-chartered and insured lending institutions in those areas which fail to meet certain requirements of the program. This Association believes the use of this type of economic sanction against the American people to force local governing bodies to accept federal dictates is in excess of traditional federal powers. We trust Congress is aware of the full implications that sanctions of this nature have on the people.

We are of course aware that the regular flood insurance program presently expires on June 30, 1977, and the emergency program expires on September 30. We strongly urge that the Subcommittee extend the regular program for three months so that hearings could be scheduled within the near future to discuss more fully all the aspects of this program before it is extended for one year. We believe a program of such magnitude as the flood insurance program deserves more careful and thorough review than it has thus far been given prior to being extended.

In the HUD legislative package recently sent to you, Secretary Harris requested an increase in the maximum mortgage amounts for loans insured under Sections 203(b), 222 and 234. We support this increase in mortgage amount coverage as necessary to adjust the FHA limits to current market prices in housing.

During World War II, FHA insured almost 50% of the mortgage loans in America. However, the FHA market today is only about 5% of insured mortgage loans. We believe that more effective operations of FHA would be attained through this type of added flexibility.

In 1969, when the maximum mortgage rate insurable by FHA under these programs was changed from \$30,000 to \$33,000, only around 24% of the single-family homes were sold at a cost of \$30,000 or more. At that same time, an estimated 6.8% were priced above \$45,000. In 1974, when the maximum insurable mortgage rates were increased from \$33,000 to \$45,000, over 51% of the single-family sales were \$30,000 or more, and almost an estimated 21% sold for \$45,000 or over. Today, inflation has created the need for even higher insurable prices. Over 70% of the homes sold today command a sales price of \$30,000 or more, and 40.7% of them cost at least \$45,000. Raising the FHA limit to \$60,000 at this time would enable an additional 20% of the existing home market to take advantage of FHA-insured loans.

Although this Association supports an increase in maximum insurable amounts for FHA programs, we feel that a more equitable approach to providing coverage for more homebuyers would be based on a regional or more localized rate of 150% of median-priced homes. For example, whereas the maximum insurable

loans for the Northeast, North Central and Southern areas of the nation would be less than \$60,000, the Western Region would require coverage for homes sold at \$77,700. (See Exhibit 1 for an analysis of statistics relating to existing single-family home sales prices as of January 1977 on a regional basis. The sales price of new homes, of course, would generally be higher.)

Similarly, under current law, the Federal National Mortgage Association (FNMA) is statutorily limited to \$55,000 in the amounts on conventional mortgages it can acquire. As we have earlier advocated a one-third increase in the FHA limits, we also request an amendment to Section 302(b) of the National Housing Act to permit a one-fourth increase, from \$55,000 to \$68,750, in the conventional mortgages which FNMA can purchase. Likewise, of course, the Federal Home Loan Mortgage Corporation should be given similar additional purchasing authority by amending Section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act (P.L. 91-351 as amended by P.L. 93-383 and P.L. 93-495).

We are in full support of Secretary Harris' recommendation regarding lower downpayments for properties of at least \$25,000 insured under Sections 203(b), 222 and 234. This move, made in conjunction with higher insurable mortgages, should increase the number of potential homeowners in the United States.

Secretary Harris also requested an extension of her authority to set FHA interest rates. The National Association, however, supports the freeing of interest rates on FHA-insured mortgages or the free negotiation of any discount points between the buyer and seller. The current system of interest ceilings and charging of points discourages participation in the FHA market and results in higher real costs to the homebuyer.

In the proposed "National Housing Act of 1977" Secretary Harris stipulated that a mortgage is limited to 90% of the appraised value for properties in existence less than one year and not previously insured by FHA. We request that serious consideration be given to insuring these properties in conformance with older existing structures if they comply with local codes which have been determined to be equal to or more stringent than FHA's minimum property standards. Such a move by the Department would be realistic not only from the standpoint of the mortgage lender, but also as a deterrent to unnecessary processing delays.

Moreover, the National Association of REALTORS endorses the Secretary's recommendations to convert the Section 245 experiment to a permanent program and remove the one percent limitation of HUD's insuring capacity designated for the Graduated Payment Mortgage Program. This Association is on record endorsing Section 245 as a positive step toward benefiting young families and first-time homebuyers who cannot now afford housing because of high monthly mortgage payments. The nation's 500,000 REALTORS continue to stand ready to help familiarize the public with the advantages of the new plan, especially in areas where HUD offices are not located.

With the removal of the one percent limitation, however, emphasis should be given to more stringent adequate underwriting standards. Until the present time, the criteria applied to the 245 program have been the same as those used for the 203(b) program. We recognize the desirability of this mode of operation during the experimental period of the program, since it was necessary to document the causal factors engendering successes and failures. Full imple-

mentation of the program requires more cautious procedures be put into effect. Chances of default and foreclosure are increased considerably with the neglect to consider future earning power of potential mortgages as well as forecasted appreciation of the properties to be insured. Care must be taken to minimize undue potential drain on the FHA insurance fund.

Secretary Harris also proposed an increase in mortgage amounts for the 235 program. Although this Association recognizes the need for the 235 program for low income homebuyers, and supports the concept that homeownership should be within the reach of all Americans, we oppose any additional funding for this program. Given the added flexibility of the other mortgage insurance programs granted through decreases in downpayments and graduated payment mortgages, the need for government subsidy through this program has been diluted. Similarly, this Association opposes additional funding of the FHA Section 236 program. Particularly since adequate housing is effectively meeting the needs of low and moderate income families as a result of the Section 8 program, fiscal responsibility would demand a cessation of further increases in these programs.

We applaud efforts made by the Administration and members of Congress in recent months to provide more housing in inner cities and subsequently divert the decline of urban neighborhoods. Actions such as Chairman Ashley's introduction of the Federal Shared Risk Insurance Act last session would immensely speed the recovery program, and we look forward to resubmission of this bill.

The National Association of REALTORS supports the continuation of the Section 8 rental housing assistance program at realistic funding levels to assist low and very low income families to obtain safe, decent and adequate rental units in existing housing.

REALTORS believe that the Section 8 rental assistance program in its basic statutory form is the best and least costly program yet devised by Congress for housing low and very low income families in existing housing. Furthermore, the Association emphasizes its support of the Section 8 program because it is a ready-made tool to help save and revitalize the inventory of existing housing in inner cities and declining urban areas -- a goal which is not only supported by this Association but also by the Administration, many in the Congress, local and state governments and the public.

The Secretary of HUD has proposed a level of 400,000 subsidized rental units for fiscal year 1978, and she has requested annual contributions contract authority (ACCA) of \$1.197 billion to maintain that level of units. While this Association generally supports the level of subsidized units suggested by the Secretary, we do not support revising the old conventional public housing program to attain that level of subsidized units, and we oppose the earmarking of Section 8 ACCA to revive that program. The arguments made before your Subcommittee at hearings in 1973 and 1974 in favor of the Section 8 rental assistance program and which convinced your Subcommittee and Congress to eliminate the old conventional, high-density, institutionalized, crime-ridden public housing program remain valid and still prevail. Accordingly, we believe the Secretary can attain her goals by using the Section 8 program solely. We sincerely hope the Subcommittee will reject earmarking of Section 8 ACCA for reviving the conventional public housing program.

This Association supports continuation of the Community Development Block Grant Program as a continuing means of helping to revitalize and save our cities.

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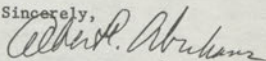
REALTORS also support continuation of the Urban Homesteading Program at the level of funding recommended by the Secretary of HUD.

We likewise support the continuation of the Section 312 rehabilitation loan program as one of the major tools for helping to preserve the inventory of existing housing. We expect to have further comments and proposals with respect to the Section 312 program at a later time.

This Association supports continued funding of the Section 701 comprehensive planning assistance program. We are aware that after August 2, 1977 no 701 planning grants will be awarded unless an applicant's comprehensive plan includes a "housing and land use element." REALTORS support comprehensive planning at the local level. We caution, however, against federal criteria for the development of the land use and housing element which could open the door for a substantive federal review of essentially local matters. Again, we would welcome the opportunity to comment on this matter in the future.

We appreciate the opportunity to submit our views in this manner to you and the Subcommittee.

Sincerely,



Albert E. Abrahams
Vice-President
Government Affairs

Exhibit 1Existing Single-Family Home Sales Prices
as of January 1977

	Northeast Region	North Central Region	Southern Region	Western Region
Median Sales Price	\$39,900	\$34,200	\$37,600	\$51,800
Percentage of Single-Family Homes Sold at \$50,000+	31.6	20.1	29.8	53.1
Percentage of Single-Family Homes Sold at \$60,000+	18.5	10.8	17.3	35.6
Maximum FHA Insurable Amounts (based on 150% of Median Sales Price)	\$59,850	\$51,300	\$56,400	\$77,700

Source: NATIONAL ASSOCIATION OF REALTORS®
Department of Economics and Research
February 1977

A ASSOCIATION OF REHABILITATION FACILITIES

5530 WISCONSIN AVENUE, SUITE 955, WASHINGTON, D.C.

Director
T. P. Hiplens

March 28, 1977

The Honorable Thomas Ashley
Chairman
Committee on Banking, Currency and Housing
Subcommittee on Housing and Community
Development
Room 2129 Rayburn House Office Building
Washington, D.C. 20515

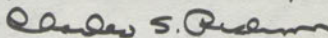
Dear Mr. Ashley:

We understand that the Subcommittee on Housing and Community Development has completed public hearings on extension and renewals of the Community Development Act, and is in the process of making its recommendations to the full committee. On February 16, 1977 we requested an opportunity to testify before your committee concerning provisions of the Community Development Program and their affect on centers for the handicapped. We were advised that our written comments would be considered for the record. Enclosed is a position paper summarizing our concerns regarding centers for the handicapped.

This position represents the views of the more than 1,000 rehabilitation facilities ("centers for the handicapped") which are institutional members of the Association and our state chapter organizations. ARF is composed of a board cross-section of community-based centers serving handicapped in the United States. More than 300,000 handicapped citizens are served annually and provided a range of vocational rehabilitation, physieal restoration, and other related and allied rehabilitation services in the communities served by these agencies. These programs are focused upon improvig the self-sufficiency and maximal societal and economic functioning of the handicapped in a personalized and individualized way.

It is our hope that you and your committee will consider the enclosed and amend the Community Development Act to improve and increase the support to hand-icapped citizens afforded under its provisions. If additional information or supportive documentation is required we would be pleased to assist in providing this.

Yours sincerely,



Charles S. Richman
Director, Program Development



5530 WISCONSIN AVENUE, SUITE 955, WASHINGTON, D.C.

Prepared by: Charles S. Richman
Date: March 28, 1977

POSITION PAPER
ELIGIBILITY OF
PRIVATE NON-PROFIT CENTERS FOR THE HANDICAPPED
UNDER THE
COMMUNITY DEVELOPMENT ACT

HISTORICAL BACKGROUND:

In February 1976 a member organization advised the Association of Rehabilitation Facilities that the Department of Housing and Urban Development stated that sheltered workshops were not eligible for participation under Title I of the Housing and Community Development Act of 1974 (P.L. 93-383). According to regulations issued on January 19, 1976 by HUD, Office of the Assistant Secretary for Community Planning and Development, Part 570 Subpart C specified rules for determining the eligibility of activities to be carried out under the program. In paragraph 570.201 it specified:

"(3) any facility whose service is community wide, or whose function is by its nature community wide unless it serves an entire community of under 10,000 population or is expressly authorized other than as a neighborhood facility by 570.200(a)(2). Examples of facilities which would ordinarily be ineligible as being community-wide are central social service facilities, sheltered workshops, group homes, and halfway houses."

Since sheltered workshops are among a constituent group of the Association, ARF joined with other groups serving the handicapped supporting passage of HR 12945, The Housing Authorization Act of 1976 and its companion measure S 3295. These measures amended Title I stipulating the "centers for the handicapped" be eligible for assistance, including acquisition, construction, reconstruction or installation, under the Community Development Program. The House Report on HR 12945 noted:

"Section 10(b) would correct an oversight in the original Housing and Community Development Act of 1974 by making the provision of centers for the handicapped as an eligible activity under the community development program. Such centers, which could include sheltered workshops, are generally analagous to senior centers which were provided for in the original act."

This amendment was finally included in the Housing Authorization Act of 1976 (94-375) signed into law on August 3, 1976. It was assumed that passage of this amendment would eliminate impediments to full participation of "centers for the handicapped", including sheltered workshops, within the Community Development Program.

On October 4, 1976 HUD issued interim rules and regulations regarding "centers for the handicapped" in order to implement the amendments. These interim rules reiterated the requirement for public ownership of facilities eligible for assistance under Section 15(b) of the Housing Authorization Act of 1976 (24 CFR Part 570). In response to the request for comments, ARF submitted recommendations regarding the nature, purpose, and program of "centers for the handicapped" and other aspects of the preposed regulations. In the ARF comments no reference was made to the public ownership regarding eligible activities, but discussions were held with appropriate HUD officials and with Mercer Jackson, former Minority Counsel of the Subcommittee on Housing and Community Development.

We requested a legislative intrpretation concerning the intent of the Community Development Act with regard to public ownership. According to theses sources, the rules and regulations issued by the Department of Housing and Urban Development on January 19, 1976, which stated that "the listing of eligible works and facilities is

an exclusive listing and that all items listed must be publicly owned except for historic properties for which public access is assured." amending Section 570.200(a)(2) was applicable to centers for the handicapped in the October 4, 1976 regulations.

More recently, on January 17, 1977 the Department issued proposed regulations providing revised rules of a technical and substantive nature on Subpart C of Part 570 relating to eligible and ineligible activities. ARF had previously suggested a technical change which was incorporated into the language of the regulations at that time. In addition, the section regarding historic properties(570.00(a)(2)(iii) was expanded. It now specifies that privately owned historical properties to which there is public access may be either reconstructed or rehabilitated, and that publicly owned historic properties which are facilities that are normally ineligible for assistance because of their use may, none the less, be reconstructed or rehabilitated under the requirements of this provision. Since in the ensuing months ARF was contacted by a number of its constituent members regarding their disqualification as based upon their private ownership, we submitted comments to HUD in late February. These comments addressed a view contrary to the HUD position that the term "public" for purposes of Title I of the Act should mean that title or fee interest in an eligible project site must rest with a unit of general local government or other governmental body but not with a private non-profit entity of individual (see attachment).

RECENT HUD INTERPRETATIONS

ARF has been advised that HUD will issue final regulations regarding centers for the handicapped shortly. These regulations will adopt a definition of "centers for the handicapped" which is based upon a definition submitted to HUD and agreed to by ARF and other organizations for the handicapped. The regulations also reiterate that

eligible activities are those which were defined under prior categorical programs recognized as precedents for the Community Development Act, and under the meaning applied to other public facilities eligible pursuant to 570.00(a)(2). Furthermore, these regulations will state that a public facility is a facility the ownership of which is vested in a public body such a unit of general local government. HUD, also notes that many services provided by "centers for the handicapped" have traditionally been performed by private non-profit agencies. They advise that although ownership of "centers for the handicapped" assisted under the Community Development Program cannot be vested in such private non-profit agencies that the operation of such facilities on behalf of the public body or private or non-profit groups would be acceptable. In addition, HUD will suggest that a center constructed or acquired by a public body for disposition to a private non-profit agency would contravene the vested public ownership requirements.

EXAMPLES OF DISALLOWED PROJECTS

During the period of August 1976 to date, a number of newly qualified "centers for the handicapped" have sought inclusion in their local community development plans. The following are several examples of private non-profit "centers for the handicapped" which have been advised of their ineligibility because of the vested public ownership requirement.

(a) Curative Workshop of Greenbay, Greenbay, Wisconsin:

The Curative Workshop annually provides vocational services, physical restoration services, work activity programs, psycho-social and speech/pathology - audiology programs for some 1,800 handicapped individuals. In addition to serving handicapped individuals they also provide programs for the low-income elderly and for the severely

handicapped. In November 1976 the agency submitted an application to the local Greenbay Redevelopment Authority for the partial costs of the \$2.5 million construction project for a new center. In its pre-application the Curative Workshop requested \$416,000 in CDA funds to supplement almost \$2 million in funds from the Hill-Burton Program, Rehabilitation Act construction Funds, SBA Loan Funds, and private funds from a community fund drive. The additional funds requested through HUD were required because of limitation on funding availability from the other sources. In December 1976, the organization was advised of the ownership requirement, by the HUD area office in Milwaukee. Denial of the CDA funds caused the Curative Workshop to scale down their building plans and reduce the client service capacity of their new facility. In addition because of increased lending requirements and hence increased mortgage payments the center will have to curtail the extent of services and the number of low-income elderly and handicapped to be served by the new center. The addition of CDA funds to the construction project would have enhanced the ability of the center to expand sufficiently to meet the needs of the elderly and handicapped in their community. Their inability to qualify as an eligible activity will create a significant hardship upon the handicapped citizens of Greenbay for some years to come.

(b) Allied Services for the Handicapped, Scranton, Pennsylvania:

Allied Services provides a comprehensive range of rehabilitation services to the elderly and mentally and physically impaired citizens of Scranton. Their total rehabilitation program serves individuals ranging in age from 5 years of age to 70. Many of the individuals served by the agency are indigent, welfare recipients, and/or fixed income elderly. As a part of their overall campus plan the center recently proposed a Human Utilization Building designed to provide recreational opportunities to some 400 mentally and physically handicapped, as well as recreational facilities for the Scranton

community. This \$2 million project would provide for indoor recreational activities including a bowling alley, greenhouse, classroom space, etc. as well as outdoor recreational opportunities specially designed and physically accessible for the handicapped. The addition of this facility to the Allied program would reinforce the total rehabilitation concept, while offering the overall community a needed service. However, after approaching their local political subdivision the Regional HUD office in Philadelphia, and the HUD Central office, Allied Services was advised to their ineligibility to qualify for CDA funding due to the private non-profit ownership of the proposed project. The unavailability of HUD funding for this project will delay indefinitely a sorely needed community facility which could have been constructed in late 1977.

(c) Goodwill Industries, Menasha, Wisconsin:

Goodwill Industries of Menasha moved into their workshop facility some two years ago, and was able to purchase the property through SBA loans and a community fund drive. However, because of insufficient funds they have been unable to renovate fully the interior of the facility to accommodate the needs of the handicapped. Currently they are forced to rely on temporary enclosures until permanent interior modifications to their production, office space, and rehabilitation service areas can be made. In order to complete these renovations and to provide permanent office and building alterations \$25,000 in construction funds is required. The workshop contacted the Milwaukee HUD Area Office for information on the qualification of "centers for the handicapped", and was advised not to apply to their community development authority because they were ineligible as a private non-profit owned property. Since funds for the proposed improvements are not available from other private or public sources, several hundred mentally and physically handicapped and developmentally disabled clients face the hardship of an inadequate workplace. In addition, additional low-income, welfare recipients,

and WIN adult work experience clients cannot be served by the program and will encounter lengthy waiting periods to be served.

(d) Ray'Graham Center for the Handicapped, Addison, Illinois:

The Ray Graham Center is involved in providing rehabilitation and residential services to the handicapped in the Addison, Illinois area. They are currently involved in a project with the Illinois Housing Development Authority to build a housing facility for 100 low-income handicapped and the elderly many of whom are welfare recipients. This housing project has been financed by a county bond issue, and HUD-guaranteed rent subsidies will be utilized by the handicapped residents of the project. In conjunction with this housing project, the center has proposed and conducted preliminary discussions with their local planning commission plans for a new workshop facility in Addison. As proposed, the center will provide employment, training, evaluation, and rehabilitation services to the 100 residents of the new housing project. In addition some 200 additional handicapped and disadvantaged individuals will be served by the center; and, the new facility will house a manpower training program for warehousing, maintenance, and custodial training of Department of Labor sponsored clients. The construction of the workshop facility would be funded at \$770,000 and it is proposed that the HUD Community Development Program fully fund its construction. Should CDA funds be available construction could begin in March 1978 on the project. However, the requirement for public ownership has delayed the inclusion of the project in the development plan and will most likely preclude its completion.

CONCLUSIONS AND RECOMMENDATIONS

According to recent estimates there are approximately 4,000 "centers for the handicapped" which might benefit from provision of the Community Development Act Title

I Program. Some 700 of these centers are publicly owned and operated (17.5% of all centers for the handicapped). In excess of 80% of all "centers for the handicapped" are private non-profit agencies. These facilities provide extensive services to clients referred by State Divisions of Vocational Rehabilitation (Blind and General), Public Assistance, Medi-Care and Medi-Caid, Workers, Compensation, Veterans Administration, Mental Health and Hygiene Programs and other public social service agencies. Indeed in many cases centers for the handicapped have been organized as private non-profit agencies for the purpose of providing public services to the handicapped where state, county or local government was unable to do so. The creative partnership between the public and private sectors exemplified by "centers for the handicapped" reflects an effective, established mechanism for community service delivery. In FY 1975 more than 225,000 clients of the state-Federal Rehabilitation program were provided rehabilitation services in centers for the handicapped. As has been noted, a majority of centers for the handicapped operate as private voluntary non-profit entities and are supported through fees for services, governmental grants, and charitable or community funds. Centers for the handicapped rely upon specialized construction and improvement funds from the federal government. Although such specialized funds are authorized by law, in the past ten years only limited funds have actually been made available for this purpose. ARF has documented the need for construction, renovation, and improvement for "centers for the handicapped" in excess of \$150 million needs which are not currently being met by private or public funding sources. The Task Force on Housing of the Consortium Concerned with the Developmentally Disabled surveyed state organizations serving the handicapped in April 1976 and identified a significant number of projects (more than 150 which have been recommended to local communities for utilizing Title I funds.

The funding mechanism utilized by most "centers for the handicapped" is a mix of public and private funds. The requirement of public ownership and title in many cases will preclude the use of other funding, and, in the case of renovation or improvement, is often impractical legally, programatically, and financially. Furthermore, the method suggested by HUD for public construction and private operation of CDA financed projects is often impractical because the local development authorities are reluctant to jeopardize the approval of their overall plan by utilizing this mechanism. Since one of the HUD strategies is focused upon the ability to utilize CDA funds to obtain other supplementary sources of funds, the construction of "centers for the handicapped" utilizing multiple funding sources is both appropriate and consistent with the implementation of block grant plans.

Among the basic purposes of the Community Development Act is the focus upon related social services and the improvement in the quantity and quality of community services. The Act clearly states that the program is to:

"provide improved community facilities and public improvements, including the provision of supporting health, social, and similar services where necessary and appropriate"

Emphasis in the Act is placed upon low and moderate income people. It is clear that "centers for the handicapped" meet the overall intent of the act in this regard. Set Congressional intent is clear with regard to applicants but is less clear with regard to eligible "activities". We do not dispute the fact that "applicants" should be restricted to "units of general local government" and states. However, the amendments qualifying "centers for the handicapped" contained in P.L. 94-375 amended paragraph (2) of Section 105(a) regarding activities eligible for assistance. The public purpose of eligible activities is in issue.

We recommend that the authorization of the Community Development Act either be statute or the committee and conference reports clarify that "centers for the handicapped" are eligible activities irrespective of the nature of their ownership. This change would meet the intent of the 1976 Act amendment in qualifying all centers for the handicapped, not just the 20% under public ownership. To achieve this end we recommend the following language:

A. Statutory language

1. "Section 105(a)(2)" the acquisition, construction, reconstruction, or installation of public works, facilities, and site or other improvements including neighborhood facilities, private non-profit or publicly owned centers for the handicapped, senior centers, historic properties

OR:

2. "Section 105(a)(2)" the acquisition construction, reconstruction, or installation of public works, facilities and site or other improvements including neighborhood facilities, centers for the handicapped as defined in the Rehabilitation Act of 1973 (P.L. 93-112) Section (7) paragraph (8) and (10) regarding "rehabilitation facility", senior centers, historic properties

OR:

- 3a. "Section 102(a)(4)" The term 'center for the handicapped' means a public or private non-profit rehabilitation facility which is operated for the primary purpose of providing rehabilitation services to handicapped individuals and which provides singly or in combination one or more of the following services for handicapped individuals:
 - (A) vocational rehabilitation services which shall include, under one management, medical, psychological, social, and vocational services,

- (B) testing, fitting, or training in the use of prosthetic and orthotic devices,
- (C) pre-vocational conditioning or recreational therapy,
- (D) physical or occupational therapy,
- (E) speech and hearing therapy,
- (F) psychological or social services,
- (G) evaluation of rehabilitation potential,
- (H) personal and work adjustment
- (I) vocational training with a view toward career advancement (in combination with other rehabilitation services),
- (J) evaluation or control of specific disabilities
- (K) orientation and mobility services to the blind, and,
- (L) extended employment for those handicapped individuals who cannot be readily absorbed to the competitive labor market

and:

- 3b. "Section 102(a)(15)" The term 'non-profit' with regard to centers for the handicapped" means a rehabilitation facility owned and operated by a corporation or association, no part of the net earnings of which insures, or may lawfully insure, to the benefit of any private shareholder or individual and the income of which is exempt from taxation under section 501(c)(3) of the Internal Revenue Code of 1954.

B. Report Language

In the Housing Authorization Act of 1976, this committee amended section 105(a) of Title I, Community Development Act, of the Housing and Community Development Act of 1974. This amendment, which added centers for the handicapped as an activity eligible to receive community development funds,

corrected an oversight in the original 1974 act.

Since that it has come to the committees attention that centers for the handicapped are not being considered as eligible activities if they and the project site are owned by a private non-profit entity. This rationally effects approximately 80% of the centers for the handicapped throughout the country. This interpretation is contrary to that intended excluding centers for the handicapped as eligible activities in the Community Development Program. The committee has excluded centers for the handicapped as an eligible activity is community development program funds and waits to make it clear that centers for the handicapped, owned by private non-profit entities and to which there is public access are eligible activities as well as publicly owned centers.

SUMMARY

1. It is the intent of the Community Development Act to provide for improved health social and similar service to the elderly, handicapped, and low and moderate income individuals.
2. "Centers for the handicapped" are owned and operated primarily by private non-profit community corporations and organizations.
3. It was the intent of Congress to include the class of public and private non-profit centers for the handicapped as eligible activities under Title I of the Community Development Act, as amended by the Housing and Authorization Act of 1976.
4. Language specifically delineating that public and private non-profit "centers for the handicapped" as eligible activities be written into the Community Development Act, or into the committee and conference update or the reauthorization of the Act.

5. Specification of non-profit "centers for the handicapped" will be specific with intent and not broaden or subvert the basic purposes of the Act.
6. Such language will only qualify public and private non-profit "centers for the handicapped" as eligible activities; the "unit of general local government" will still be the eligible applicant and may or may not include a project involving a "center for the handicapped" in their community development plan, based upon local priorities.
7. The law and Federal regulations insure that public access to and use for public purposes, "centers for the handicapped" constructed or renovated under the act allow for public access and are operated for public purposes. Public title and vested public ownership is not required to assure the proper public use of facilities constructed, renovated, or improved under the act.

**ASSOCIATION OF
REHABILITATION
FACILITIES**

130 WISCONSIN AVENUE, SUITE 955, WASHINGTON, D.C.

APPENDIX

T.P. Hipkens

February 22, 1977

Mr. Warren Butler
c/o Rules Docket Clerk
Room 10141
Department of Housing and
Urban Development
451 Seventh Street, S.W.
Washington, D.C. 20410

Re: Community Development Block Grants
42 FR 5292
FR Dec. 77-1390

Dear Mr. Butler:

On January 17, 1977, the Department of Housing and Urban Development issued proposed rules for the Community Development program concerning eligible and ineligible activities which is referenced above. Comments were solicited on these proposed changes. I am the Executive Director of the Association of Rehabilitation Facilities (ARF). The Association represents over 1,000 rehabilitation facilities ("centers for the handicapped") throughout the nation and, on behalf of this membership, we welcome the opportunity to comment upon these proposed rules.

The Community Development program, as amended by the Housing Authorization Act of 1976, now includes "centers for the handicapped" as an eligible activity under Section 105. On October 4, 1976, interim regulations for this program were published and comments solicited at that time. ARF, in conjunction with several other organizations, submitted comments and we are pleased to see that some of them have been incorporated into these proposed rules.

February 22, 1977
Page 2

However, the use and interpretation of the term "public" in these regulations is of concern to ARF members. The term is used throughout the regulations; however, we are concerned primarily with its meaning in conjunction with eligible activities under Section 570.200 (a)(2). HUD has indicated that "public" means that title, or the fee interest, in a project site must rest with a unit of general local government or other governmental body, but not with a private, nonprofit entity or individual. We disagree with this interpretation and urge you to consider an alternative.

The term "public" should be interpreted to mean available to all the people, the public, or holding out services to or for all the people. The entity which holds title to the project site would not be relevant. This concept is supported not only by the statute but is also recognized in other sections of the regulations. Section 101 states the several objectives of the Act, including expansion and improvement of community services, and the elimination of conditions which are detrimental to the health, safety and public welfare of the community. Private, nonprofit agencies, including centers for the handicapped, are active in maintaining and improving the quality of life for all members of the community in which they reside and frequently cooperate their actions with the local governmental agencies. More than 75% of all "centers for the handicapped" are owned and operated by non-profit community organizations. These organizations provide public and community services to handicapped individuals via fee for service sponsorship from state, county and municipal governmental agencies.

Furthermore, the regulations of Section 570.201 (a)(4)(ii) state that a site controlled by a school district to which the "access of the general public... is not restricted during normal hours of operation" is an eligible activity. Finally, in Section 570.200 (a)(iii), the proposed regulations list historic properties, including "privately owned properties for which there is public access," as eligible activities.

Page 3

Therefore, the statute and regulations acknowledge that project sites to which there is public access, whether or not the legal title rests with the governmental body, are still eligible activities under the Community Development program. It is our opinion that since "centers for the handicapped" owned and operated by non-profit entities provide a public service that they should be included along with historic properties and schools as eligible entities. We recommend two alternatives to clarify this issue. First, that the regulations at Section 570.200 (a)(2) be amended to read:

"(2) Acquisition, construction, reconstruction, rehabilitation or installation of only the following public works, facilities, sites, or other improvements, including those works, facilities, sites or improvements which may be privately owned, nonprofit entities to which there is public access."

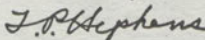
Or, the second recommendation is to amend Section 570.200 (a)(2)(xii) to read:

"Centers for the handicapped, including privately owned, nonprofit centers to which there is public access."

Similar language could be added to Section 570.200 (a)(2)(ii), senior centers to ensure continuity.

We appreciate this opportunity to comment and would be pleased to offer any further information and assistance

Very truly yours,



T.P. Hipkens
Director

USL**UNITED STATES LEAGUE of SAVINGS ASSOCIATIONS** WASHINGTON OFFICE

1709 NEW YORK AVENUE, N.W. / WASHINGTON, D.C.

March 21, 1977

The Honorable Thomas Ashley
 Chairman, House Subcommittee on
 Housing and Community Development
 Room 2129 Rayburn House Office Building
 Washington, D. C. 20515

Dear Chairman Ashley:

On behalf of the United States League of Savings Associations and its 4,600 member savings and loan associations throughout the nation, we would like to take this opportunity to present our views on the housing and community development authorizations currently under consideration in your Subcommittee.

Savings and loan associations, as you know, are the nation's principal home mortgage lenders. Throughout much of 1976, our member institutions originated 4 out of every 5 home loans made in the United States. Our loan portfolios contain over half of the single family loans in the country, and our 15,000 home and branch offices provide a private-sector delivery system for home mortgage credit to potential borrowers, both urban and rural.

One aspect of our lending operations, which perhaps is not adequately understood, is the degree to which we provide home mortgage credit to a broad spectrum of American families in all walks of life. The Decennial Census in 1970 provides a profile of our borrowing customers. The table below shows the percentage income distribution of families in owner-occupied, single-family units with savings and loan mortgages as reported in the Census data.

<u>Family Income</u>	<u>Percentage in Homes with S&L Mortgages</u>
Under \$10,000	29.7%
\$10,000-\$14,999	35.7%
\$15,000-\$24,999	27.4%
\$25,000 and over	7.1%

Also of interest is the valuation of the properties in which these families reside. Again using 1970 Census figures, the following table shows the percentage distribution of home values for single family units with savings and loan mortgages as estimated by the residents to the Census-taker.

<u>Home Value as Estimated by Homeowner to Census-Taker</u>	<u>Percentage of Homeowners with S&L Mortgage</u>
Under \$10,000	6.8%
\$10,000-\$14,999	12.6%
\$15,000-\$19,999	20.1%
\$20,000-\$24,999	18.1%
\$25,000-\$39,999	31.3%
\$40,000 and over	11.1%

Unfortunately, it is difficult to accurately update these figures to a more recent year. We have every reason to believe, however, that savings and loan association customers continue to be overwhelmingly modest-income families buying modestly priced properties.

Our savings associations are currently faced with the dilemma of responding to the seemingly endless upward spiral of housing costs while continuing to provide for the mortgage credit needs for the great majority of American families of modest means who find homeownership increasingly difficult, particularly in high cost urban areas such as Washington, D.C., New York, San Francisco, etc. In many areas, the statutory ceiling increases voted by your Subcommittee in the Home Owners' Loan Act just three years ago are already falling below the average home price.

We are also concerned about the increasing demand for mortgage credit in rural areas. Clearly, neither the Government nor the private sector can resolve all of these problems independently on a "go it alone" basis. New partnerships between the private and Government sectors must be formed if the housing needs of our country are to be met. We would now like to address specifically some of the issues which are currently before your panel.

HUD Housing Program Authorizations

While savings associations have historically emphasized conventional loans in their financing operations, they are vitally interested in the numerous programs of the Department of Housing and Urban Development. FHA lending provides not only an alternative means of serving the borrowing public, but it has popularized such innovations as the amortized loan which has become commonplace in financing home purchases.

The U.S. League supports the extension beyond the June 29, 1977 expiration date of Title I--property improvement and mobile home loan insurance authority. We would note, parenthetically, that the Title I authority may become increasingly important to homeowners anxious to make energy conservation improvements as part of the national response to rising fuel bills and utility costs.

Similarly, we recommend the continuation beyond June 30, 1977 of Section 203, basic home mortgage insurance, and Section 207, the FHA rental insurance program. As a corollary, we, of course, support extension of the Secretary's authority to set interest rates for FHA-insured mortgage loans above the permanent statutory 6% maximum. For the longer term we would repeat here our recommendation that the Subcommittee consider--at least on an optional basis--permitting the FHA programs to proceed on a market rate basis, thus minimizing the "points" or "discounts" which are so confusing to the home selling and buying public.

We also support continuation beyond September 30, 1977 of the Section 235 and 236 homeownership and rental programs for lower-income families. Consideration might be given to adding additional flexibility to the Section 235 program by permitting shallower interest rate subsidies to families near the top of the qualifying income limits--thus limiting the Government's cost and spreading the dollars available to serve this segment of the housing market. It is also our understanding that at present virtually all FHA 235 funds are directed at new construction. The present statute permits up to 30% of the funds to be channelled to mortgages on existing homes, and we recommend maximum use of this discretion by the HUD Secretary. (A higher percentage for existing homes should be considered by the Subcommittee.) This would greatly expand FHA 235 loan availability in urban areas--where jobs, utilities, transportation, etc. may be more convenient to limited income buyers. Since most purchasers of newly constructed housing must first sell their existing home, this program shift would not necessarily affect the new home market adversely.

Additionally, the U.S. League endorses continued development of HUD's Section 244 coinsurance program as well as the innovative Section 245 experimental financing program. (These authorities are set to expire on September 30 of this year.) In our view, FHA's coinsurance concept holds great promise: obviously, it limits the Government's exposure to loss; retainage of a portion of the risk of loss by the lending institution encourages sound underwriting and counselling of home borrowers; the permanent involvement of the lender also assures commitment to the local community on a continuing basis. We would encourage HUD to broaden its coinsurance experiment and to emphasize thrift institution involvement.

Another promising approach is the shared-risk legislation sponsored by you, Mr. Chairman, as H.R. 15407 in the 94th Congress. This could appeal immediately to lenders, such as S&Ls, which have traditionally offered "conventional" loans to the public. The Ashley bill would establish an Insurance Fund, presumably in the Federal Home Loan Bank System, to share the risk-of-loss on an 80/20 basis with originating lenders. Properties in areas determined by the 1975 Home Mortgage Disclosure Act to have insufficient loan activity would be eligible for these shared-risk mortgages. Lenders would retain their share of the risk--and their commitment to the neighborhood--throughout the life of the loan. Use of the established FHLB System and already supervised lenders would minimize the need for an elaborate bureaucracy.

We also support continuation of the Section 245 graduated payment mortgage experiment. The wide variety of home borrower needs are not served adequately by the traditional fixed-rate, fixed-monthly payment (of principal and interest) amortized loan which is in universal use today. Graduated payment mortgages provide needed flexibility for the lending institution to tailor the instrument to the borrower's income situation; GPMs can make homeownership a reality for young families with expectations of rising income, or schedule a repayment plan for older families nearing retirement where the income stream will be expected to diminish. The FHA's 245 program can provide an important model for study by conventional lenders and their regulatory agencies. On a broader front, we continue to support experimentation with a whole range of alternative mortgage instruments--such as the variable rate mortgage in use at state-chartered S&Ls in California, and the renegotiable note. Public acceptance has now been amply demonstrated for the VRMs on the West Coast, though Federally-chartered savings associations are effectively foreclosed from this method of home mortgage financing.

In another area, the League supports continuation of the urban homesteading authority. This unique program has proved an important element in the combined effort at inner-city restoration encouraged by the Urban Redevelopment Task Force of HUD and the Federal Home Loan Bank Board. The most successful element of this program, as you know, is the Neighborhood Housing Services project currently underway in more than 30 cities. Savings and loan associations play a central role in this innovative and cooperative public-private effort to preserve and maintain our existing housing stock and revitalize urban neighborhoods. We would also recommend continuation of the Section 312 rehabilitation program. We noted the testimony recently received by your Subcommittee from Mr. James Hendricks, Assistant Chief Administrative Officer of the City of Fresno, California. Among other things, Mr. Hendricks described a coordinated project involving \$3 million in conventional home improvement loans (from savings and loan associations), and the use of \$465,000 in community development grants earmarked for FHA 312 use.

The Fresno experience appeals to us as an excellent example of local initiative using available Federal programs and involving the private sector; we suspect that similar savings and loan association involvements in other parts of the country is far more widespread than is commonly understood. As a result, the U.S. League is attempting to survey its membership to discover other local examples of cooperation utilizing Government rehabilitation and other programs; we will be happy to share this information, when collected, with you and your staff.

In addition to supporting the extension of various FHA insuring authorities described above, the U.S. League urges the Subcommittee to begin the long-awaited process of determining the future role of the Federal Housing Administration. As other witnesses testified before your Subcommittee, the unsubsidized home loan insurance programs of the FHA have been seriously discredited over the past eight years by neglect and poor administration. Savings associations have been generally reluctant to originate FHA loans because of processing delays, paperwork, rigid property standards, etc. The growth and availability of private mortgage insurance, and FHLBB rule changes permitting lower downpayment conventional loans at savings and loan associations, have no doubt taken up some of the slack--but we are of the opinion that insured FHA loans still have a role to play in the mix of urban lending alternatives.

Many arguments could be made to support the need for a strong and effective FHA. Perhaps the most persuasive is the need for a strong Federally-backed mortgage insurance program in the nation's urban areas. Surely, the solution to the nation's urban housing problems cannot be found in a single program or even a single Federal agency; the magnitude of the task requires that all effective tools must be explored.

In another area, we noted (as you did) the absence of a recommendation from the Administration concerning the so-called Brooke/Cranston purchase program of the Government National Mortgage Association. In testimony to the Senate Committee last September, the U.S. League concluded that, on balance, the Brooke/Cranston program was helpful to housing and home finance in a difficult period. We were particularly impressed with the function it served in bringing a broader spectrum of our institutions into the secondary market and into Government-administered loan programs. While we were not certain that Brooke/Cranston added to the total of commitments which might have been made over an extended period of time, it did restore a measure of confidence to the marketplace in a period of great stress by stabilizing the mortgage rates to homeowners and builders. Many of the defects in the initial 1974 program--involving allocations, monthly changes in rate, and failure to channel the funds to home purchases by modest income families--are correctable (and some have been corrected). In any event, we view Brooke/Cranston as an important standby mechanism and support the continuation of this authority.

Another important standby program is the Emergency Homeowners' Relief Act, due to expire on September 30 of this year. We are particularly interested in the alternative method authorized for assisting homeowners faced with involuntary unemployment in periods of economic recession. You will recall that this alternative method approved by Congress in the summer of 1975 would permit lending institutions--including savings and loan associations--to continue to serve their borrowing customers by providing a loan of up to \$250 a month at the current FHA rate with repayments to begin one year after reemployment. The authorized program was similar to the FHA Title I program in that it provided a 90/10 coinsurance arrangement for the lending institution. It provided a mechanism for private institutions to continue to serve those families who, through no fault of their own, were unable to meet their mortgage payments because of general economic conditions.

Similarly, the U.S. League would recommend simple extension of the Federal reinsurance for riot risks' program, "FAIR plans," flood insurance, and related authorities.

Increase in Statutory Limits

As noted earlier in this letter, the sharply escalating cost of housing is having a severe impact on all financial institutions and their customers. We note that Secretary Harris, like her predecessor, has recommended an increase in FHA's maximum mortgage limit for the Section 203(b) insurance program to \$60,000. We encourage the Committee to favorably consider this recommendation.

We would also remind the Subcommittee of the \$55,000 Class One loan limitation which appears in the Home Owners' Loan Act governing the single family home loan investments of Federally-chartered savings and loan associations. As interpreted by Federal Home Loan Bank Board, every dollar of a loan in excess of \$55,000 must be categorized as a "non-conforming" loan. Non-conforming loans are restricted to 20% of assets--a category that is already filled up with whole loans on residential properties purchased from outside the regular lending area, certain combination residential-commercial property loans, apartment house loans, loans on churches and other public facilities, etc. One simple way to provide significant relief for Federally-chartered associations would be to declare that only the "excess above" the dollar limitation--rather than the entire loan amount--should be placed in the 20%-of-assets category of Section 5(c). Such a change would permit Federal savings and loan associations to continue to serve today's home buying public in many areas of the country where average loans now exceed the \$55,000 level. It would also permit them to compete effectively with their state-chartered savings and loan counterparts, as well as commercial banks, credit unions, mutual savings banks,

mortgage bankers, insurance companies, and other providers of home mortgage credit. In cooperation with your Financial Institutions Subcommittee colleagues your Housing Subcommittee adopted such an approach in 1974, but the "excess above" language was dropped in a Conference with the Senate.

The U.S. League strongly urges the House Banking Committee to develop new legislation in the early months of this 95th Congress to provide immediate relief from the \$55,000 problem.

It should also be noted that, because of certain "tie-in" provisions, accommodation also needs to be made in the statutes governing the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Bank Act.

Farmers Home Administration-Rural Housing

Recent studies have revealed a steadily increasing movement of families from the urban areas of our country to the more rural areas. Many explanations are offered for this changed trend; however, relatively little is known about the impact that these new arrivals have on the rural areas in which they settle. Spotty reports indicate that many rural communities are already feeling pressure on their school systems, water and sewer facilities and other services.

Traditionally, the Farmers Home Administration has been a major provider of rural and small community assistance and they have fulfilled this role in a most effective manner. However, the recent influx of families into rural areas has taxed the FmHA's resources and that federal agency now finds itself sharply criticized for its failure to provide the expected services.

In view of the savings and loan business' experience with single-family residential lending, it is only natural the U.S. League would be particularly interested in assisting the Farmers Home Administration in the area of rural housing. The U.S. League has, therefore, been participating in the development of the Farmers Home Administration's Guaranteed Single Family Rural Housing program, which was initiated on January 1, 1977. The League considers this new program a most promising means of assisting rural families desiring homeownership. The fact that the program utilizes private lenders such as savings and loan associations and commercial banks--institutions which are already in place and well established in rural areas throughout our country--serves to provide the swelling numbers of rural borrowers with expanded opportunities for adequate sources of mortgage credit.

We have been most pleased with the receptivity of our members to a series of clinics which the League put on around the country this winter to

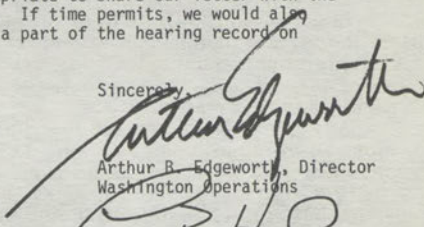
instruct savings and loan managers on operating details of the new FmHA Guaranteed Loan Program. The public and private sector partnership that is developing in this new program is most promising, and the U.S. League hopes to see it expanded in this and other housing problem areas.

We are, however, concerned that the new guaranteed program is receiving a good deal of criticism even before its effectiveness has been adequately determined. It seems clear that the rural demand for mortgage credit deserves the best private and public sector mix that can be made available, just as does the urban market. In this regard, we would recommend the elimination of the "graduation requirement" for guaranteed loans in order to improve their marketability, both as to assumption and secondary market sales. Also, we have found that savings and loans prefer an interest rate that does not require the use of points. Therefore, we recommend that a negotiated rate be permitted for the guaranteed program. We believe these changes would remove serious impediments to the use of the new guaranteed program.

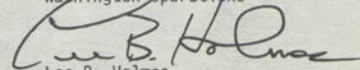
An increase in the mortgage limit of the Federal Housing Administration's Section 203(i) home mortgage insurance program for outlying area properties would provide yet another means by which rural areas could be better served. The present mortgage limit of \$16,200 is obviously inadequate to attract builders and lenders. The FmHA is a "lender of last resort" and the addition of a useful 203(i) program to the already available Veterans Administration and conventional loan resources in rural communities should provide much needed relief to the FmHA.

We have appreciated this opportunity to present the views of the U.S. League on these many vital housing issues before your Subcommittee. We are providing 50 additional copies of this letter to you and your staff in the event that you deem it appropriate to share our letter with the other Members of your Subcommittee. If time permits, we would also appreciate your making this letter a part of the hearing record on housing program authorizations.

Sincerely,



Arthur B. Edgeworth, Director
Washington Operations



Lee B. Holmes
Staff Vice President

SUGGESTED AMENDMENTS TO THE HOUSING AND COMMUNITY DEVELOPMENT ACT
 PROPOSED BY THE NATIONAL ASSOCIATION FOR RETARDED CITIZENS, WASHINGTON,
 D.C., AND THE UNITED CEREBRAL PALSY ASSOCIATIONS, INC., WASHINGTON, D.C.

TITLE I—COMMUNITY DEVELOPMENT

- (1) Section 104, Application and Review Requirements, be amended as follows:
 (a) Subsection (a) (4) (A) be amended to read:

"Submits a housing assistance plan which accurately surveys the condition of the housing stock in the community and assesses the housing assistance needs of lower-income persons (including separately identifiable plans for elderly and handicapped persons, large families, and persons displaced or to be displaced) residing in or expected to reside in the community."

Separately identifiable plans for the elderly and for the handicapped are required because of the tendency by both HUD and local communities to assume that the housing needs of the elderly and handicapped are identical.

- (b) A new Subsection (i) be added which reads:

"After January 1, 1978 any grant under this chapter shall be made only on condition that the applicant has certified to the satisfaction of the Secretary that its laws and policies (particularly laws and policies related to zoning) do not exclude housing for the elderly and the handicapped from any residential housing area, and that its community development program has been developed so as to provide opportunities for appropriate housing, including congregate housing, for the elderly and handicapped within residential neighborhoods."

Discriminatory zoning provisions frequently exclude the possibility of developing specialized housing for the elderly and the handicapped. A non-discrimination and affirmative action requirement is thus essential.

- (2) Section 109, Non-discrimination, be amended as follows:

(a) No person in the United States shall on the grounds of race, color, national origin, sex, age, or handicap be excluded from. . . .

A similar approach has already been accepted by the Congress in Section 8 (a) of P.L. 94-488, "State and Local Fiscal Assistance Amendments of 1976. Those amendments state:

"Any prohibition against discrimination on the basis of age under the Age Discrimination Act of 1975 or with respect to an otherwise qualified handicapped individual as provided in section 504 of the Rehabilitation Act of 1973 shall also apply to any such program or activity."

Section 504 of the Rehabilitation Act reads as follows:

"No otherwise qualified handicapped individual in the United States, as defined in section 7(6), shall, solely by reason of his handicap, be excluded from the participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance."

SECTION 202—HOUSING LOAN AUTHORITY

- (1) Section 210(c), immediately following the phrase "Mental Retardation Facilities and Community Mental Health Center Construction Act of 1963 or pursuant to title III of the Older Americans Act of 1965," add the following sentence:

"In every state where a project to be assisted under this part is planned, the state Developmental Disability Council shall be given the opportunity by the Secretary for prior review and written comment concerning the need for and appropriateness of the proposed project."

This language is necessitated by HUD's failure to implement the current requirement that Section 202 projects be in support of and supported by the applicable state DD plan.

- (2) Section 210(d) (1) (B) is amended by adding a new subsection (iii):

"Disbursements made under this authority may be combined with State Housing Finance and Development project funds to support housing for the elderly and handicapped."

This amendment is required because of HUD's inflexibility with regard to combining Section 202 resources with those of state housing agencies to cooperatively develop specialized housing.

SECTION 7—CONGREGATE HOUSING

(1) Following the last sentence of Section 7, a new sentence should be added to read:

"Congregate housing may also include apartments shared by unrelated aged or disabled persons, sheltered apartments, half-way houses and group homes."

This proposal is suggested because of HUD's emphasis to date on large, rental-complex projects using cafeteria-style dining approaches for disabled persons. Smaller family-like structures should be encouraged. Rent subsidies should be flexible enough to allow sharing of apartments by unrelated eligible disabled persons.

SECTION 8—LOWER INCOME HOUSING ASSISTANCE

(1) Section 8 is amended by adding a new subsection (1):

"For the purpose of aiding lower-income persons in obtaining appropriate existing rental housing, the Secretary is authorized to enter into annual contracts with local housing authorities to provide initial planning, utility and rent deposits, furniture, and physical adaptations."

The absence of the above items can have the effect of turning housing program sponsors for the elderly and handicapped away from renovating existing housing and towards new construction. An authority such as proposed subsection (1) would permit greater utilization of existing Section 8 housing for persons with disabilities. Authorizations for such a new statutory program would be small; for example, the UCPA of Pittsburgh in its experience with developing a supervised apartment program using Section 8 existing housing found the following:

Initial Planning

One professional with secretary and transportation costs for disabled clients successfully placed 27 severely disabled persons in appropriate housing and stabilized the living arrangements of three other persons. Annual budget: \$50,000.

Furniture and Physical Adaptations to Apartments

Purchase of furniture and other household needs of a permanent type and physical adaptations to the apartment for eight (8) severely disabled persons, 5 of whom were wheelchair users, required \$24,037 using two-bedroom apartments.

Using a three-bedroom apartment for three residents, cost to UCPA of Pittsburgh was \$3000 for furniture, and \$1800 for physical adaptations to the apartment.

Thus, a very generalized ballpark estimate for these costs per persons would be roughly \$5000.



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF COMMUNITY AFFAIRS
HARRISBURG

THE SECRETARY

March 16, 1977

Honorable Thomas L. Ashley, Chairman
Subcommittee on Housing and Community Development
2406 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Ashley:

The purpose of this letter is to provide the House Subcommittee on Housing and Community Development with the Pennsylvania Department of Community Affairs' views on the Housing and Community Development Act of 1974. For the past ten years, the Department has been an active partner with the Federal government in helping Pennsylvania local governments undertake and sustain housing and community development activities, providing both financial and technical assistance. I trust that the Department's comments will prove useful to Subcommittee members and staff as they consider restructuring and reauthorizing portions of the Act to better meet the housing and community development needs of American communities.

The Department believes that the most important task facing Congress in the next few months is the restructuring of the Community Development Block Grant (CDBG) allocation formula. The allocation provisions of the present legislation can be retained only with the direst ultimate consequences to the nation's more mature urban centers. Under the present formula structure, sixteen of Pennsylvania's seventeen metropolitan cities face precipitous reductions in their yearly CDBG entitlements between now and 1980. In the aggregate, the seventeen cities will see their present CDBG allocation drop from \$116 million in FY 1977 to \$56 million in FY 1980 if the allocation provisions are not changed. These reductions will severely hamper the efforts of Pennsylvania's metropolitan cities to reverse the urban disinvestment and physical decay that severely threatens their economic and social vitality.

For a number of reasons, the Department believes that the present formula factors do not measure accurately relative community development needs. First, the population factor tends to allocate funds on a per capita basis, and so works to the disadvantage of the larger urban areas which, for the most part, are losing population, but not their problems. In this connection, Section 102 (a) (7) of the H&CD Act has been interpreted by HUD as requiring use of recent population estimates in lieu of population enumerations reported in the 1970 Census. While we do not argue against the use of more current data *per se*, the selective updating by HUD of only population statistics, while other factors indicating need (poverty and overcrowded housing) continue to be based upon 1970 data, unfairly biases the allocation formula against those areas suffering

out-migration. It is well known that out-migrants tend to be of higher socioeconomic status than those remaining in an area. Areas of out-migration lose those individuals best able to pay taxes and generally support the socioeconomic structure of the area. Remaining are the poor, the disadvantaged and the unskilled who can provide the least tax support, but yet require the most in social services and economic support. Hence, out-migration worsens the impact and relative concentration of poverty and concomitant problems. Using only updated population figures in the CDBG formula, however, ignores the increased impact of the poverty-stricken remaining in an area of out-migration, while benefitting growing areas which are, relatively speaking, better off.

Second, absolute poverty numbers in the formula bear little relationship to community development needs. This lack of relationship or imprecision is made worse because poverty is counted twice. In our view, even the numbers are wrong because the poverty index used in the formula includes welfare payments as income. Hence, states such as Pennsylvania, which seek to approach an adequate response to human need in their levels of payment, show fewer individuals having incomes below the poverty level than do states which provide low benefits. Moreover, the Federally-established poverty level is not adjusted for regional differences in the cost of living. The higher costs of food, fuel and housing in the Northeast make it much more difficult for a family to exist on a poverty-level income in Pennsylvania than in certain other areas of the country. We believe that HUD should incorporate a cost-of-living factor into its funding allocations.

The last formula factor, overcrowded housing, bears some relationship to the relative concentration of low-income persons in municipalities but, again, is basically irrelevant to measuring community development needs of densely populated but aging municipalities. Thus, the practical effect of this factor is to shift resources to less densely populated and frequently more well-to-do municipalities.

We have studied the Carter Administration's proposal for revising the CDBG program and believe the dual formula proposal has merit. The new allocation formula, which includes factors relating to age of the housing stock and population growth lag, would address some of the major concerns we have about the present allocation formula.

The Department also believes that the Administration's proposed Urban Community Development Action Grant program has considerable merit. This proposed program addresses one of the inherent deficiencies in block grant funding for community development assistance. Even the dual formula approach, while a distinct improvement in measuring relative needs, cannot measure precisely unique community development need. In Pennsylvania, for instance, many of our communities continue to suffer from the effects of the 1972 Agnes flood. The critical economic and social problems which resulted from this disaster are not

reflected in 1970 Census data. While I believe you and I could agree that extraordinary community development needs resulted from the Agnes flood and perhaps even agree upon which communities were most severely affected, no formula could be developed to satisfy the special requirements and opportunities for these communities. There are other local circumstances which produce extraordinary community development needs that cannot be reflected in a formula; I use the Agnes flood only as an example. The Department believes that the proposed Urban Community Development Action Grant program would provide HUD the flexibility not currently available to react to these special situations.

The Carter Administration proposal seems to adequately provide for entitled communities, i.e., metropolitan cities and urban counties; however, we would like to raise some questions and offer some suggestions with regard to discretionary grant funding levels. A high-ranking HUD official recently advised us that, under the Administration's proposal, discretionary funds would be allocated among individual state non-metropolitan and metropolitan areas on the basis of the present formula. This is surprising because the present formula generally has been discredited by both the HUD and Brookings Institute studies of CDBG allocation formulae. According to the HUD study, this formula correlated lowest with a composite index of need of all the formula alternatives tested. The Department's objections to the present formula, stated previously, are as applicable to the allocation of discretionary funds as they are to the allocation of entitlement funds. We believe that the new formula has been shown to be a better indicator of community development need, and it should be used to allocate discretionary funds.

There are several other recommendations we would like to make with regard to the CDBG discretionary grant program which we believe would improve its usefulness in meeting the community development needs of smaller communities, particularly those communities now receiving hold-harmless entitlement grants which will see their grants reduced to zero by 1980. In Pennsylvania, 92 smaller communities were eligible to receive entitlement grants under the hold-harmless provisions of the CDBG program, the largest number of such communities in any state. Of the 92 communities, 47 could participate in the urban county program. The remaining 45 will depend upon discretionary grants to augment declining hold-harmless funds.

As presently structured, the discretionary grant program discourages a comprehensive approach to meeting the community development needs of smaller communities. Discretionary grant awards are limited to projects which can be executed within two years. Moreover, the maximum grant limitations (\$400,000 in Pennsylvania non-metropolitan areas) often prevent entire programs from being funded. The result is the encouragement of short-term, single-purpose public works projects rather than multi-faceted, comprehensive community development programs. This situation has particular implications for those hold-harmless communities which will be forced to use the discretionary program. For the most part, these communities, because of their prior participation in

categorical programs and the CDBG program, have developed an in-house capacity to plan and execute housing and community development programs. The short-term, uncertain year-to-year nature of discretionary funding, however, makes it difficult for these communities to maintain their housing and community development capabilities. We may lose the valuable resource of know-how which developed in these communities over the past several years.

The Department believes that the scope of the discretionary grant program should be broadened to encourage longer-term, more comprehensive approaches to community development in smaller municipalities. It is incongruous that the discretionary grant program presently requires communities to outline a three-year community development plan and establish three-year housing assistance goals in their grant applications, yet only guarantees funding for a project which must take less than two years to execute and close-out. We would recommend that changes be made which would permit discretionary programs to cover three years, with commensurate increases in the maximum grant amount or guaranteed yearly funding for the life of the program. Additionally, we would like to see provision be given in the law to award discretionary grants to those communities which may be experiencing hardship because of the phase-out of hold-harmless funding.

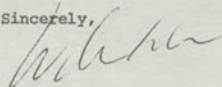
One recommendation which this Department has made from time to time which would improve the effectiveness of the discretionary grant program is funding for Section 811 of the H&CD Act. As you know, Section 811 authorizes HUD to make grants for the provision of technical assistance in the furtherance of the objectives of the CDBG program; however, no funds have been appropriated for this section. Smaller communities, especially those which have not participated previously in either the categorical programs or the CDBG program, need technical advice and assistance not only in planning, but also in administering community development programs. In many states, Departments of Community Affairs, or their equivalents, have developed a significant capacity in this respect. Since the advent of the Act, the number of clientele or potential clientele municipalities has increased greatly. In Pennsylvania, the Department has funded with State tax dollars for a number of years community development activities and general technical services to municipalities.

The Department has worked closely with the two HUD area offices that service the State. This coordination has increased, not decreased, the need for greater use of State resources to provide community development technical assistance. Without in any way denigrating HUD area offices (with which we enjoy the best relations), I am convinced that they, a Federal agency more remote from the local scene, cannot provide the community development technical assistance needed by all but the very large cities. I can assure you that the Department, given the increased opportunity through Section 811 funding, can and will see that the objectives of the H&CD Act are carried out. For the same reason, we would like to see the administration of discretionary funds

shifted to the states as proposed by the last administration.

Thank you for providing this opportunity for the Department to express its view on the CDBG program. Should you or members of the Subcommittee require further information on any of the above points, please contact me.

Sincerely,



William H. Wilcox
Secretary of Community Affairs

STATE OF MARYLAND, DEPARTMENT OF ECONOMIC
AND COMMUNITY DEVELOPMENT,
OFFICE OF THE SECRETARY,
Annapolis, Md., February 17, 1977.

Memorandum to: Members of Subcommittee on Housing and Community Development, U.S. House of Representatives.
From: Joseph G. Anastasi, president, Council of State Community Affairs Agencies (COSCAA).
Subject: Oversight hearing testimony.

Since budget authorization hearings are to be scheduled in the next several weeks for the HUD budget, I wish to bring to your attention testimony that I presented to the Banking, Housing and Urban Affairs Committee last August 25. My remarks and discussion with Senator Proxmire about the testimony appear on pages 437 through 459 of the published report.

Two primary points of my testimony were, one, that the states have made a much greater commitment to housing and community development than the federal government has seen fit to recognize; and two, that there is a desperate need for federal funding of technical assistance so that implementation of local projects can proceed.

As noted in the hearing report, Senator Proxmire expressed a strong interest in my observations and recommendations. With respect to a state role in the community development program, he states, "They have the expertise. They have the competence and capability of coordinating this on a statewide basis." (P. 454)

With regard to technical assistance, Senator Proxmire noted his agreement that "HUD hasn't provided adequate effective support," and that states should be able to receive funds to provide this assistance. We discussed the possibility of a \$15 million appropriation for a presently dormant Section 811 for this purpose (P. 457). My testimony included a statement on the kinds of technical assistance that one needed (pp. 449-452).

I hope that you find these recommendations to be in accord with your own view of how the community development program could be improved through greater involvement of the states.

JOSEPH G. ANASTASI,
Secretary.

STATE OF MICHIGAN,
DEPARTMENT OF NATURAL RESOURCE,
Lansing, Mich., March 10, 1977.

Hon. THOMAS L. ASHLEY,
Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs, Washington D.C.

DEAR CHAIRMAN ASHLEY: It is our understanding that the Subcommittee on Housing and Community Development recently held hearings on programs administered by the Department of Housing and Urban Development. We are particularly interested in and concerned by the National Flood Insurance Program administered by that agency, and would like to take this opportunity to apprise you of those concerns.

The National Flood Insurance Program, authorized by Public Law 93-234, Public Law 91-152 and Public Law 90-448, provides needed development control in designated flood prone areas in Michigan. However, it is deficient in three critical areas.

First, the program requires local units of government to control future development in flood plain areas by enacting and administering local flood plain regulations. This places a heavy burden on many of our rural townships and villages without any effective way of helping the local units perform these tasks. The Federal Insurance Administration is depending on the states to provide necessary guidance and expertise in aiding the local units in developing and administering flood plain regulations. No funds have been provided to the states for this coordination effort. We are not able to adequately provide needed help without proper funding. We urge Congress to consider providing funds for the purpose of assisting local units of government.

Second, the program does not provide for state approval of flood plain delineation studies being done by the Federal Insurance Administration. States should have this authority and funding should be available for those states that

have the necessary expertise and desire to review and approve or reject flood plain studies.

Third, the 1973 amendments (P. L. 93-234) to the National Flood Insurance Act are not being interpreted by the Federal Insurance Administration (FIA) in the way we believe Congress intended. We feel the type of erosion that is now being experienced on the Great Lakes shoreline was intended to be covered under the insurance program. Whatever the intention of the Act in this regard, it is confusing and the FIA interpretation has not eliminated the confusion. FIA has interpreted the extension to only cover erosion accompanied by an unusually high water level, caused by a severe storm or by an unanticipated force of nature or some similarly unusual and unforeseeable event. It is our contention that this interpretation unnecessarily limits the coverage intended and in fact disqualifies much of the damage now taking place on the Great Lakes.

The term "erosion" when used in the National Flood Insurance Act should be divorced from the definition of flooding. Several other terms used in the Act need to be defined or altered so that they reflect the true erosion situation on the Great Lakes. We believe this can best be accomplished by amendment to the Act and we are considering a request for amendment to Michigan's Congressional delegation. The erosion hazard provisions of the Act also necessitate a good deal of effort to acquire erosion data. We would urge that the costs for such efforts be recognized when the Federal Insurance Administration's budget is being considered.

If oversight hearings on the Flood Insurance Program are scheduled in the future, we would very much like to be advised of those hearings, and would wish to appear before the Subcommittee with our thoughts.

Please advise me if you would like more detail on our concerns or on our thoughts for amendment to the Act.

Thank you for your consideration.

Sincerely,

HOWARD A. TANNER, *Director.*

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., February 28, 1977.

Hon. THOMAS L. ASHLEY,
Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs, Washington, D.C.

DEAR CHAIRMAN ASHLEY: In a connection with your Subcommittee's hearings on the Community Development Block Grant Program, I urge your favorable consideration of proposals to strike subsection 106 (h) (2) of the Housing and Community Development Act.

I attach a letter I received from the Honorable Kile Morgan, Mayor of the City of National City, which clearly outlines, in dollars of not cents, the fate of small cities should the provision remain in effect.

It is my hope that you will bring the Mayor's recommendation—along with endorsement of his request—to the attention of the other Subcommittee members, and make it a part of the official hearing record.

Your kind attention and assistance are deeply appreciated.

Sincerely,

LIONEL VAN DEERLIN, *Member of Congress.*

THE CITY OF NATIONAL CITY, CALIF.
February 15, 1977.

CONGRESSMAN LIONEL VAN DEERLIN,
*Rayburn Office Building,
Washington, D.C.*

DEAR CONGRESSMAN VAN DEERLIN: As you know both National City and Imperial Beach are "hold-harmless" or "phase-down" cities under the Community Development Block Grant Program. This means that our funding pattern in National City will look like this:

1975, \$841,000; 1976, \$841,000; 1977, \$841,000; 1978, \$520,000; 1979, \$321,000; and 1980, 0.

As you also know National City has made and is making determined efforts to maintain its neighborhoods and keep ahead of blight and deterioration. Although large amounts of City funds are used in this effort, only the dollars provided by the Community Development Block Grant Program makes this effort a successful one. Without it this City will steadily lose ground to blight and deterioration.

Because we are making these efforts we sincerely hope it will be possible to maintain Block Grant funding at the current level for hold-harmless cities, especially those under 50,000 in population, whose entitlement funding will otherwise go to zero.

Please urge your colleagues on the House Subcommittee on Housing and Community Development to support H.R. 1522, especially that part which strikes subsection 106(h) (2) of the Housing and Community Development Act of 1974.

Best wishes for the coming session.

Very truly yours,

KILE MORGAN,
*Mayor of the City of National City and
Chairman of the Community Development Commission
of the City of National City.*

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington D.C., February 28, 1977.

HON. THOMAS L. ASHLEY,
*Chairman, Subcommittee on Housing and Community Development, Committee
on Banking, Finance and Urban Affairs, Washington, D.C.*

DEAR MR. CHAIRMAN: Enclosed are a number of letters I have received from Mayors of towns in my Congressional District expressing support for the Urban Counties provision under the Community Development Block Grant program.

These are conveyed for the subcommittee's consideration as it takes up reauthorization of this program. Would surely appreciate it if the Mayor's comments could be included in the hearing record in this regard.

Thank you very much, and very best wishes.

Sincerely,

JIM WRIGHT, *Member of Congress.*

TOWN OF LAKESIDE,
Fort Worth, Tex., February 15, 1977.

HON. JIM WRIGHT,
*Kayburn House Office Building,
Washington, D.C.*

DEAR CONGRESSMAN WRIGHT: As you are probably aware, the Community Development Block Grant Program comes up for reauthorization in this session of Congress. This Program has been of tremendous benefit to the Town of Lakeside and the other 30 cities in Tarrant County who comprise the Urban County Consortium. It has enabled us to undertake many badly needed community improvement projects which would not have been possible without this assistance.

There are some officials in H. U. D. and in the larger cities who do not fully understand the importance of attacking the problems of slums and blight in rapidly developing areas of urbanizing counties before these problems become unmanageable. They seek changes in the existing Community Development program which would exclude or severely limit Urban Counties from participating in the benefits of this program. I and my fellow Mayors in Tarrant County urge you to support reauthorization of the Community Development Block Grant Program and to resist any modifications to the Act which would serve to restrict Urban Counties from fully participating in the Program.

The citizens of the Town of Lakeside as well as the entire County will be deeply appreciative of any assistance you can provide to assure that the Community Development Block Grant Program is renewed and the role of Urban Counties in this Program is preserved.

Sincerely,

JOHN RANGEL, *Mayor.*

MAYORS' COUNCIL OF TARRANT COUNTY, TEX.,
February 4, 1977.

Hon. JIM WRIGHT,
Rayburn House Office Building,
Washington, D.C.

DEAR CONGRESSMAN WRIGHT: Now that Congress is scheduled to consider reauthorization of the Community Development Block Grant Program this spring, I felt this would be a good time to let you know how important this program has been to the cities of Tarrant County. As current Chairman of the Tarrant County Council of Mayors, I have become acquainted with the pressing community improvement needs of the 31 member cities of the Urban County Consortium. Community Development Block Grant funds have allowed us to undertake projects to solve many of these problems. Without these funds many of the urgent problems facing the 200,000 plus population of our Urban County jurisdiction would remain unsolved.

As a rapidly developing county, the community development problems we face are in many ways different from those of larger cities such as those in the northeast. They are different but no less important or urgent. Our philosophy as an Urban County is to tackle the problems of slums and blight before the problems are beyond solution. We feel that our approach and our program has been successful, but much remains to be accomplished. For these reasons, I hope you will support reauthorization of the Community Development Block Grant Program and oppose any modifications which would serve to eliminate or restrict Urban Counties from participation.

Few Federal Programs have been of such direct, efficient, and positive benefit as Tarrant County's Community Development program. I know the citizens of Tarrant County will appreciate your leadership in gaining reauthorization of the program in a form which will allow us to continue our work.

Sincerely,

HARRY PURSER, *Chairman.*

CITY OF LAKE WORTH,
Lake Worth, Tex., February 9, 1977.

Hon. JIM WRIGHT,
Rayburn House Office Building,
Washington, D.C.

DEAR CONGRESSMAN WRIGHT: As you are probably aware, the Community Development Block Grant Program comes up for reauthorization in this session of Congress. This Program has been of tremendous benefit to the City of Lake Worth and the other 30 cities in Tarrant County who comprise the Urban County Consortium. It has enabled us to undertake many badly needed community improvement projects which would not have been possible without this assistance.

There are some officials in H.U.D. and in the larger cities who do not fully understand the importance of attacking the problems of slums and blight in rapidly developing areas of urbanizing counties before these problems become unmanageable. They seek changes in the existing Community Development program which would exclude or severely limit Urban Counties from participating in the benefits of this program. I and my fellow Mayors in Tarrant County urge you to support reauthorization of the Community Development Block Grant Program and to resist any modifications to the Act which would serve to restrict Urban Counties from fully participating in the program.

The citizens of Lake Worth as well as the entire County will be deeply appreciative of any assistance you can provide to assure that the Community Development Block Grant Program is renewed and the role of Urban Counties in this Program is preserved.

Sincerely,

RICHARD W. TRIMBLE, *Mayor.*

CITY OF BLUE MOUND,
Fort Worth, Tex., February 16, 1977.

Hon. JIM WRIGHT,
Rayburn House Office Building,
Washington, D.C.

DEAR CONGRESSMAN WRIGHT: As you are probably aware, the Community Development Block Grant Program comes up for reauthorization in this session of Congress. This program has been of tremendous benefit to the City of Blue

Mound and the other 30 cities in Tarrant County who comprise the Urban County Consortium. It has enabled us to undertake many badly needed community improvement projects which would not have been possible without this assistance.

There are some officials in H.U.D. and in the larger cities who do not fully understand the importance of attacking the problems of slums and blight in rapidly developing areas of urbanizing counties before these problems become unmanageable. They seek changes in the existing Community Development program which would exclude or severely limit Urban Counties from participating in the benefits of this program. I and my fellow Mayors in Tarrant County urge you to support reauthorization of the Community Development Block Grant Program and to resist any modifications to the Act which would serve to restrict Urban Counties from fully participating in the Program.

The citizens of Blue Mound as well as the entire County will be deeply appreciative of any assistance you can provide to assure that the Community Development Block Grant Program is renewed and the role of Urban Counties in this Program is preserved.

Sincerely,

BETTY BEWLEY, *Mayor.*

CITY OF SAGINAW, TEX.,
February 10, 1977.

HON. JIM WRIGHT,
*Rayburn House Office Building
Washington, D.C.*

DEAR CONGRESSMAN WRIGHT: As you are probably aware, the Community Development Block Grant Program comes up for reauthorization in this session of Congress. This Program has been of tremendous benefit to the City of Saginaw and the other 30 cities in Tarrant County who comprise the Urban County Consortium. It has enabled us to undertake many badly needed community improvement projects which would not have been possible without this assistance.

There are some officials, in H.U.D. and in the larger cities who do not fully understand the importance of attacking the problems of slums and blight in rapidly developing areas of urbanizing counties and before these problems become unmanageable. They seek changes in the existing Community Development program which would exclude or severely limit Urban Counties from participating in the benefits of this program. I and my fellow Mayors in Tarrant County urge you to support reauthorization of the Community Development Block Grant Program and to resist any modifications to the Act which would serve to restrict Urban Counties from fully participating in the Program.

The citizens of Saginaw as well as the entire County will be deeply appreciative of any assistance you can provide to assure that the Community Development Block Grant Program is renewed and the role of Urban Counties in this Program is preserved.

Sincerely,

DERYL D. FOX, *Mayor.*

CITY OF KELLER, TEX.,
February 2, 1977.

HON. JIM WRIGHT,
*Rayburn House Office Building
Washington, D.C.*

DEAR CONGRESSMAN WRIGHT: As you are probably aware, the Community Development Block Grant Program comes up for reauthorization in this session of Congress. This Program has been of tremendous benefit to the City of Keller and the other 30 cities in Tarrant County who comprise the Urban County Consortium. It has enabled us to undertake many badly needed community projects which would not have been possible without this assistance.

There are some officials in H.U.D. and in the larger cities who do not fully understand the importance of attacking the problems of slums and blight in rapidly developing areas of urbanizing counties before these problems become unmanageable. They seek changes in the existing Community Development program which would exclude or severely limit Urban Counties from participating in the benefits of this program. I and my fellow Mayors in Tarrant County urge you to support reauthorization of the Community Development Block Grant Program and to resist any modifications to the Act which would serve to restrict Urban Counties from fully participating in the Program.

The citizens of Keller as well as the entire County will be deeply appreciative of any assistance you can provide to assure that the Community Development Block Grant Program is renewed and the role of Urban Counties in this Program is preserved.

Sincerely,

GEORGE W. RICHARDSON, *Mayor.*

CITY OF GRAPEVINE, TEX., *February 2, 1977.*

Hon. JIM WRIGHT,
Rayburn House Office Building,
Washington, D.C.

DEAR CONGRESSMAN WRIGHT: As you are probably aware, the Community Development Block Grant Program comes up for reauthorization in this session of Congress. This program has been of tremendous benefit to the City of Grapevine and the other 30 cities in Tarrant County who comprise the Urban County Consortium. It has enabled us to undertake many badly needed community improvement projects which would not have been possible without this assistance.

There are some officials in H.U.D. and in the larger cities who do not fully understand the importance of attacking the problems of slums and blight in rapidly developing areas of urbanizing counties before these problems become unmanageable. They seek changes in the existing Community Development program which would exclude or severely limit Urban Counties from participating in the benefits of this program. I and my fellow Mayors in Tarrant County urge you to support reauthorization of the Community Development Block Grant Program and to resist any modifications to the Act which would serve to restrict Urban Counties from fully participating in the Program.

The citizens of Grapevine as well as the entire County will be deeply appreciative of any assistance you can provide to assure that the Community Development Block Grant Program is renewed and the role of Urban Counties in this Program is preserved.

Sincerely,

WILLIAM D. TATE, *Mayor.*

CITY OF SANSOM PARK,
Fort Worth, Tex., February 2, 1977.

Hon. JIM WRIGHT,
Rayburn House Office Building,
Washington, D.C.

DEAR CONGRESSMAN WRIGHT: As you are probably aware, the Community Development Block Grant Program comes up for reauthorization in this session of Congress. This Program has been of tremendous benefit to the City of Sansom Park and the other 30 cities in Tarrant County who comprise the Urban Consortium. It has enabled us to undertake many badly needed community improvement projects which would not have been possible without this assistance.

There are some officials in H.U.D. and in larger cities who do not fully understand the importance of attacking the problems of slums and blight in rapidly developing areas of urbanizing counties before these problems become unmanageable. They seek changes in the existing Community Development program which would exclude or severely limit Urban Counties from participating in the benefits of this program. I and my fellow Mayors in Tarrant County urge you to support reauthorization of the Community Development Block Grant Program and to resist any modifications to the Act which would serve to restrict Urban Counties from fully participating in the Program.

The citizens of Sansom Park as well as the entire County will be deeply appreciative of any assistance you can provide to assure that the Community Development Block Grant Program is renewed and the role of Urban Counties in this Program is preserved.

Sincerely,

J. F. DAVIS, *Mayor.*

VILLAGE OF UNION, N.Y., *March 8, 1977.*

Hon. HENRY S. REUSS,
Rayburn Office Building,
Washington, D.C.

DEAR CHAIRMAN REUSS: I am writing to urge you to support a full three year extension for all Community Development "Hold Harmless" recipients.

We have accomplished over the past two years and will accomplish again in 1977 things which would never have come to pass without Community Development Funds. We believe we have used the money wisely and have gained the greatest possible mileage out of each dollar.

As you know, Central New York State and most certainly the Mohawk Valley are in a serious economic bind caused by a high rate of unemployment. I believe that continued full funding for the next three years would certainly help to reduce our economic problems and stir a rebirth of spirit.

This certainly provides a chance for the Congress and the local government to cooperate and help those people who are the backbone of this great nation.

Thanks for your consideration.

Sincerely,

JAMES F. GARNSEY, *Mayor*.

VILLAGE OF NYACK, N.Y., *March 1, 1977.*

HON. HENRY S. REUSS, *Chairman,*
Banking, Finance and Urban Affairs Committee,
Washington, D.C.

DEAR MR. REUSS: Under the present program of Community Development Funding, FY-1977 will be the last year of full funding for the Village of Nyack. It is extremely important that a full three year extension at the same level of \$306,000.00 per annum be made available to our Village. The Community Development Program has funded activities such as housing rehabilitation, street improvements, recreation programs, public parks construction, etc., all of which directly benefit the very large number of low and moderate income families in our community. It is essential that these and similar services continue to be funded. The need for neighborhood revitalization is a critical one. Ours is a small community, less than one square mile in area, and we are unable to provide the above noted activities and services out of our Village budget.

We are not opposed to any increase in funds for the large and medium sized northeastern cities that were treated inequitably under prior years funding. Continued funding, at at least the current level, is essential to Nyack since the program does help to generate jobs and reduce local unemployment.

We cannot urge you strongly enough to give your most serious consideration to our request. The continuation of full Community Development Funding is essential to the viability of Nyack.

Very truly yours,

ALEXANDER CAGLIONE, *Mayor*.

THE CITY OF WHITE PLAINS, N.Y.,
OFFICE OF THE MAYOR,
March 4, 1977.

HON. THOMAS L. ASHLEY,
Chairman, Subcommittee on Housing and Community Development, Committee
on Banking, Finance and Urban Affairs, Washington, D.C.

DEAR CHAIRMAN ASHLEY: I urge you to assist our city and other cities who are in a similar situation—faced with an imminent reduction in Community Development funding just at the time our Community Development programs are beginning to show signs of substantial success in revitalizing our basic housing supply, providing essential services to the lower- and moderate-income families and undertaking other projects of public improvements related to our target neighborhoods.

We ask your assistance in supporting legislation such as HR2638 or HR1522 that would modify the Housing and Community Development Act of 1974 by holding harmless, for a fourth year¹ White Plains' Community Development Block Grant Program funds as presently entitled to under this act for our third year.

We appreciate your leadership and support and ask that in addition to supporting continuation of hold-harmless legislation, that you also support increasing, in appropriate amounts, legislative authorization and appropriation bills necessary to effectuate such basic legislation.

¹ Extension for a fifth and sixth years is also needed in view of the complexity of our and other cities' urban problems.

Our first two years' programs are well underway, and our third year application is just being prepared. We are stunned by the recent letter from HUD in which it was stated that our 1978 (or fourth year) funding would be substantially cut. To do so would cause a severe deficiency in our already tight financial picture.

I stand ready to assist, as does David A. Ornstein, A.I.P., my Commissioner of Planning, in his capacity of Community Development Administrator, in testifying before any committee or subcommittee relevant of our specific Community Development Program funding needs.

We have made enormous strides in our Community-Development-funded, residential, rehabilitation loan-and-grant program, which has brought not only economic and social vitality to our target Community Development neighborhoods, but has generated large amounts of private capital from homeowners who do not need loans and grants but who have become motivated to keep up with their neighbors' improvements. This, in effect, provides private funds which go toward achieving the Congressional goals without additional appropriation from Congress.

In a similar vein, we have attracted a considerable amount of capital investment from our local banks who are participating in this worthwhile program in two ways: First, by reducing their regular interest rate from 11 percent to 8½ percent and second, by making special efforts to provide capital improvement funds where they are most needed.

It is obvious, but I wish to stress that all of the Community Development Programs generate jobs which reduce our local unemployment and add to the taxing ability of the Federal and other taxing jurisdictions which, in the process of government, support programs like Community Development with tax funds.

Sincerely yours,

ALFRED DEL VECCHIO, Mayor.

THE CITY OF POUGHKEEPSIE, N.Y., March 7, 1977.

HON. THOMAS L. ASHLEY,

Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs, Washington, D.C.

DEAR CHAIRMAN ASHLEY: We, in the City of Poughkeepsie are fortunate to have participated in a long series of Federally funded urban redevelopment programs including Urban Renewal, Model Cities, Concentrated Code Enforcement, Pollution Control, LEAA, and currently the Community Development Block Grant Program.

Poughkeepsie, New York, is a living example of what Federal funding can do to the Cities within the United States of America.

The City of Poughkeepsie is *succeeding* in its urban redevelopment. Our downtown is becoming revitalized through commercial and civic redevelopment projects. Our residential neighborhoods are being rehabilitated through code enforcement, residential rehabilitation loans, park improvements and site improvements on residential streets. Our Citywide recreational facilities are becoming the most notable in the entire region.

Overall, Poughkeepsie is succeeding in fulfilling the goals and objectives of the various Federal redevelopment programs.

The critical key to the success of the Poughkeepsie Redevelopment effort is the Community Development Block Grant "Hold Harmless" formula which enabled the City of Poughkeepsie to continue where the categorical programs left off.

The complexity of urban redevelopment programs necessitates a number of years start-up and gear-up so that the benefits and program activities can proceed at an effective rate. Termination or reduction in funding just when activities get going and just when administrative organizations have become familiar with procedures and regulations is "non-cost effective" Federal financing.

The City of Poughkeepsie urges you to continue the level of funding for the Community Development Block Grant Program at the full "Hold Harmless" level for a three year extension. The extension level of "Hold Harmless" funding should be equal to that of Fiscal Year 1975 through 1977. The City of Poughkeepsie and other Northeastern Cities need this funding to bring about the necessary changes that are requisite for their rebirth.

The condition of the physical infrastructure of older eastern Cities combined with the cost of materials, labor and construction necessitates a high level of Federal funding if our Cities are to be prevented from crumbling. The Federal goals of non-pollution of rivers and other bodies of water necessitate excessively expensive sewer system renovations. Municipalities across the northeast are having difficulty meeting their operating expenses. While clearly not caused by administrative frivolity, they, nevertheless, make the funding of physical/capital and social service programs by the City an impossibility.

The City of Poughkeepsie urges you to pay a visit to us to see the incredible and extensive improvements that are being accomplished through Federal funding in conjunction with local and State assistance.

Additionally, I wish to reiterate that the City of Poughkeepsie is in no way opposed to any increase in funding for the large and medium size northeastern Cities that were treated inequitably under the Fiscal Year 1975 through 1977 allocations. The City of Poughkeepsie can not in good conscience oppose this and is in fact supportive of other administrators in Cities where attempts are being made to accomplish similar things as in Poughkeepsie.

The City of Poughkeepsie believes that the Federal budget can accommodate the modest increase in total program funding level which can come about as a result of our requests to maintain "Hold Harmless" funding levels.

In actuality from our point of view it would amount to rounding the decimal point on a total budget. It can not in our opinion have a significant inflationary impact.

The economic employment generating aspects of the Community Development Program are significant. The City of Poughkeepsie made application for additional Federal funding under the Economic Development Administration Public Works Program. The City of Poughkeepsie was not successful. The jobs that were lost by virtue of not receiving an EDA Public Works Grant can be made up by maintaining the Community Development Block Grant "Hold Harmless" funding formula.

Sincerely yours,

ROBERT E. AHMED, *Mayor.*

CITY OF BUFFALO, N.Y., *February 17, 1977.*

Re Continued "701" funding level.

HON. JOHN J. LAFALCE,
*House of Representatives, Cannon Building,
Washington, D.C.*

DEAR CONGRESSMAN LAFALCE: The proposed Ford budget calls for a \$25 million appropriation for the "701" Program in fiscal 1978, down from the current \$62.5 million level. The new budget would in effect eliminate large cities like the City of Buffalo from further participation in what has been a most beneficial program.

While it is understandable that smaller communities have a need for planning assistance monies, it should be recognized that larger communities which have used decreasing allocations of planning assistance funds to develop a planning process should be allowed to complete implementation and expansion of that process.

Recipients, like the City of Buffalo, who have demonstrated a successful and effective utilization of "701" funds, should be retained as participants by restoring at least the present \$62.5 million level of funding for fiscal 1978.

The City of Buffalo has utilized its "701" funds to enhance, rather than duplicate or substitute, planning and management activities eligible under the Community Development Block Grant Program. Whereas the Community Development Block Grant Program planning activities are short term and neighborhood oriented, the "701" planning activities undertaken have been more comprehensive in nature and responsive to short-term planning requirements while addressing their longer range implications.

A retention of at least the present level of funding for the "701" Program would be of immeasurable value to the continued development and expansion of the City's comprehensive planning process.

Very truly yours,

STANLEY M. MAKOWSKI, *Mayor.*

HUDSON, N.Y., February 2, 1977.

HON. THOMAS L. ASHLEY,
 Chairman, Subcommittee on Housing and Community Development, Committee
 on Banking, Finance and Urban Affairs, Washington, D.C.

DEAR CHAIRMAN ASHLEY: As you are undoubtedly aware, the City of Hudson, as well as hundreds of other cities with populations under 50,000, face the cut-off of their present Community Development Hold-Harmless formulas in June of 1978. We are also aware that Congress is reviewing the entire program this year.

Cities under 50,000 suffer from the same problems as larger cities. We have large amounts of substandard housing, deteriorated physical plants and large percentages of our population living at the poverty level. Yet the proposed phase-out will leave us without any effective means of combating these problems.

We in Hudson believe that we have accomplished much with the Federal assistance we have received, though much, much, more remains to be done. We have attached a short resume indicating our experiences and problems.

It is our deepest hope that you will urge the retention of the present hold harmless formulas for cities with populations of under 50,000. Many of our community groups feel the same way, and we have enclosed their letters to you.

Your assistance is deeply appreciated in this matter, and we look forward to hearing from you on the status of the program.

Yours truly,

PAUL J. COLWELL, Mayor.

BENEFITS OF URBAN RENEWAL AND COMMUNITY DEVELOPMENT
 PROGRAMS TO THE CITY OF HUDSON & UNMET NEEDS

BACKGROUND

The City of Hudson with a population of 10,000 persons is located approximately 120 miles North of New York City on the banks of the Hudson River. Approximately 15% of the City's population are minorities, and about 50% of the population earns below or just above the poverty level. The State of New York in a survey conducted of the City of Hudson, indicated that the City suffered from the worst substandard housing per-capita in the State.

The City is surrounded on three sides by the suburban community of Greenport and on the fourth side by the Hudson River. Between 1960 and 1970, 2,500 middle class white persons left the City of Hudson for suburban communities and were replaced with low income, minority populations. At the same time there was also a flight of businesses from the City to suburban shopping centers.

In addition the City suffered from a deteriorated physical plant, including inadequate sewers and water lines.

In other words the City suffered from the same problems as most central cities in our nation do.

BENEFITS

In 1970, the City of Hudson applied for and received Urban Renewal Funds for a 50 acre project and in 1975 began receiving Community Development Entitlement Funds. These funds have been crucial to the rejuvenation of the City and in providing needed housing. Among the accomplishment were the following:

(a) *Urban Renewal Project No. 1*

1. 168 Units of moderate income housing constructed.
2. 135 Units of low income housing constructed.
3. 20 Units of conventional housing constructed.
4. A new plant constructed employing 150 persons, primarily from low income areas.
5. A new shopping center constructed.
6. The rehabilitation of 100 units of primarily low and moderate income housing.
7. A Fascade Easement program which historically rehabilitated 40 houses and won a national award from HUD.
8. A million dollars were spent to replace antiquated water and sewer lines.

(b) Community Development Projects

1. A Central Business District Project which is leading to historic rehabilitation of the entire CBD. All vacant storefronts have been rented and the area has been turned around.

2. The rehabilitation of 100 units of housing for low and moderate income persons.

3. The replacement of water lines.

4. The extension of the Cascade Easement Program to the East Side of South Front Street including the rehabilitation of approximately 20 units of low income housing.

Hudson has begun turning around. Neighborhood analysis of areas in which urban renewal and CD activities have been carried out indicate that middle class families are returning to neighborhoods, stabilizing such neighborhoods. A large number of low and moderate income families have been provided with decent, safe and sanitary housing as well as employment opportunities. Retail sales in the Central Business District have been better than in a decade and needed utilities have been provided.

UNMET NEEDS

The great progress that has been made thus far by the City would not have been possible without urban renewal and Community Development Entitlement Funding. Yet there are numerous unmet needs. Some are as follows:

1. The Lower Allen Street neighborhood contains several abandoned buildings and 200 units of substandard housing.

2. The Simpsonville Neighborhood contains several abandoned units and substandard units which are only served by outhouses.

3. The Columbia Street neighborhood, a minority concentrated neighborhood contains several hundred substandard and abandoned units.

4. The State Street Neighborhood contains abandoned housing and approximately 250 units of substandard housing.

5. The Warren Street neighborhood between 2nd and 5th Sts. contains approximately 300 substandard units as well as several units of abandoned housing.

6. Hudson still has an unemployment rate far above the national average and income is still among the lowest per-capita in the State.

7. Several miles of water and sewer lines remain to be upgraded.

If Community Development Entitlement Funds are cut off or lowered from present levels for Cities under 50,000 not only Hudson, but many smaller central cities in like circumstances will be left with no resources to meet their urgent human and physical needs.



STEPHEN P. CLARK
Mayor

Office of the Mayor
METROPOLITAN DADE COUNTY-FLORIDA
DADE COUNTY COURTHOUSE
MIAMI, FLORIDA 33130

March 17, 1977

Honorable Thomas L. Ashley
Chairman, Subcommittee on Housing
and Community Development
Committee on Banking, Finance and Urban Affairs
House of Representatives
2406 Rayburn House Office Building
Washington, D. C. 20510

Dear Mr. Chairman:

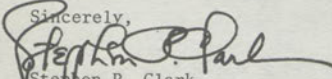
As your Subcommittee is reviewing provisions of the Housing and Community Development Act of 1974, we in Metropolitan Dade County seek your support for amendments to recognize and encourage metropolitan approaches toward the solving of housing and community development problems in urban areas of the country.

Millions of dollars have been expended by localities and through the Section 701 Comprehensive Planning Grant Program for development of comprehensive area-wide plans. This effort reflects the recognition that many problems in urban areas transcend jurisdictional boundaries, which require a coordinated metropolitan approach to their resolution.

As a consolidation of several categorical grant programs, the Housing and Community Development Act of 1974 seemed to offer the opportunity for increased implementation of metropolitan-wide efforts to solving many of these problems. It seems, however, that as implemented, the Act neither directs nor encourages such metropolitan efforts. In the case of Metropolitan Dade County we have actually experienced a reversal of the progress which had been made over a number of years in developing a metropolitan form of government. Proposals, such as your recently introduced Inter-governmental Coordination Act (H.R.4406), which encourage area-wide approaches for all programs would be an improvement over the current fragmented approaches in many areas. Our metropolitan form of government already permits us to approach problems on an area-wide basis but the Community Development Program, as currently constituted, has been a step backwards in this regard.

Based on these concerns, we offer the enclosed material for the record and for consideration by your Subcommittee.

Sincerely,


Stephen P. Clark
Mayor

Enclosure

Statement of
Metropolitan Dade County, Florida
filed with
The Subcommittee on Housing and Community Development
of the
House Banking, Finance and Urban Affairs Committee
on the
Reauthorization of the Community Development Program
March 15, 1977

RECOMMENDATION

In considering changes to the current Community Development legislation, two basic modifications are urged; expansion of the Urban Development Action Grant concept proposed by HUD; and provision of an incentive program for metropolitan approaches to problem solving.

Urban Development Action Grant

Virtually, since the inception of the Community Development Program it has been argued that the program lacked the capability of undertaking major projects of neighborhood revitalization which required multi-year commitments. Experience during the first two years of the program have highlighted this gap. Therefore, the Department's proposal to earmark discretionary funds for an Urban Development Action Grant seems warranted; however, this concept should be broadened to include not only cities, but all units of general local government which have authority for undertaking such activities.

Metropolitan Incentives

The existing legislation should be further amended to allow incentive grants to those metropolitan areas which develop metropolitan-wide approaches for addressing issues of a multi-jurisdictional nature. The monies for this incentive program could be funded from the Secretary's discretionary funds.

BACKGROUND

One of the dominant directions in Federal urban policy over the last decade has been the active encouragement of local efforts at area-wide cooperation. It is clear that the Federal housing and community development funding system does not presently include this emphasis. Metropolitan approaches to solving area-wide community development problems should be recognized and rewarded through incentives for communities to enter into cooperative efforts.

A key problem posed by the existing legislation is the designation of just two forms of local government as recipients of entitlement grants: metropolitan cities and urban counties. This rigid funding system does not recognize that there is little uniformity among and within states as to what level and type of government has responsibility for a particular function. Consider these differences.

1. Counties are of minimal or no significance in New England while they are major service providers in California, Maryland, New York and Virginia.
2. A 1967 survey by the Advisory Commission on Intergovernmental Relations showed that the dominant direction service provider for

housing and renewal functions varied significantly: of the 50 states, 22 had municipal domination in housing/renewal responsibility, four had county responsibility, two had State responsibility and 22 had special districts or authorities.

3. In the South, Metropolitan Dade County and Atlanta have a two-layer approach to providing urban services, in which area-wide government is strengthened while retaining municipalities. Nashville (Davidson County) and Jacksonville (Duval County) have consolidated one-layer governments. In the North, Indianapolis (Marion County) has followed this latter approach.

It is clear that the pattern of local government in the U. S. is so varied that entitlement grants cannot recognize this complexity. The recipients of entitlement block grants, quite naturally, will tend to spend their funds in the functional areas over which they have exclusive jurisdiction rather than shared powers. Because of the proliferation of assignment patterns to different units of government, it makes it difficult to determine whether functions are being effectively allocated to different levels of State and local government.

In instances of shared responsibility over community development matters, as in two-layer metropolitan areas such as Metropolitan Dade County, the entitlement formulae would preclude the Metropolitan County from exercising authority over its functional areas of housing, renewal, neighborhood facilities, social services, economic development and arterial streets within entitlement cities. Entitlement cities within such a metropolitan government framework are encouraged to utilize their CD funds for areas of functional responsibility for which they have exclusive jurisdiction - local streets and neighborhood parks. The present formula can, in effect, discourage comprehensiveness and area-wide cooperation.

For this reason, it is proposed that units of local government that have evolved area-wide solutions to complex urban problems be positively encouraged to continue and to build on this relationship. It is recommended that a portion of the Secretary's discretionary funds be set aside for communities that join together to undertake CD activities.

Following is a brief description of how the metropolitan approach has developed in Metropolitan Dade County.

Government

In the mid-1950's, the people of Metropolitan Dade County (Metro) successfully fought for a constitutional amendment to permit the formation of a metropolitan form of government for the entire County and the adoption of a home rule charter spelling out its powers. Prior to this time, the County's powers were generally limited to the unincorporated area, and were granted by the State legislature under various special acts.

Over the last twenty year, Metro has assumed responsibility for more and more governmental functions which are area-wide in nature. Some of the functions, such as the City of Miami; these were transferred to Metro to

form the nucleus of a unified approach to meet an area-wide need.

Other functions, such as manpower training and other human resource programs, including the Cuban Refugee Program, were not even contemplated in the mid-fifties, and when programs were constructed to meet these evolving needs, Metro became the logical units of local government to administer them.

Other areas of County-wide responsibility under the Metro approach include public health and welfare, youth services, the court system, transportation systems, solid waste disposal, water supply management, sewage transmission and treatment, and public libraries. While some of these activities are carried out under a partnership between the cities and the County, most are the exclusive responsibility of the County.

Today, the County and its 26 municipalities have a population of 1,410,000. The population breakdown and the condition of housing in the three metropolitan cities and in the balance of the County is shown on attachments to this testimony.

Housing

In the late 1960's, three events occurred which strengthened the metropolitan approach in the field of housing and community development.

1. Housing code enforcement. The City of Miami, by ordinance, transferred its housing code enforcement responsibility to Metro. Subsequently, the cities of Hialeah, Opa Locka, Sweetwater, West Miami, South Miami and Florida City, delegated their code enforcement powers to Metro. Metro carries out a systematic enforcement program in these cities and in the unincorporated areas, which together contain most of the substandard housing in the County. In actuality, the County sets the minimum housing code standards for all other municipalities.
2. Housing for Low-income Families and the Elderly. The City of Miami, by ordinance, transferred the Miami Housing Authority to Metro. Just prior to the transfer of the Miami Housing Authority, there were a total of 4,477 units of which 2,563 were located in Miami and 1,914 units were located in the unincorporated area. Today, the total number of units, either in management or in development, has grown to 10,075 with 5,822 in the City of Miami, 3,933 in the unincorporated area, and 320 units in the cities of South Miami, Hialeah, and Homestead. Since the transfer we have emphasized locating senior citizen housing in the City of Miami and family housing in the outlying areas on scattered sites. Our public housing is located from one end of the County to the other, and our County is larger in area than the states of Rhode Island and Delaware.

3. Community Development. The State enacted the first general enabling legislation for redevelopment, the Community Redevelopment Act of 1969. Prior to this time a few communities in the State, and the County itself, were carrying out redevelopment on a limited scale as a result of a number of special acts. Under the 1969 legislation, a Home Rule Charter county (such as Dade County) was given the exclusive authority to undertake redevelopment programs within its corporate boundaries.

Prior to the passage of the Community Redevelopment Act of 1969, Metro was undertaking a limited urban renewal effort in the City of Miami, involving project costs of \$17.2 million. Once the general enabling legislation was passed, and Federal neighborhood development program funding became available, the County embarked on an extensive neighborhood renewal and conservation effort which by the time it was phased out in September, 1976, involved project costs of \$77.2 million in the following areas of the County:

Miami	\$40.2 million
Hialeah	\$ 2.0 million
South Miami	\$ 6.0 million
Coral Gables	\$ 1.5 million
Unincorporated County	\$27.5 million

The rehabilitation loan and grant program has also been an integral part of Metro's neighborhood renewal and preservation effort, first under NDP and now under the community development program. By January 31, 1977, a total of \$11.7 million had been spent on rehab loans and grants, of which \$7.0 million were spent in Miami and \$230,000 in Hialeah. Section 312 loans and comparable loans utilizing the County's CD block grants will continue to play an important role in the County's community development and neighborhood preservation strategy.

Metro also assumed responsibility for the Model Cities program when it was enacted into a law and funded. The program was carried out locally in a nine square mile area with a population of 85,000 people, encompassing portions of the City of Miami and the unincorporated County.

In Metropolitan Dade County we are committed to meeting the housing needs of our low and moderate-income families and the elderly. We need and have used Federal assistance in this effort, but we have done more. A number of locally-financed housing programs have been developed to supplement the Federally-funded programs.

1. Metro has budgeted \$1 million to acquire land for low and moderate-income housing. Under the program, sites have been acquired in non-racially impacted areas of the County where there is little or not subsidized housing.
2. When the Section 312 rehabilitation loan program was frozen, Metro budgeted \$1 million for its own rehabilitation loan program. Half of the funds were loaned within the City of Miami.
3. As a condition of obtaining Metro's approval on a number of zoning actions, a developer of an 8,500 unit community agreed to dedicate to the County land for 500 units of public housing.
4. Metro has budgeted \$3.3 million for a homeownership program for moderate-income families. The nature of the County aid is a 3 per cent second mortgage which is not amortized until a privately-financed first mortgage is retired. This program will result in rebuilding cleared urban renewal land. Almost half of the funds will be spent on housing within the City of Miami. The other housing units being assisted under the program are located in the cities of Coral Gables and South Miami and in the unincorporated area of the County.
5. Metro budgeted \$400,000 which will be used as financial underpinning for Section 8 revenue bonds for two projects that have been approved in the unincorporated area of the County.
6. The voters of the City of Miami passed a \$25 million housing bond issue. The City will make the money available to Metro for financial underpinning of Section 8 revenue bonds to be issued by Metro for projects in the City.

Attachment APopulation by Race

Source: 1974 update from Census by Dade County
Planning Department.

	DADE COUNTY (Total)	MIAMI	MIAMI BEACH	HIALEAH
Black	207,000	76,100	440	1,200
Latin	430,300	194,700	12,484	70,200
Non-Latin White	772,700	84,500	78,092	40,100
TOTAL:	1,410,000	355,300	91,016	111,500

Attachment B

Low-incomeDefinition - families below 80% of Dade County
median income.

Source: Census

	No. of Families	% of Population
Dade County	124,627	37.8
Miami	43,024	50.8
Miami Beach	13,711	51.8
Hialeah	8,129	30.6

Attachment CHousing Conditions

	<u>No. of Deficient Units</u>	<u>Total No. of Units</u>
Dade County	27,200	453,915
Miami	15,494	124,910
Miami Beach	3,874	50,959
Hialeah	2,159	31,694

SOCIETY TO PROMOTE OUR UNIQUE TOWN,
Hudson, N.Y., February 8, 1977.

HON. THOMAS L. ASHLEY,
Chairman, Subcommittee on Housing and Community Development, Committee
on Banking, Finance and Urban Affairs, Washington, D.C.

DEAR CHAIRMAN ASHLEY: The Society to Promote Our Unique Town has a membership composed of the business and professional community in Hudson. We have in the past worked extremely closely with City administration in the improvement of our community and have been heartened by the progress made with Federal assistance.

It is thus with great alarm that we view the planned phase-out of Community Development Entitlement Funds for communities with population under 50,000, to begin in June of 1978. These Entitlement Funds, even with the impact of inflation, are the only funds available to communities to rebuild themselves and to provide decent housing to their residents. The planned phase-out will not only leave the citizens of Hudson, but millions of other citizens who happen to live in communities under 50,000, without any hope.

We would hope that you would be able to work against the planned phase-out and continue the hold-harmless formula for cities under 50,000. We would be deeply thankful for your efforts in this area.

Yours truly,

DANIEL O'NEAL, *President.*

CITY OF HUDSON, CITIZEN'S ADVISORY COMMITTEE,
Hudson, N.Y., February 3, 1977.

HON. THOMAS L. ASHLEY,
Chairman, Subcommittee on Housing and Community Development, Committee
on Banking, Finance and Urban Affairs, Washington, D.C.

DEAR CHAIRMAN ASHLEY: Our committee represents residents of Hudson and is composed of members of the community from every walk of life and income circumstance. We are extremely concerned about the proposed phase-out of the hold-harmless formula for cities under 50,000, receiving Community Development Entitlement Funds. This phase-out will have a devastating effect on these communities.

In our City, many of our residents suffer from inadequate housing, low levels of income and many miles of water and sewage lines need upgrading. We have begun to make progress in these areas through the Federal funding we have received in the past, but the planned cut-off of the Entitlement Funding in June of 1978 will crush the hopes of many thousands of our residents.

We would like to urge you to work for the continued retention of the hold-harmless formulas for communities under 50,000 after June of 1978. Your help in this matter will be deeply appreciated.

Your truly,

PHILIP POMERANTZ, *Chairman.*

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 17, 1977.

HON. THOMAS L. ASHLEY,
Chairman, Subcommittee on Housing and Community Development, Committee
on Banking, Finance and Urban Affairs, Washington, D.C.

DEAR CHAIRMAN ASHLEY: Enclosed are copies of letters which I have received from several constituents concerning the pending renewal of the Housing and Community Development Act.

The enclosed letters from these city officials speak to problems touched on in other testimony heard by the Subcommittee. They express an articulate discussion of the needs of the cities with populations less than 50,000, and the need for communities to deal with housing and community development problems on a scattered basis.

I would appreciate it if they could be made a part of the hearing record.

Sincerely,

JAMES J. BLANCHARD, *Member of Congress.*

CITY OF STERLING HEIGHTS, MICH., *February 14, 1977.*

HON. JAMES J. BLANCHARD,
Washington, D.C.

DEAR CONGRESSMAN BLANCHARD: Your interest in obtaining input from our community prior to your committee considering the Community Development Act in the next few weeks is appreciated.

The Community Development Act provided the City with its first opportunity to participate in this type of federal program. Our experience is, therefore, limited to the current program.

The law and regulations established therefor appear to stereotype all communities as having concentrations of low and moderate income persons, slum or blighted areas, and minority groups. In Sterling Heights, these concentrations do not exist. Our low and moderate income persons, minorities and senior citizens, are located throughout the community. Our substandard housing is also located throughout the community. This condition has led to some criticism that we are not meeting the objectives of the Act and are placing too much stress on recreation oriented projects.

In the area of public services, we face a similar problem. Due to the specific prohibition of citywide projects, we must establish an artificial target area. In reality, the much needed public services would benefit a far greater segment of low and moderate income persons by allowing for citywide application. Teenagers with alcoholic parents and senior citizen assistance are two programs in which the city is involved.

As you are aware, the population of Sterling Heights increased from 61,363 to 92,904 persons between 1970 and September 1976 when the current federal census was certified. Provisions should be included in the Act to take into account this type of growth in the allocation of funds.

We recognize that strict application procedures and performance reporting are necessary to assure compliance with the Act. The amount of effort required in this area appears to be steadily growing. A review of this process may be desirable.

Attached, is a copy of a letter which you received last year from our Planning Consultants which addresses these and other items of concern.

The projects which we have undertaken or propose to undertake are beneficial to the City as a whole as well as to persons of low and moderate income residing in the community. A continuation of the program along its present guidelines is, therefore, encouraged.

Very truly yours,

LEONARD G. HENDRICKS, *City Manager.*

VILICAN LEMAN & ASSOCIATES, INC.,
Southfield, Mich., April 1, 1976.

HON. JAMES J. BLANCHARD,
Washington, D.C.

DEAR CONGRESSMAN BLANCHARD: We are writing at the suggestion of Mayor David Shepherd of Oak Park. We recently appeared before his SEMCOG A-95 Review Committee regarding the Community Development Block Grant Application for the City of Sterling Heights whom we assist in community planning matters. Several points were made which Mayor Shepherd felt might be of interest to you.

The purpose of the hearing was to give Sterling Heights an opportunity to respond to criticism of its application by the Michigan Department of Civil Rights. There were a number of relatively minor technical concerns, but the key issue was the Civil Rights Department contention that the city "failed to give maximum feasible priority to activities which will benefit low or moderate income families, or aid in the prevention or elimination of slums or blight".

One of the "assurances" that a community must attest to is that it is doing the above, or if not, that the activity it proposes is another community need of "particular urgency," which then has to be documented in a specified way and must be approved by the Secretary of HUD.

The Civil Rights Department prima facie evidence of not meeting this assurance appeared to be the fact that the major portion of the City's grant was proposed to be spent on park land acquisition. Even though there were a number of housing oriented programs, the money allotted to them was relatively minor.

The park acquisition was characterized as a "public works" activity by the Civil Rights Department and somehow this is interpreted as not meeting the "assurance". This is where our first point of serious disagreement occurs, not just with the Civil Rights Department, but also with some HUD officials. We feel that a significant part of the problem is a lack of understanding of some suburban problems by both sets of officials which we will outline further as we go on.

Firstly, it might do well to indicate what we interpret is the intent of the law. As you know there are several objectives listed, but we feel a fair summary would be "a decent home in a suitable environment, for every family but particularly for low and moderate income families; and the elimination of existing and prevent of future blight". To achieve these goals almost all activities that were allowed under the old categorical programs are allowed except that some of the interpretations get a bit tacky (e.g., fire stations may be allowed but not police stations, rehabilitation programs are allowed on a neighborhood basis but not city-wide).

We find no place in the law that says a certain percentage of money must be spent on housing as opposed to the environment that the housing is located in, or as opposed to blight prevention or blight elimination. So long as the activity meets the goals of the law, and the local community has followed the legal procedures outlined, we do not feel that a community should be faulted for emphasizing "public works" if that is a major need of the particular community. This is what we understand is one of the prime goals of the Block Grant Program—to allow local communities to identify and attack what they feel is an important problem and not be guided into a particular program that might not have been a prime community need but that happened to have funds as was the case with the old categorical approach.

In the case of Sterling Heights, that need was determined to be park land. It has been our experience working with over 200 local communities through the years that park land and recreation is one of the last community services that is attended to since it is not perceived to be as necessary as roads, sewers, etc. However, as a community develops, the need for recreation becomes more apparent, but by then, available land is limited and the price has skyrocketed and consequently, most communities are sadly deficient in park land. Sterling Heights has grown from 14,000 population in 1960 to over 90,000 persons today. As a result, potential recreation land is fast disappearing, but since the demand for all other city services is also escalating, it is difficult to set aside adequate funds for recreational needs. The Block Grant Program provides the city the opportunity to respond to this need. It is our contention that the provision of adequate park land is an important part of that "suitable environment" that the act describes. Also, that public park land is utilized by low and moderate income families proportionately greater than by the higher income groups who have the financial ability to choose a wider range of private recreational activities. Further, parks tend to stabilize neighborhoods and are a deterrent to the development of future blight. Consequently, we feel strongly that the city acted prudently and within the intent of the law and should not have to apologize for having a "public works" oriented program.

In addition, at the public hearings which are required by the law, by far the strongest expression of citizen concern was for recreation land. It is a very difficult political reality to ask for citizen input and then ignore that input. Of course if the citizen requests are not eligible items (which some were not) then they have to be turned down. But in this case, the city was responding to citizen interest, supported by sound land planning and fiscal reasons, acting within the objectives of the law, and fulfilling the block grant philosophy of a locally fashioned program, and yet were criticized because it did not meet an interpretation of the law which we believe is based on a "central city" viewpoint.

By a "central city" viewpoint we mean the perception that all cities meet the classical model of a decaying downtown surrounded by concentric circles of increasingly blighted housing with the overwhelming problem being the elimination of extremely blighted homes, the rehabilitation of borderline dwellings, and the provision of housing to meet the housing needs of lower income families. No one denies that the above description reflects central city conditions and represents a great urban problem today. Some might even contend that all the block grant money should be funnelled not only into the central cities but into the extremely blighted areas of these cities. However, this is not the way the law is written. Suburban and outstate communities are eligible for funds. They do

have community development problems, some presently serious, some which will become serious if not attended to now. Some smaller cities are cross sections of larger cities in many ways. (Incidentally there is more blighted housing percentage wise, in the small outstate communities than there is in Detroit. This fact seems to escape many HUD officials. It is also one reason why the 50,000 population limit on entitlement cities makes no sense at all.) But many smaller cities are quite different in their physical characteristics than the large central cities and should not have to fit the central cities mold as to the type of project proposed. A second example of this problem was also raised at last week's meeting. It had to do with a new regulation of HUD's (not in the law, but yet another questionable interpretation) that prohibits a city-wide rehabilitation program—the program must tie into a neighborhood or target area. Again, this represents "central city" thinking.

In Detroit there are large concentrations of blighted housing and low income families living together, and to make an impact, it is necessary to have a consolidated effort in a few areas since there are not nearly enough funds to go around to all areas. This is a logical approach—for Detroit and other cities like Detroit. But in Sterling Heights or in St. Clair Shores, or in Southfield, or dozens of other similar communities, there are not large concentrations of blighted housing. In fact there are probably no more than seven or eight houses together in any one block in these towns. Their problems of blight go back to township days before adequate codes and ordinances were in effect and below standard housing was built in scattered locations throughout the community. In a city like Sterling Heights with 90,000 persons, there are a considerable number of individual blighted houses, and a considerable number of lower income people but they tend to be scattered all over the community.

But HUD says you cannot have a city-wide program to eliminate and up-grade these houses. You cannot use block grant money to help that elderly widow who is financially unable to finance improvements because her house happens to be the only poor house on the street. You must have a concentrated target area. Why must you do it this way?—because that is the way it is in Detroit, or Flint, or Saginaw or any of the other older, large, central communities.

In summary, these comments are not meant to minimize the very serious problems of the central cities, or to ignore the fact that much of the program should have an orientation to these problems; but rather to make the point that as long as noncentral communities are eligible for funds, and so long as they utilize the funds to solve real community development problems, and they act within the framework of the law, they should not have to cast their activities in the same mold as their large city neighbors whose problems—though interrelated may or may not be similar.

Sincerely,

EDWARD J. HUSTOLES.

CITY OF OAK PARK, MICH., *March 3, 1977.*

CONGRESSMAN JAMES J. BLANCHARD,
Washington, D.C.

DEAR CONGRESSMAN BLANCHARD: I have enclosed my response to the Municipal Conference Survey as you have requested.

I would also like to submit the following comments relative to the Housing and Community Development Act of 1974. I base these comments not only on my own feelings, but also on those of several other Community Development Directors I have had occasion to meet with to discuss our joint feelings relative to the Act.

I am of the opinion that the Act does recognize that needs vary greatly between communities, and does provide communities with funds that would otherwise not be available to them to address local problems associated with blight, housing needs of low and moderate income families, or other equally important urgent needs.

The major concern that I and the other Directors have relative to possible improvements to the Act relate to the need for a more clearly defined statement of intent. It is my understanding that Congress intended to develop a funding program that would provide local governments the opportunity to identify

their own unique local problems related to the prevention or elimination of blight, housing for low and moderate income families or other equally urgent type needs, and then were encouraged to develop programs to solve these problems. Congress seems to have challenged communities by granting greater discretion with minimal regulations. This was done by consolidating seven (7) special purpose programs into the one block grant program so that local communities could exercise their best judgement in developing a single comprehensive and coordinated program. I truly believe that the communities within your Congressional District have endeavored to develop such programs.

There have been efforts made to create additional regulations based on interpretations of the legislative intent which seems to be totally contrary to the Act. I believe Congress was correct in simplifying the process and making the communities accountable by annually submitting a performance report. We are now about to embark on the third year of the program which has run smoothly. I would urge your support for the continuance of the Act for an additional three years with limited changes as discussed at the meeting of local officials in your office on February 14th. Any changes should be along the lines of clarifying the intent of Congress so that regulations prepared by HUD will accurately reflect said intent.

If I can be of any further assistance in this regard, I would be most happy to do so.

Sincerely,

JAMES L. BATES,
Director of Community Development.

[The enclosures referred to are retained in the files of the subcommittee.]

CITY OF BERKLEY, MICH., *March 1, 1977.*

Congressman JAMES J. BLANCHARD,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN BLANCHARD: Thank you for the opportunity to meet with you and openly discuss our experiences with the Community Development Block Grant Program. You're to be commended for the channels of communication you have opened with cities in the district and the outstanding relationships with your office.

As you are aware, the City of Berkley is a secondary entitlement community with Oakland County serving as prime sponsor under the guidelines of the Community Development Act. Overall, our relationship with the County has been good. However, as indicated by many cities in South Oakland, we feel the distribution formulas of the funds to each jurisdiction should reflect need to a greater extent, as does the national formula, rather than on a per capita basis. Also, the needs of each community differ greatly; thus, it is unreasonable to assume that the County can develop a program beneficial to all cities as it has attempted through a loan and grant program for housing rehabilitation.

Probably most discouraging to cities such as Berkley is what we consider to be an arbitrary cut-off for entitlement funding at 50,000 population. A city's needs, especially in housing, do not significantly change due to size. As you know, Berkley is an older community in Oakland County with virtually all homes constructed prior to 1950. Thusly, we have a very real need to maintain an active rehabilitation program in about 80% of our neighborhoods. Yet the only resource we have available to obtain Federal funding is through the Urban County formula. Drawing block grant monies on the County's per capita "average" in a fairly well-off County, we are obtaining funds far insufficient to deal with the problem. I find it paradoxical that our democratic system could make such a contrast between citizens living in cities above and below 50,000 residents. Essentially, it is a form of discrimination against low and moderate income families in smaller cities. Again, I have no problem with any of the formulas presently utilized or proposed by the Carter Administration, as I believe the funding should be based on need. Yet, a cut-off point in the total formula defeats its entire purpose and hurts smaller communities who are full capable of dealing with their own problems.

Although I am in agreement with the intent of the "hold harmless" clause in the present Act, it also harms a community such as Berkley. Quite simply, Berkley did not have the administrative expertise to obtain and utilize former Model Cities programs in the 1960's, when it was both eligible and needed. Yet today, we are being penalized for this as the formula closes the door on us. Local cities our size are obtaining up to twelve times the funding we are receiving under the present Act.

I realize legislation such as the Community Development Act is very complex, and I believe Congress is making every effort to be fair in its national allocation. Yet, the needs of my community, an older, established, moderate income City, are not being met because we have been caught in a transition in Federal housing policy. I would strongly recommend that in the refinement of the Act, formulas expressing community need supersede size requirements, past expenditures, or other regulations which could potentially unfairly penalize certain cities.

Since this matter is of vital importance to Berkley and other cities, I would be pleased to assist in any way I can in the further development of the program. Thank you for your concern and support in serving the needs of local governments.

Sincerely,

ALEX R. ALLIE, *Administrative Assistant.*

VILLAGE OF SARANAC LAKE, INC., N.Y., *March 1, 1977.*

HON. THOMAS L. ASHLEY,
Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs, Washington, D.C.

DEAR CHAIRMAN ASHLEY: As "Hold Harmless" recipients under a discretionary grant of Community Development Block Grant funding for a three year program, we would take this opportunity to urgently request that your serious consideration and support be given to the formula in terms of the fourth Community Development Program year, and possibly beyond.

We here in the Village of Saranac Lake support its continuation for three more program years at the same level as the first three years. We are currently in our second year of our Community Development Block Grant Program and are just beginning to realize some of its ongoing benefits. Things like a housing assistance plan, expanded social and recreational facilities, improvement of the downtown area, the reduction of blight within the community, and the improvement of public services were for many years just empty words. The Community Development Block Grant Program funding has put new hope and new life into these words.

Housing rehabilitation improvements to the existing sanitary sewer system and the acquisition and demolition of blighted structures have contributed to the economic as well as the aesthetic value of our community. The Community Development Block Grant Program has helped to generate jobs and introduce a flow of fresh money into our economy. In this area of extremely high unemployment this program has helped to create jobs and will continue to create new job opportunities.

We are not opposed to any increases in funding for the large or medium sized northeastern cities that might have been treated inequitably under the Fiscal Year '75, '76, and '77 allocations. We cannot in good conscience oppose this. Our point is that the federal budget can accommodate the modest increase in total program funding level which would come about as a result of our request. We feel that this would have no significant inflationary impact. We also feel that this extension could afford us the opportunity to accomplish some of the projects that had been applied for under the EDA—Public Works sweepstakes.

On behalf of the Mayor, the Village Board of Trustees and the citizens of Saranac Lake, I respectfully request your consideration and support in this matter.

Very truly yours,

GERALD L. OXFORD, *Village Manager.*

CITY OF LONG BEACH, N.Y., March 10, 1977.

Hon. HENRY S. REUSS,
Chairman, House Banking, Finance and Urban Affairs Committee, Washington,
D.C.

DEAR CHAIRMAN REUSS: It is most important for the City of Long Beach that the formula for Community Development funds, the "Hold Harmless" formula, be maintained at least at the same funding level as the first, second and third years. The presently projected fourth and fifth year funding is woefully inadequate to serve our many community development needs.

For example, Long Beach has a significant need to continue the acquisition of blighted property for both clearance and rehabilitation, to continue to construct vitally needed sewer and water facilities, to continue the rehabilitation loans and grants for low-income homeowners, to continue to rehabilitate our central business area, and to assist in the renovation of our beachfront area, so vital to our economy.

None of our programs will create a significant inflationary impact. All are aimed at generating jobs and reducing unemployment.

Any assistance you may be able to give in support of this continuance of the present funding level will be greatly appreciated.

Yours very truly,

LAURENCE P. FARBSTEIN, *City Manager.*

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 11, 1977.

Hon. THOMAS L. ASHLEY,
Chairman, Subcommittee on Housing and Community Development, Committee
on Banking, Finance and Urban Affairs, Washington, D.C.

DEAR CHAIRMAN ASHLEY: Enclosed is a copy of a letter from P. Stephen Sturgell with testimony that he would like to have considered and included in the record of deliberations on the proposed extension of the 1974 Housing and Development Act.

I would appreciate if this statement could be included in the record.

With kindest regards and best wishes, I am

Sincerely yours,

ED JONES, *Member of Congress.*

CITY OF PARIS, TENN., March 8, 1977.

CONGRESSMAN ED JONES,
Cannon Building,
Washington, D.C.

DEAR CONGRESSMAN JONES: Attached is a statement that Ray Lancaster suggested that I submit to you relative to the proposed extension of the 1974 Housing and Community Development Act now being studied by the House Committee on Banking, Currency and Housing. I would like to have my written statement included with other written or oral testimony that will be presented on this program.

Your cooperation is appreciated.

Sincerely,

P. STEPHEN STURGELL, *City Manager.*

STATEMENT OF P. STEPHEN STURGELL, CITY MANAGER, PARIS, TENN.

As City Manager of Paris, Tennessee, I would like to express my written views on the proposed extension of the 1974 Housing and Community Development Act which is now before the Housing Committee on Banking, Currency, and Housing.

I am a professional in the field of local government with a graduate degree in Public Administration. Therefore, I believe my views on the 1974 Housing and Community Development Act are as knowledgeable as those of a Mayor of a large city.

Much of the testimony for re-enactment of this program will probably come from representatives of cities that are "hold-harmless" under the current program with certain funds reserved for them. I represent a rural community of 10,000 population that was not a "hold-harmless" community. Therefore, we have had to compete annually for state-wide Discretionary Funds from HUD.

Three of the goals of the original 1974 Housing and Community Development Act were: (1) capacity building, i.e., construction of a capable city staff; (2) centralization of urban decision making in the elected body; and (3) improvement of housing conditions of low and moderate income families. In my opinion, many "hold-harmless" cities have failed in these goals particularly in the area of housing.

Before a new program is approved with substantial refunding for the "hold-harmless" cities, I hope Congress reviews examples of other non-"hold-harmless" cities nationwide, such as Paris, Tennessee, that have achieved the above goals with Community Development Discretionary Funds.

The City of Paris was fortunate to receive Community Development Discretionary Funds in the amount of \$345,000 for the 1976-77 fiscal year. With these funds, we have upgraded a blighted portion of our community with emphasis on rehabilitation of elderly housing. We have met the above mentioned goals of: (1) capacity building; (2) centralization of management under the elected body; and (3) use of funds for low and moderate income residents. We are hopeful that we will be funded for our current preapplication that has been submitted to HUD for the 1977-78 fiscal year.

I believe the Department of Housing and Urban Development has done a reasonably good job in administering the 1974 program with the emphasis on improvement of housing conditions. I would hope that in reviewing any proposed re-enactment of this program that Congress consider a program that does not guarantee any city a definite sum of money, but with funding based upon local management capability and local programs for housing rehabilitation and improvement. Paris, Tennessee has this type of program as a "Discretionary" City.

Your time spent in reading this statement is appreciated.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 10, 1977.

Hon. THOMAS L. ASHLEY,
Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs Washington, D.C.

DEAR CHAIRMAN ASHLEY: As your Subcommittee reviews H.R. 4703, legislation dealing with the Community Development Program, I would appreciate consideration being given to the enclosed letter from Mr. Denis A. Russ, Chairman of the Community Development Committee of the City of Miami Beach, Florida.

The Community Development Committee requests that a percentage of a city's funds under the program be set aside for public services.

Any assistance you can provide in obtaining the Subcommittee's consideration of this suggestion would be appreciated. Thank you for your assistance.

Sincerely,

DANTE B. FASCELL,
Member of Congress.

CITY OF MIAMI BEACH,
Miami Beach, Fla., March 2, 1977.

Hon. DANTE FASCELL,
House of Representatives, Washington, D.C.

DEAR CONGRESSMAN FASCELL: The City of Miami Beach, Community Development Committee at its meeting of December 28, 1976, discussed Community Development legislation.

Since new legislation for the Community Development program is under consideration now, we would like to offer the following resolution as approved at our meeting:

The Community Development Committee requests Congress to set aside a certain percentage of a city's Community Development funds for public services.

Although the intent of the Community Development legislation has heretofore been primarily directed towards physical improvements, we feel that adequate provision of public service is necessary to complement physical improvements which would result in a better community.

Thank you for your consideration of this letter.

Very truly yours,

DENIS A. RUSS,
Chairman, Community Development Committee.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., February 11, 1977.

HON. THOMAS L. ASHLEY,
Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs, Washington, D.C.

DEAR CHAIRMAN ASHLEY: I am enclosing a copy of a letter I received recently from the city manager of Claremont, New Hampshire concerning an application for a HUD Community Development Discretionary grant.

Beyond the direct information about that grant application, Mr. Maxwell's letter contains some well considered and sensible thoughts of a city official about the Community Development Block Grant program itself, which I commend to your attention as your Subcommittee considers new legislation in this area.

Sincerely yours,

JAMES C. CLEVELAND,
Member of Congress.

CITY OF CLAREMONT,
Claremont, N.H., January 7, 1977.

HON. JAMES C. CLEVELAND,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN CLEVELAND: On January 3rd, the City of Claremont submitted a pre-application for Community Development Discretionary funds to the Manchester Area office of the Department of Housing and Urban Development. I felt that this would be a good time to inform you about Claremont's community development plans and our feelings about the CDBG program.

We are applying for \$250,000 for a neighborhood conservation program. The money would be used for rehabilitation grants to homeowners, acquisition and demolition of blighted structures, and capital improvements in the neighborhood. Many of the homes in the neighborhood were built before 1900, and they need new wiring, new plumbing, and other major improvements if they are to provide a suitable, safe living environment for the residents of the neighborhood. The "target" neighborhood is located adjacent to the downtown area and to a major entrance to the city; therefore, it has a blighting effect on the entire city. The neighborhood conservation program is near to and would be coordinated with the construction of a new four-lane bridge across the Sugar River.

As you know, blighted neighborhoods and declining downtown areas are all too common in the older, industrial cities of the northeast. Because the Community Development Block Grant program can greatly assist us in alleviating these problems in Claremont, we felt that this would be an appropriate time to ask for your continued support of the program. The block grant approach, with its assured level of funding and definite deadlines, allows us to plan and execute the community development program in an effective manner. We also appreciate the fact that HUD informs us of the specific rating criteria for discretionary grants in advance.

The CDBG program is most useful to cities such as Claremont in its present form: we are assured of entitlement funds which allow us to maintain a small staff to administer the program, and we have an annual opportunity to apply for discretionary funds for particular housing problems. We therefore seek your support for continuing the hold-harmless entitlement funding at its present level instead of its current planned phase out in the 4th and 5th years. I expect that the new administration will present a new program for alleviating housing

CITY OF CLAREMONT,
 Claremont, N.H., February 17, 1977.

Re Bill H.R. 1522 (Continued Entitlement Funding for Claremont).

Hon. JAMES C. CLEVELAND,
 House of Representatives,
 Washington, D.C.

DEAR CONGRESSMAN CLEVELAND: The Community Development Block Grant program is invaluable to cities such as Claremont. In its present form we are assured of entitlement funds which allow us to maintain a small staff to administer the program and also permits us to apply for discretionary funds to fill housing needs. We therefore seek your active support for continuing hold-harmless entitlement funding at its present level instead of its planned phasing out in 1979. Current guidelines reduce Claremont's funding from our present \$236,000 to \$159,000 in 1978 and \$79,000 in 1979 with no entitlement funding after that.

Will you please contact your colleagues in the Senate Subcommittee on Housing and Urban Affairs and the House Subcommittee on Housing and Community Development and express our support for H.R. 1522, but especially for that strikes 106(h) (2).

We are enclosing correspondence received from Ad Hoc Committee for Adequate & Assured Community Development Program Funding for your information.

Thank you for your valued consideration of this matter.

Sincerely,

CHARLES PUKSTA, *Mayor*.

[The enclosed correspondence referred to is retained in the files of the subcommittee.]

CITY OF CONCORD, NEW HAMPSHIRE,
 February 24, 1977.

Re Community Development Funds.

Congressman JAMES C. CLEVELAND,
 Rayburn House Office Building,
 Washington, D.C.

DEAR CONGRESSMAN CLEVELAND: As you may be aware, under § 106(h) (2) of the Housing and Community Development Act of 1974, the "hold-harmless" funds previously distributed to cities of Concord's size are to be phased out: Concord would receive only two-thirds of the 1977 level in 1978, one-third in 1979 and zero dollars in 1980.

Thereafter, Concord, along with other cities its size would have to compete with larger cities for any available "discretionary" funds, on an annual basis. While we think we would produce projects worthy of discretionary funding, we are concerned that with our smaller staffs and less elaborate data gathering facilities, we may well find ourselves unable to compete with large metropolitan areas for available discretionary funds.

Over the past couple of years, Community Development Funds have been used in Concord for such purposes as improving building code enforcement, acquisition of a community center, review of emergency housing needs in the city and planning and construction of a new access to industrially developable land. In the absence of Community Development Funds, these projects could probably not have been undertaken without significant impact on local property tax rates.

Therefore, I am urgently asking you to review the impact that present law would have on Concord and cities of similar size. I have been advised that HR 1522, introduced into the House by Representative Reuss on January 6, 1977 would continue "hold-harmless" funding. I hope you will be able to give your full support to HR 1522.

Thank you in advance for your kind consideration. If you or your staff have any questions on this matter, please do not hesitate to contact me or the City Manager, John Henchey.

Yours very truly,

MARTIN L. GROSS, *Mayor*.

CITY OF LEBANON, N.H.,
February 10, 1977.

Congressman JAMES C. CLEVELAND,
Washington, D.C.

DEAR CONGRESSMAN CLEVELAND: This letter is to impress upon you the seriousness of our City's concern over the support of H.R. 1522.

The Community Development Block Grant Program and its Entitlement Formula benefit many programs related to housing and assistance to lower and moderate income persons in our City. A continued base of funding is necessary to carry out future programs.

The striking of subsection 106(h) (2) would assure annual funding for our City and your support again is encouraged.

Sincerely,

CHANNING T. BROWN, Mayor.

TOWN OF YORKTOWN,
Yorktown Heights, N.Y., March 15, 1977.

Hon. HAMILTON FISH, Jr.,
House of Representatives,
Cannon House Office Building,
Washington, D.C.

DEAR CONGRESSMAN FISH: The Town of Yorktown has become aware that Congress is considering either phasing out or changing the formula upon which the Town of Yorktown has received Community Development Block Grant funds over the past three years.

The Town of Yorktown is a suburban town in the upper part of Westchester County, which county is adjacent to New York City. The Town had a population of 4,000 in 1950 and has a current population of 33,000. By virtue of the Town's involvement in a 33 acre urban renewal project, which is phasing out over this last year, the Town became a "Hold Harmless" community under the 1974 Community Development Block Grant bill. Based upon its prior involvement, the Town is in the process of receiving \$426,000.00 per year for the first three years of the program.

The Town is very desirous for having Congress continue that same level of funding for the next three years of the program rather than reduce it one-third each year. I would hope that you would be able to do everything in your power and that your position to extend said funding level in the town and in other hold-harmless communities.

Approximately one-third of the money so far received and applied for, has been earmarked for a residential rehabilitation program on marginal units which have been slowly converted from summer bungalows to year round homes. These conversions in the past have provided necessary housing at a much lesser cost (\$25,000-\$30,000) than normal new home construction (\$55,000-\$65,000). Such conversion and such rehabilitation program conforms exactly to the intent of the original legislation in providing low and moderate income housing to a segment of our population.

The major portion of the remaining money has been designated and used for a variety of large and small projects, all basically supporting the thrust and the intent of the program, that is, elimination of neighborhood slums and blight, and the provision of public services. These programs range from the establishment of a community and nutrition center for senior citizens, the restoration and preservation of a railroad station, the beautification of hamlets (business areas) adjacent to older areas of the Town, and the preparation of other public works such as roads, bike paths, and sidewalks which form the cornerstone of our project.

Administrative expenses have been kept at a low level in order to pour money into the so-called projects so that the intent of the program once again can be adhered to.

The Town would hate to see the funding cut off completely or even be reduced as originally conceived since we and other hold-harmless communities are pulling our weight and doing our share in anticipation of having major results.

As had been stated in the past, the Town is not opposed to any increase in funding for the large and medium size northeastern cities, however, we believe that the budget can stand a modest increase to allow our funding to remain at its current level.

One of the major thrusts in the last six months has been the local public works bill which should have proved to Congress that there are projects waiting to be built as soon as money will become available. The infusion of federal money will certainly reduce unemployment.

I would hope that the Congress would see fit to maintain the same level of funding for the next three years so that we can get on with the work, that you have charged us with doing, as soon as possible.

Very truly yours,

ALBERT A. CAPELLINI, *Supervisor.*

CHARTER TOWNSHIP OF ROYAL OAK
21075 WYOMING AVENUE
FERDALE, MICHIGAN 48220

March 21, 1977

Honorable James J. Blanchard
330 Cannon House Office Building
Washington, D.C. 20515

Attention: Greg Morris

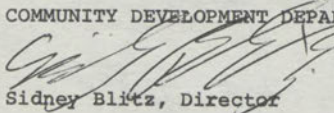
Dear Jim:

As per conversation with your staff, enclosed find copy of prepared statement on the Community Development Block Grant Program to be included as a part of the sub-committee's report.

Feel free to also read into the record any items from my statement which you might deem to be important as an indication of congressional legislative intent.

Respectfully,

COMMUNITY DEVELOPMENT DEPARTMENT



Sidney Blitz, Director

PREPARED STATEMENT OF SIDNEY BLITZ,
COMMUNITY DEVELOPMENT DIRECTOR
CHARTER TOWNSHIP OF ROYAL OAK, MICHIGAN

My name is Sidney Blitz, Community Development Director of the Charter Township of Royal Oak, Oakland County, Michigan.

My purpose in appearing before this hearing on the Community Development Block Grant is four fold:

1. To encourage the continuation at least at the current funding level hold harmless amounts for the some 750 units of general local government which are not metropolitan cities or urban counties.
2. Provide some relevent background of my own community in support of a long term annual Entitlement System for smaller municipalities such as our Township.
3. Recommend expansion of Public Service Support Activities definitions to enable the small suburban disadvantaged municipalities to bring the quality of basic municipal services to that of neighboring municipalities.
4. To address other concerns in connection with the Housing and Community Development Act of 1974.

I. & II. TOWNSHIP BACKGROUND IN RELATIONSHIP TO HOLD HARMLESS AND ASSURED FUNDING CONCERNS

Our Township, established in 1833, was originally a thirty-six square mile area. Annexations have reduced the Township to about 7 tenths of a square mile divided into two separate segments. One segment 97.7% Black, borders on the City of Detroit and consists of about 5 tenths of a square mile. The balance of the Township is separated by a distance of two miles and the City of Oak Park, has a predominantly elderly low income White population.

We are the most densly occupied Township in Michigan. Our Oakland County Planning Commission 1976 projections are 1,100 persons for each one tenth of a square mile.

The Oakland County United Community Service Planning Department estimates our 1976 elderly ratio at 27% of our population which is the highest proportion of elderly to any Municipality in Oakland County.

Our Eight Mile-Wyoming segment was settled originally by Black families prior to 1763 well in advance by the City of Detroit's outward suburban growth and whereas surrounding farmland holdings were sold to Whites this area continued to remain Black.

Because of the effectiveness of restrictive covenants and other discriminatory practices, the Township's Eight Mile segment already owned and occupied by Blacks became a feasible and desirable residential option for Southern Blacks migrating to fill jobs created by Detroit's industrial expansion and World War II's defense production needs.

Lacking adequate zoning and building controls plus being subject to traditional redlining practices in connection with mortgage financing caused many of the early homes to be built with sweat equity on a payday to payday basis substantially of makeshift materials, some were without water, sewers and some lacked adequate heating.

In addition, the Federal Government utilized portions of the Eight Mile Township segment to create 1,464 units of Temporary World War II housing for Black defense workers and their families.

By 1959, 1,709 or 75% of the 2,300 units in the Township were adjudged dilapidated.

Beginning in the 40's while the deterioration pressures were being felt by the Township, the surrounding areas were being built up by an affluent White population exodus from the City of Detroit.

The Black segment of Royal Oak Township thereby effectively became an isolated deteriorated Black community in the midst of an affluent White area and left as a result of various annexations without an adequate property tax base to deal with its deterioration and other prevalent innercity type minority problems such as inadequate basic municipal services, poverty, crime, substance abuse, single parented households, high unemployment and underemployment.

In 1959, to begin to address the aforementioned conditions the Township began an approved Urban Renewal project covering most of the Eight Mile segment. The renewal project whose activities were carried out over a 16 year period was terminated under early closeout procedures in 1975 folding uncompleted project activities as part of the Township's Block Grant Community Development Program. There was no approved Model Cities Program in the Township.

Prior urban renewal activities enabled the Eight Mile segment to be restructured into an almost ideal community in its land use pattern as specified by some planning theorists.

There is now a substantial number of primary housing in good structural condition requiring no repairs and less of a concentration of blighted structures remaining in the Township. However, structures of varying condition are all intermixed together, muting the visual impact of the blighted or deteriorating structures. There is also a small Class A industrial park which provides some tax base.

The Township will still have a long way to go at the end of the "Year Three" Community Development Block Grant program activities.

Following are most of the needed eligible Block Grant Activities with 1977 cost projections:

1.	Rehabilitation of Remainder of Deteriorating Residential Structures.	\$ 1,814,000
2.	Acquisition, Related Relocation and Demolition of Substandard Structures Uneconomic to Repair.	925,000
3.	Renovation and Expansion of Existing Neighborhood Facilities Building. (originally a recreation building for W.W. II defense worker housing.)	2,500,000
4.	Needed Recreation Facilities including Park and Major Thoroughfare Landscaping.	850,000
5.	Vacation of Certain Unneeded Street Area for Park Expansion.	300,000
6.	Land Writedowns to Enable Disposal of Urban Renewal Scattered Site Single Family Parcels Plus Incentive to Building New Housing on Same.	250,000
7.	Land writedowns to enable disposal of Urban Renewal Commercial Zoned Land and Enable Development by Minority Businesses of Same.	1,000,000
8.	Public Services Supportive of Above.	1,527,800
9.	Administration, Planning, Engineering, Legal and Citizen Participation to Carry-out Above.	<u>1,909,750</u>
	TOTAL	\$11,076,550

If we divide the above total by our current annual entitlement amount of \$601,000 and assuming funding at the current rate of constant dollars and no new blight, it would take our Township nearly 19 years to complete the corrective tasks started by Urban Renewal.

To do this highlights the importance of the need for a long term annual entitlement system for smaller municipalities such as our Township.

The Hold Harmless Block Grant Program has enabled our Township to update and obtain community consensus on a Community Development Plan of action.

We have active and supportive Citizen Participation Groups, a responsive Board of Trustees and a qualified staff to carry out that plan.

To now phase our Township down and out of hold harmless during the next two years and subject us to the uncertainties of competing annually for discretionary funding would inhibit completing the eventual turnaround of our community so that it could become compatible to surrounding communities in enabling the generation of private investment to keep the future level of deterioration and blight to a minimal tolerable level.

While the Township is within an Urban County, our experience with most of the Federal and State Programs funded through the County indicates the potential of a lack of sensitivity and ability of a predominantly White Board of Commissioners and its Public Service Commission to make the County's Community Development activities responsive and flexible enough to fit our special circumstances.

Continuing the current hold harmless amount at current funding levels until a viable alternative for long term assured funding is developed, we believe is a necessity to prevent retrogression of the Federal Urban Renewal and Community Development already in our Township.

III. PUBLIC SERVICE SUPPORT ACTIVITY CONCERNS

The Charter Township of Royal Oak is part of a larger urban fabric and overwhelmingly affected by the currents and eddies that swirl around it. Its ability to set its own destiny such as increasing its maintenance of effort, consequently, is severely limited. It critically lacks sufficient land mass, population and money to offset impacts sustained from the dynamics of its surroundings such as the spill over of crime from the bordering City of Detroit.

In order to attract private investment to dispose of and develop the balance of Urban Renewal held Industrial Park, commercial and scattered site single family land and to generate private investment to build new homes on vacant single family lots and to maintain and improve existing properties, it is necessary to upgrade basic municipal services to at least the level being provided by the more affluent neighboring predominantly White populated communities.

This includes acquisition of new garbage truck to insure prompt and reliable garbage pick ups. A new dump truck and new tractor to enable the removal of debris, accommodate homeowner-clean up campaigns and provide timely snow removal of public streets.

Because of the proximity to Detroit, during 1976, the Township experienced one L.E.A.A. defined serious crime for each 10 persons in its 1970 U.S. Census population base.

The Township's 1977 Public Safety Budget is more than 4 times greater than the millage it can assess. Therefore, crime prevention activities are a major drain on general tax proceeds, shared revenue proceeds and supplemental benefits from Comprehensive Employment and Training Act funded personnel.

We therefore hope that the Congress can see its way clear to expanding the Community Development Public Service Supportive Activities to include such things as upgrading of garbage collection and snow removal equipment.

IV. OTHER HOUSING AND COMMUNITY DEVELOPMENT ACT CONCERNS

Better Department of Housing and Urban Development coordination to promulgate the execution of Approved Housing Assistance Plans:

Our Township's approved Housing Assistance Plan included the projected utilization of Section 312 funds to rehabilitate renter occupied single and multiple family substandard units combined with Section 8 Existing Housing Allotments where such units contained low income occupants.

While we have over \$400,000 in Residential 312 Rehabilitation Loans in the pipeline the HUD Detroit Area Office has not allocated any proportional share of such loan funds for our use. Instead, the Oakland County Allocations were divided among the more affluent White populated municipalities.

We were advised by HUD Detroit Area Staff that a National HUD directive required the Township to first use up all of the Community Development Block Grant allocated rehabilitation dollars currently all earmarked for low income single family homeowners before we can receive 312 Rehabilitation Residential Loan Funds.

HUD Detroit Area Office Staff have also allocated all of the Fiscal '77 Existing Section 8 Housing Units in Oakland County to three affluent White populated communities with inactive Local Housing Authorities. The Township although it had a need, a program and an active Local Housing Authority did not receive a single Existing Section 8 Housing Allotment.

In connection with the 312 program, this might be more of an administrative than a legislative concern.

However, in the case of Existing Section 8 Allotments the Township which already is impacted with a very low income population may have been by passed because of the derived Congressional objective to enable "Reduction of the isolation of income groups."

If the aforementioned objective is being utilized to deny Existing Section 8 Housing opportunities in minority, low income impacted municipalities such as the Township, it conflicts with other derived Congressional objectives such as "Elimination of Detrimental Conditions" and "Conservation and Expansion of Housing Stock."

We would be hopeful that some legislative intent during this Congressional review of the 1974 Housing and Community Development Act to clarify the intent of the aforesaid derived Congressional objectives could be developed.

Borough of Aliquippa

OFFICE OF COMMUNITY DEVELOPMENT

300 FRANKLIN AVENUE · ALIQUIPPA, PA 15001

GEORGE SCARBOROUGH
CO-ORDINATOR

March 15, 1977

Congressman Henry S. Reuss
Congress of the United States
House of Representatives
Washington, D.C. 20515

Dear Mr. Reuss:

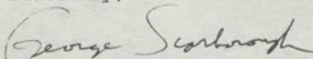
Aliquippa, Pennsylvania is a small steel town located outside Pittsburgh, which is threatened by a planned phase-out of Community Development funds. Because of our prior experience in an urban renewal project, we were designated as a "hold-harmless" community and have been receiving \$239,000 in annual Community Development funds.

We have launched an ambitious program of community improvements which may come to a screeching halt if the Congress does not act immediately! If our funding is cut off, our housing rehabilitation program, already in operation, will cease. Our plan to establish recreation areas in every neighborhood will cease. Our program to rejuvenate our declining central business district will be aborted. In short, our efforts to develop our community in a planned and orderly fashion will be disrupted.

To insure continued funding, I urge you to strongly support H.R.2638, which you sponsored, now being considered by your Committee on Banking, Finance, and Urban Affairs.

Enclosed is a resolution adopted by our Town Council and supporting information. Please advise me if you will help us in our efforts to continue to develop our community.

Sincerely,



George Scarborough
Community Development Coordinator

GS/dms



ESTIMATED CDBG FUND ALLOCATIONS
 BASED ON FULL FUNDING OF HOLD-HARMLESS FOR SMALLER COMMUNITIES

Recipient Categories	Administration Budget FY 1978	Maintain 1977 Hold-Harmless
<u>SMSA's</u>	<u>2,820,000,000</u>	<u>2,820,000,000</u>
1. Metro Cities	2,186,000,000	2,186,000,000
2. Urban Counties	346,000,000	346,000,000
3. Small Hold-Harmless	114,000,000	171,000,000
4. Discretionary Balance	174,000,000	117,000,000 a/
<u>Non-Metro Areas</u>	<u>617,000,000</u>	<u>617,000,000</u>
Small Hold-Harmless	167,000,000	255,000,000
Discretionary Balance	450,000,000	362,000,000 b/
<u>Secretary's Fund</u>	<u>63,000,000</u>	<u>63,000,000</u>
<u>Total Basic Program</u>	<u>3,500,000,000</u>	<u>3,500,000,000</u>
<u>Urban Renewal Completion Fund</u>	<u>100,000,000</u>	<u>100,000,000</u>
<u>Urban Development Action Grants</u>	<u>400,000,000</u>	<u>400,000,000</u>
<u>Total CDGB Funds</u>	<u>4,000,000,000</u>	<u>4,000,000,000</u>

Footnotes:

- a/ The 1977 level of funding for metro discretionary balances was \$100,000,000 and for fiscal year '76 \$82,000,000. The average grant for fiscal year '76 was \$127,500. Out of fiscal year '76 funds, 653 applications were approved or scheduled to be approved.
- b/ The non-metro discretionary balance for fiscal year 1977 was \$323,000,000 and for fiscal year '76 \$254,000,000. The average grant in fiscal year '76 was \$198,700. 1329 applications were approved or scheduled to be approved in fiscal year '76. Out of fiscal year '76 funds 1329 communities were approved or scheduled to be approved.

A full funding of hold-harmless would permit 750 small towns to have assured annual funding to carry out programs with long term implications. There would remain sufficient discretionary balances to fund 2,740 discretionary applications if the average grants were at the level approved in fiscal year 1977. 918 applications could be approved in the metropolitan areas and 1822 could be approved in the non-metropolitan areas.

IMPORTANT POINTS FOR CONTINUING HOLD-HARMLESS FOR SMALLER COMMUNITIES

There are 750 smaller urban places with prior program experience which are faced with reduction in their hold-harmless funding under the Housing and Community Development Act of 1974. It is subsection 106(h)(2) of the Act that causes loss of assured annual funding for the 750 towns by reducing their annual entitlement to 2/3 in fiscal year '78, 1/3 in fiscal year '79 and 'zero' dollars in 1980.

A dual formula system is being proposed which would result in increased funding for many of the larger cities affected by hold-harmless, as well as other large cities, such as New York and Chicago, which are not affected by hold-harmless. Unfortunately there are no proposals before Congress by the Administration which are actively being pursued for the smaller cities under 50,000 in population. Neither of the two formulas apply to them and prior program involvement (hold-harmless) is the only recognized statutory basis for annual funding.

Small towns, under 50,000, constituted over 75% of the total communities involved in urban renewal, code enforcement, neighborhood development programs and the like, before these HUD programs were consolidated in the Community Development Block Grant Program in August of 1974.

The discretionary funding system will be the only method left for communities under 50,000 for obtaining community development block grants. Discretionary funding does not provide any basis upon which these towns can rely as it is basically designed for short term projects or single purpose activities. There is no predictability in the discretionary funding system for programs with long term implications. There is no way a community can count on consecutive annual approvals of applications for discretionary grants.

What is needed is an annual entitlement system for all small cities with critical needs. Such an entitlement system is yet to be proposed. Therefore, the one course of action that will provide some relief is to continue hold-harmless for the 750 small towns with prior program experience. These 750 are the towns which were active with HUD prior to the Housing and Community Development Act of 1974 and they were willing to participate when grants were only 75% of costs.

Legislation was introduced into the House on January 6, 1977, which would prevent the statutory reduction in funding for both large and small cities. The bill is H.R. 1522. An identical bill, H.R. 2638, was introduced on January 27th and added 19 additional sponsors to Mr. Reuss's bill. On February 24, 1977, legislation was introduced in the Senate which would prevent the reduction of funding for the smaller communities only. This bill is S.801 and was introduced by Mr. McIntyre and cosponsored by Mr. Brooke.

The total appropriation required to keep all 750 small towns at their 1977 level of funding is \$425,800,000. There is \$905,000,000 in the HUD budget request for small cities. Thus, no large city nor urban county budget earmarks will be affected to accomplish full funding of small towns. All that is needed is a statutory revision which would delete subsection 106(h)(2). The maintaining of the 1977 hold-harmless level will still allow discretionary balances in the metropolitan areas at a level of \$117,000,000 in fiscal year 1978, which is \$17,000,000 more than fiscal year 1977. In non-metro areas full funding of hold-harmless would result in \$362,000,000 available in discretionary balances in fiscal year 1978 as opposed to the \$321,000,000 available in fiscal year 1977.

To prevent the phase-out of hold-harmless, the Senate should be urged to adopt Senate Bill S.801 and the House should be urged to adopt that part of H.R.1522 which calls for the deletion of subsection 106(h)(2).

RESOLUTION NO. 2, OF 1977

WHEREAS, the Borough of Aliquippa, by virtue of its participation in federal categorical programs in the past, has qualified as a "hold-harmless" community under the Housing and Community Development Act of 1974, and

WHEREAS, the Borough of Aliquippa currently receives the sum of \$239,000 for each of the first three years, \$159,000 in the fourth year, and \$80,000 in the fifth year, and no funds whatsoever thereafter, and

WHEREAS, the Borough of Aliquippa has launched several major projects which require continued and increased funding in order to attack the problems of slums and blight, and

WHEREAS, the appropriation for Community Development funds will shortly be considered by the Congress.

NOW, THEREFORE, BE IT RESOLVED that the Borough of Aliquippa most strongly opposes the planned phase-out of its Community Development funds and urges the Congress to maintain the present hold-harmless funding levels.

ADOPTED this 17th day of January, 1977.

TOWN COUNCIL OF THE BOROUGH OF
ALIQUIPPA

By: Stephen F. Matkovich
v. President

ATTEST:

Joseph W. Lukins
Secretary



Carbondale
 Illinois
 ALL AMERICA CITY - 1972

609 East College Street
 Carbondale, Illinois 62901

March 3, 1977

The Honorable Henry Reuss, Chairman
 House Banking, Finance, and Urban Affairs Committee
 House of Representatives
 Washington, D.C. 20515

Dear Mr. Reuss:

Enclosed please find a copy of a resolution passed by the City Council of the City of Carbondale, Illinois urging the support and passage of HR 1522. The effect of HR 1522 is to continue the hold harmless allocation of Community Development Block Grant funds to cities including Carbondale, Illinois. With the implementation of the hold harmless phase out, Carbondale will find itself unable to complete the community development efforts that are underway. Correcting many of the physical, economic, and social defects in our community will be set back immeasurably and result in a large increase in unemployment at the local level.

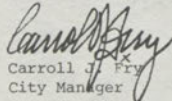
From all the discussion we have heard, it appears that Congress is considering legislation that would have the effect of substituting a new formula for the entitlement cities over 50,000 population, which would alleviate the problems of such large cities when the hold harmless phase out is implemented.

However, you should be aware that large north-eastern metropolitan cities are not the only cities with community development problems. Small, non-metropolitan, urban areas, such as Carbondale (population 27,000), also have community development needs; and in our view the proposed revisions to the entitlement formula would do nothing to enable Carbondale to continue to receive adequate Community Development Block Grant funds.

At this point in time the only solution we see is for Carbondale to continue to receive funding based on its hold harmless level. The City Council of the City of Carbondale requests your support for HR 1522 and other comparable legislation.

Thank you for your attention.

Sincerely yours,


 Carroll J. Fry
 City Manager

CJF/11

Enclosure

RESOLUTION NO. 77-R-07

A RESOLUTION IN SUPPORT OF BILL NO. H.R. 1522 OF THE FIRST SESSION OF THE 95TH CONGRESS AND SUPPORTING ASSURED ANNUAL COMMUNITY DEVELOPMENT PROGRAM FUNDING FOR SMALL CITIES SUCH AS CARBONDALE.

WHEREAS, the City of Carbondale, a municipal corporation situated in Southern Illinois with a population of approximately 27,500 citizens, has, in the past, benefited significantly from the Community Development Act of 1974, and,

WHEREAS, the City of Carbondale has utilized monies received as a result of the Community Development Act of 1974, in conjunction with private monies of the citizens of the City, and with City funds, to rehabilitate and improve a large portion of the City of Carbondale, and, thus, to improve the lives of many of the citizens of the City residing therein; and,

WHEREAS, because of the receipt of said funds, the City has engaged in planning the solutions to several additional problems for the future, all of which are contingent upon receiving continued Community Development program funding; and,

WHEREAS, because of the pressures of the economy, inflation, demand for increased services, the difficult problems created by the extremely cold winter, and because of the continued expenditures being made by the City in order to comply with Environmental Protection laws and regulations, the City of Carbondale does not have sufficient funds, or an alternate source of funds available to carry out the program for the rehabilitation and improvement of the City which were planned to be completed with the Community Development Program funds; and,

WHEREAS, the present proposal before Congress contained in Section 106(h)(2) of the Community Development Act of 1974 does not provide for any assured funding for cities such as Carbondale; and,

WHEREAS, the emphasis of said bill is to provide funding only for large cities; and,

WHEREAS, the failure to provide funding for smaller cities, such as Carbondale, will only result in the decay of such cities, and, eventually, result in an increased problem not only for small cities but for major metropolitan areas and for the entire nation; and,

WHEREAS, the necessary amount of money which would have to be placed into the budget in order to continue this Community Development funding of the 750 small cities such as Carbondale, would only be \$57 million, which is a small amount of money when it is compared to the tentative budget of \$4 billion which is being considered for the administration of the entire Community Development programs. However, the small amount of money necessary for small cities such as Carbondale to continue to receive funding would be sufficient to alleviate most of the large problems which such cities have; and,

WHEREAS, the City Council of the City of Carbondale strongly urges and encourages the Congress of the United States to enact legislation to provide continued assurance of Community Development funding for cities such as the City of Carbondale.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CARBONDALE, ILLINOIS, AS FOLLOWS:

1. That the City Council of the City of Carbondale encourages legislation such as contained in H.R. 1522 especially as said legislation provides for the striking of subsection 106(h)(2) so that small cities such as the City of Carbondale shall continue to receive assured annual Community Development program funding;

2. That the City Council of the City of Carbondale respectfully requests that the Congressmen which represent the citizens of Carbondale support said proposed legislation by supporting H.R. 1522 in the House of Representatives, and by introducing, or encouraging the introduction of similar proposed legislation in the Senate;

3. That a copy of this resolution be forwarded to Senator Charles Percy, Senator Adlai Stevenson, and Representative Paul Simon and spread upon the minute records of the City Council of the City of Carbondale, Illinois.

This Resolution adopted at a Regular Meeting of the City Council of the City of Carbondale, on the 21st day of February, 1977.

APPROVED: _____

Neal E. Eckert
Mayor

ATTEST: _____

Elizabeth Leighty
City Clerk

**Carbondale**

Illinois

ALL AMERICA CITY - 1972

609 East College Street
Carbondale, Illinois 62901
Phone 618/549-5302

March 22, 1977

The Honorable Henry Reuss, Chairman
House Committee on Banking,
Finance, and Urban Affairs
House of Representatives
Washington, D.C. 20515

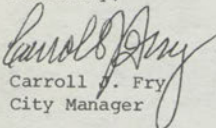
Dear Mr. Reuss:

The Housing and Community Development Act of 1974 is being reviewed by Congress in this session. The appropriate House and Senate Committees have been considering various proposals to change certain provisions in the Act. The City of Carbondale, Illinois is particularly concerned with that portion of the Act which calls for the phase out of "hold-harmless" Community Development Block Grant funding, particularly for non-metropolitan cities.

Enclosed is a copy of a case study we have prepared setting forth the reasons why we believe that the non-metropolitan "hold-harmless" cities, including Carbondale, should not be eliminated from assured funding under the Community Development Block Grant Program.

We would appreciate your review of the case study. Your support in reaching a just solution for Carbondale, and other small "hold-harmless" cities, is urgently needed. Thank you for your attention.

Sincerely,



Carroll J. Fry
City Manager

CJF/11
Enclosure

COMMUNITY DEVELOPMENT BLOCK GRANTS--A CASE STUDY OF CARBONDALE, ILLINOIS
(A HOLD-HARMLESS, NON-METROPOLITAN CITY)

Amidst the uproar over making the Community Development Block Grant program work more effectively, someone has been forgotten. The lower income residents of the non-metropolitan cities are being told that they must move to the "big city" if they are to benefit from the nation's community development initiative. The nation's largest cities have convinced the Congress and Administration that the big cities have big problems which can only be solved with Federal assistance, and they are right. These large cities have shown that being phased out of hold-harmless status would lead to disastrous cuts in improvements and services essential to their community development. The solution that has been found is to adjust the entitlement formula so that the big cities basically retain their hold-harmless amounts as "entitlement". However, no similar consideration has been given to the smaller, non-metropolitan, hold-harmless cities. Many of these smaller cities have been designated by E.D.A. as economic growth centers and many have demonstrated their capacity to perform effectively in a comprehensive Community Development program. Regardless of the quality of their community development program or the needs of their residents, these smaller cities effectively are being thrown out of the program. It is as if poor people only live in standard metropolitan statistical areas, or if the only cities with inadequate housing and public facilities have populations over 50,000.

One hears talk about non-metropolitan cities having access to discretionary balances. But what does that really mean? It means no hope for enough money to do a comprehensive job if you are a city or town of any size with real problems. In Illinois, the maximum discretionary community development block grant has been \$500,000. If you are a small town of four or five

thousand population and you need a new water or sewer system, maybe \$500,000 will do the job for that one item. But it will not produce an on-going comprehensive community development program that will uplift the community. Likewise, if a discretionary grant is likely to be a one time deal (much like an old time categorical grant), there is little incentive to develop and have any expectation of executing a comprehensive community development program.

What the current hold-harmless phase out ignores is that there are many non-metropolitan cities between the 50,000 population minimum size for the block grant entitlement and the 20,000 population maximum size for Farmers Home Administration assistance that need a comprehensive on-going community development program. A single discretionary grant of a few hundred thousand dollars is going to be of no significant lasting value to the size of city just described. What these cities need is an assurance of a substantial infusion of assistance over an extended period of time for a comprehensive community development effort. We are not talking here about funds for an expanding, affluent, suburban area; we are talking about typical American cities with a large proportion of their populations poorly housed, lacking standard quality public services and improvements, and generally suffering from economic deprivation.

If one looks throughout the country, one finds that the small cities that have tried to solve these problems are the ones that secured categorical grants that in time were folded into the block grant program. In these cities, the residents have come to feel that there is hope of pulling up out of the slum and blighted conditions. They have seen the concrete streets in place of mud; they have seen houses rehabilitated and shacks removed, and in

some cities they have grown accustomed to a decent level of public services. These cities are often in the hold-harmless category. What their residents are now being told is that neighborhoods in the midst of renovation will be abandoned again, that streets will be half finished, and that basic public services will be withdrawn. All this merely because their city is under 50,000 population. This may seem overly bleak and melodramatic, but unfortunately it is true.

In the remainder of this presentation I want to show the impact of hold-harmless phase out in Carbondale, Illinois.

Carbondale is a rural midwestern city of 27,000 population. The nearest substantial metropolis is St. Louis, some 95 miles to the northwest. Chicago lies 350 miles to the north. In many ways Carbondale grew as a rural southern community. However, a university with 20,000 enrollment has brought an awareness of what life is like in the "real world". Carbondale was designated as a growth center by E.D.A. Carbondale participated in the Urban Renewal, N.D.P., and Model Cities programs.

The N.D.P. program was just moving into high gear in the low-income, minority neighborhood with a hope of expanding the program into a low-moderate income, old white neighborhood when the N.D.P. program ended. The Model Cities program brought a neighborhood facility and social service program to the minority community at a time of great despair. When the Community Development Block Grant program was instituted, it brought the hope for continuing the physical, economic, and social improvement to our community. But now we hear it is over, just another dream.

Attached is a table which illustrates how Carbondale is using community development block grant funds to effect a comprehensive community development

program. This program consists of public infrastructure improvements (streets, water lines, storm sewers, sanitary sewers, and sidewalks), improvements to community facilities (senior citizens center and neighborhood facility), housing rehabilitation, code enforcement, and supportive social service programs. The community realized that there are three components to a sound community redevelopment effort: (1) physical improvements, (2) housing improvements, and (3) human improvement. The community through its elected officials and citizen participation took the one major resource available for community development (the block grant) and put it to good use.

If one looks at the table, one can see that in the next few years Carbondale will be faced with a major man-made disaster. The table shows what will happen to Carbondale as the hold-harmless provisions are implemented.

Where will the funds come from to replace worn out streets and utilities in the poorer neighborhoods? Shall we use a special assessment procedure and raise the low-income residents' property taxes? We can't use revenue sharing--that is needed to help pay for a U.S. E.P.A. required 9 million dollar wastewater treatment plant. The sales tax is at the statutory maximum. State law does not allow for a municipal income tax. We can't expect the Local Public Works Capital Development and Investment program to help. Even though we had a 9.9 percent unemployment rate, none of the five L.P.W. applications sent to E.D.A. were selected for funding.

How do we continue housing rehabilitation? The very poor can't pay back loans. Their only hope is rehabilitation grants. The Section 8 existing program won't work (existing fair market rents set by H.U.D. are at less than half

of real market rents in Carbondale). There are so few Section 8 new construction units allocated for our area, that they can't hope to make a dent in the need. Public housing has waiting lists. The cost of new construction is too high for even the middle income. And we tear down more old dilapidated houses each year than are built new that year.

Where do we find the funds for supportive public services? H.E.W. claims to not have funds to help with operating our neighborhood facility's health clinic. Title XX provides funds for child care for some children, but the City is required by the State to put up the State's 25% match. Title XX regulations rule out many children who need child care services. There is no other source of funds for those children. C.E.T.A. has no funds for the job training programs we want. O.M.B.E. and S.B.A. don't seem to be able to help with our minority business development program. The National Endowment for the Arts was able to grant us \$5,000 for an arts and crafts program for low income residents, but they couldn't provide the other \$25,000 needed. Older American's Act funds hardly meet the need and require a substantial local match. No federal agency could be found to assist with a low income youth program at a time when local schools are laying off teachers and eliminating extra-curricular activities.

The one hope Carbondale has had was to maintain its hold harmless funding long enough to get at the physical, housing, and human needs of its low income residents. By 1980 there will be no funds for neighborhood street improvements, no systematic code enforcement, houses will be abandoned instead of rehabilitated, parents will be back on welfare because there is no child care so they can work, the sick will get sicker, and the

neighborhoods will begin to die again. And unless the discretionary grant program is radically changed, discretionary grants won't help that much. The way the discretionary grants are ranked, a comprehensive program can't get funded. Only a few select activities stand a chance in a given year, and there is no assurance of a long term program. Neighborhoods will again be in a state of despair because of the uncertainty. Those who can get out, will; those who can't, will stay and be stepped on again by the system.

Perhaps some program statistics can better illustrate the situation rather than the dollar amounts. In the northeast neighborhood, N.D.P. and C.D.B.G. funds will have rebuilt 35 blocks of streets and infrastructure by 1979; however, there remain 50 blocks in need of replacement. In the northwest neighborhood only 18 of the 78 blocks will be done by 1979. In the southcentral neighborhood we will not have started on the 40 blocks of streets in need of rebuilding (We wanted to finish the northeast and northwest first.) Under most streets the water lines are rusted out and many are only 2 or 4 inches instead of the minimal 6 inches required today. Sewer lines are cracked. Curbs and gutters and storm drains are non-existent on most of the streets needing repair. These all reflect the inadequate and worn out infrastructure in the older portions of a city over 125 years old.

Our Housing Assistance Plan identifies 375 owner occupied units as needing and capable of rehabilitation. Yet at the current rate we are only reaching 50 of them per year. It will take seven more years to reach them and by then others will be in need of rehabilitation. Code enforcement is a constant battle. By the time you make it through all the neighborhoods, it is time to start over. There are 1500 housing units estimated to have one or more code violations.

The Health Clinic treated an average of 437 low income patients per month for the last quarter of 1976. The Child Care Center has averaged 312 children enrolled per month in the past year. The youth program serves 800 low income youth per year. Just the items above show that a discretionary grant of \$500,000 per year will come no where near to meeting the community development needs of Carbondale. At least with a hold-harmless amount of \$2,500,000 we had a chance. Now it feels like the roof is caving in on us.

In recent months, Carbondale's unemployment rate was 9.9 percent. If the block grant programs are eliminated due to no funds, then as many as 116 persons who are now employed may become unemployed. These 116 persons do not include people who are in C.D.B.G. funded construction jobs. Placing 116 persons out of work will raise Carbondale's unemployment rate from 9.9 percent to over 10.9 percent, at a time when the Federal government is trying to stimulate more jobs. Many of those who will become unemployed were rescued from unemployment by the Block Grant program and its predecessors. Many are female heads-of-household, and most are Black.

We urgently need a continuation of the Community Development Block Grant hold-harmless funding for cities like Carbondale. Without it, the government is telling its small city, rural, poor citizens that their future is hopeless. H.U.D. listened to the plight of the large cities and found a way to accommodate them by adjusting the entitlement formula. We need the Federal government to be as aware of our plight and find a way to accommodate our situation.

Hopefully the view points contained in this presentation will be helpful. If we can answer any questions, feel free to contact us at City Hall, Carbondale, Illinois 62901, phone: (618) 549-5302.

CARBONDALE, ILLINOIS: ALLOCATIONS OF COMMUNITY
DEVELOPMENT BLOCK GRANT FUNDS

PROGRAM	Y E A R					
	1975*	1976*	1977*	1978	1979	1980
	(In Thousands of Dollars)					
Open Space	25	20	26	0	0	0
N.E. Neighborhood Streets and Infrastructure	384	68	242	300	170	0
N.W. Neighborhood Streets and Infrastructure	278	835	724	302	169	0
Storm Drainage Projects	169	0	0	0	0	0
Misc. Minor Public Works Projects	10	2	1	0	0	0
N.D.P. Closeout	239	0	0	0	0	0
Code Enforcement	74	70	69	35	0	0
Housing Rehabilitation	316	347	314	200	0	0
Housing Promotion and Analysis	21	19	16	0	0	0
Neighborhood Facility Improvements	0	4	8	0	0	0
Renovate Senior Citizens Center	55	0	0	0	0	0
Traffic Safety Devices for Blind	3	0	0	0	0	0
Comprehensive Health Clinic	213	261	281	211	100	0
Comprehensive Child Care	200	240	233	195	81	0
Senior Citizens Program	13	28	26	15	0	0
Money and Housing Management Counselling	31	0	23	15	0	0
Minority Business Development	46	50	40	0	0	0
Job Training Activities	95	105	88	0	0	0
Misc. Public Services (Youth, Arts and Crafts, Social Service Support, Women's Program, Equal Opportunity Program, etc.)	40	0	0	0	0	0
Economic Development	40	0	0	0	0	0
Community Development Planning	79	0	0	0	0	0
Program Administration	366	431	388	225	92	0
Contingencies and Local Option	141	116	117	0	0	0
TOTALS	2930	2715	2709**	1513	613	0

*Application amounts shown, not actual expenditures.

**Includes \$153,000 reprogrammed prior year funds and \$71,000 surplus from urban renewal settlement. Actual hold-harmless level is \$2,500,000.

CITY OF NEW LONDON,
New London, Conn., March 4, 1977.

Re Community Development Program.

Hon. HENRY S. REUSS,

Chairman, House of Banking, Finance and Urban Affairs Committee, House of Representatives, Washington, D.C.

DEAR CHAIRMAN REUSS: At the direction of Mayor Uguccioni and City Manager Driscoll, I am enclosing a copy of a recent supplement to the "New London Day" which describes the activities conducted by the Community Development Program in the City of New London. As Congress begins its reauthorization hearings on this legislation, I would like to bring to your attention the very significant impact of the Community Development Program upon this community. New London is a small city with a geographic area of 6.2 square miles and a population of 31,000. However, as is the case in many small cities in the Northeast, it services a region of approximately 225,000 people whose life style and welfare are tied to the maintenance of New London as a viable urban center.

The Community Development legislation as currently written, will deny the City of New London future funding under the block grant program as a minimum population of 50,000 was established for the formula grants under the program. This aspect of the legislation affects approximately 740 communities currently participating in the program and many of these are from the Northeast where historic development patterns have tended to produce smaller units of local government. The dual formula being proposed still eliminates the small city from guaranteed funding but does address the equity questions of large cities.

To illustrate the serious problems that cities like New London face, attacked are two headlines from "The Day" of March 1, 1977. The lack of tax base in New London and the surplus of tax base in the abutting Town of Waterford were both produced by factors outside the control of either community. Without federal effort to equalize revenue sources to distressed urban communities regardless of population size, how can the depleted local tax base be expected to provide services to local citizens, as well as, combat deterioration and stimulate economic revitalization?

New London in comparison to other similar cities, has been fortunate in receiving a large Community Development hold harmless allocation. However, in relation to the magnitude of local problems this allocation is not out of scale. I urge you to support a full three year extension of the current hold harmless levels for small cities.

[The material from the "New London Day" mentioned is retained in the files of the subcommittee.]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 28, 1977.

Honorable THOMAS L. ASHLEY,

Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs, Washington, D.C.

DEAR CHAIRMAN ASHLEY: Enclosed are copies of letters from communities in my Congressional District that will be affected by Section 106(h)(2) of the Housing and Community Development Act of 1974, a provision that will, as you know, phase out over the next two years funding of "hold harmless" communities.

I am forwarding these letters to you in order that they may be included in the subcommittee's consideration of the Carter Administration's proposals on this subject.

With best wishes, I am

Very sincerely yours,

JOSEPH S. AMMERMAN,
Member of Congress.

CITY OF FRANKLIN,
Venango County, Pa., March 18, 1977.

Congressman JOSEPH S. AMMERMAN,
*Longworth House Office Building,
 Washington, D.C.*

DEAR CONGRESSMAN AMMERMAN: We, the officials of Franklin, are writing to urge you to do all in your power to assure the passage of that part of H.R. 1522 which calls for the deletion of subsection 106(h)(2) of the Housing and Community Development Act of 1974. We ask you to contact your colleagues on this matter and obtain a commitment of support from them.

In Franklin, we are now facing the reduction and eventual end, within a few years, of all Community Development Block Grant Funds. We understand that proposals are being prepared which would result in increased funding for many of the larger cities, but those of us living in smaller communities are also facing critical social, economic and environmental problems. Franklin has benefited greatly from the influx of Community Development funds into the city, and has been able to make great strides in such areas as recreation, water and sewage; but much work still remains to be accomplished.

Should the Community Development funds end, communities like Franklin, which have populations of fewer than 50,000 people, will be forced to rely on discretionary funding. This type of funding is not reliable because it is basically designed for short term projects or single purpose activities; without the predictability of long-term funding, there can be no long-term planning and improvements.

Until an annual entitlement system for all small cities with critical needs is proposed and adopted, the only course of action which will provide some relief to smaller cities is the continuation of hold-harmless for the 750 small communities with prior Community Development experience. We understand that full funding at 1977 levels for these cities would not result in increased budget requests from HUD, nor would such funding affect those funds earmarked for large cities or urban counties.

Therefore we ask again that you support and urge others to support the passage of H.R. 1522 to preserve our hold-harmless funding.

Thank you very much.

Very truly yours,

WALTER MORRIS,
 NORMAN BARTHEN,
 PETER GLAUBACH,
 ROBERT FINCH,
 ROBERT OLSON,
 KIM LITTLE,
Members of City Council.

Passed at the Regular Meeting of Council on March 7, 1977.

REDEVELOPMENT AUTHORITY OF THE CITY OF FRANKLIN,
Franklin, Pa., March 17, 1977.

Congressman JOSEPH S. AMMERMAN,
*Longworth House Office Building,
 Washington, D.C.*

DEAR CONGRESSMAN AMMERMAN: There are 750 smaller urban places with prior program experience which are now faced with reduction in their "hold harmless" funding under the Housing and Community Development Act of 1974. I refer specifically to Subsection 106(h)(2) of the Act which, in essence, reduces the annual entitlement to $\frac{2}{3}$ in fiscal year '78, $\frac{1}{3}$ in fiscal year '79 and \$0 in 1980. These small towns, under 50,000, constitute 75% of the total communities involved in formed HUD programs before they were consolidated in the Community Development Block Grant Program in August of 1974.

The discretionary funding system will be the only method left for these communities to obtain future Community Development Block Grants. There is no predictability in the discretionary funding system for programs with long-term applications such as we have planned in the City of Franklin.

One course of action that would provide some relief is to continue "hold harmless" for small cities with prior program experience. These 750 cities were active

with HUD prior to the Housing and Community Development Act of 1974, and they were willing to participate when grants were only 75% of costs.

On January 6, 1977, H.R. 1522 was introduced in the House, which would prevent the statutory reduction in funding for both large and small cities. An identical bill, H.R. 2638, was introduced on January 27, 1977, adding 19 additional sponsors. On February 24, 1977, Senate Bill S. 801 was introduced by Senators McIntyre and Brooke. Both House Bill H.R. 1522 and Senate Bill S. 801, in effect, call for deletion of Subsection 106(h)(2) as included in the Housing and Community Development Act of 1974.

I strongly urge that you support House Bill H.R. 1522 so that small cities such as the City of Franklin may plan and continue with viable on-going programs under the Community Development Block Grant Program.

Sincerely yours,

JAMES F. PANKRATZ, *Chairman.*

CITY OF LOCK HAVEN,
Lock Haven, Pa., March 2, 1977.

Congressman JOSEPH S. AMMERMAN,
Longworth House Office Building,
Washington, D.C.

DEAR CONGRESSMAN AMMERMAN: Your support of H.R. 1522 is urged. As you are probably aware that Section 106(h)2 of the Housing and Community Development Act of 1974 if left unchanged, will cause the phase out of hold-harmless funds for the City of Lock Haven by receiving $\frac{2}{3}$'s of our present \$122,000 amount in 1978, $\frac{1}{3}$ in 1979 and zero dollars in 1980. H.R. 1522 would call for striking subsection 106(h)2 and thus retain assured annual funding for small municipalities such as Lock Haven (see attached list). As you can see from the enclosed correspondence the total budget implication is relatively minor.

Please contact your colleagues in the Senate Subcommittee on Housing and Urban Affairs and the House Subcommittee on Housing and Community Development to support passage of H.R. 1522 as it applies to small municipalities. Over 750 towns are similarly affected throughout the country.

The City of Lock Haven has used this money for worthy community development projects but much remains to be done. Without a full reinstatement of our present allocation many needed and essential projects will go unfunded. Thus your help is vital in supporting passage of H.R. 1522.

Sincerely,

JEFFREY A. ROUSH,
City Planner.

HOLD-HARMLESS COMMUNITIES

PENNSYLVANIA			
SMSA—Pittsburgh:			
22	Washington	952	0
25	Alliquippa	239	0
25	Ambridge	390	0
21	Arnold	234	0
20	Braddock	78	0
18	Carnegie	571	0
22	Charleroi	30	0
20	Clairton	46	0
22	Donora	392	0
20	Duquesne	128	0
20	Homestead	358	0
18	McKees Rock	53	0
25	New Brighton	111	0
21	New Kensington	203	0
14	Pittsburgh CC	16,429	9,150
20	Rankin	93	0
21	Scottsdale	89	0
21	Vandergrift	41	0
14	Wilkinsburg	642	0
20	Wilmerding	592	0
	McKeesport	116	0
SMSA—Reading:			
6	Boyertown	873	0
6	Reading CC	4,186	1,237
SMSA—Williamsport:			
17	Williamsport CC	1,080	636

HOLD-HARMLESS COMMUNITIES—Continued

SMSA—York:		
19 York CC	1,234	862
Nonmetro areas	15,561	16,873
25 Butler	173	0
23 Franklin	831	0
24 Grove City	30	0
16 Lebanon	1,390	0
10 Mansfield	146	0
25 New Castle	3,292	0
17 Sunbury	977	0
24 Titusville	388	0
12 Apollo	41	0
23 Bradford	1,325	0
22 Brownsville	367	0
9 Chambersburg	41	0
23 Clarion	119	0
6 Coaldale	16	0
11 Danville	143	0
12 Freeport	302	0
12 Kittanning	117	0
23 Lock Haven	122	0
22 Masontown	455	0
24 Meadville	299	0
17 Milton	922	0
23 Oil City	706	0
6 Pottsville	929	0
12 Punxsutawney	311	0
6 Schuylkill Haven	88	0
17 Shamokin	811	0
24 Sharon	600	0
24 Sharpsville	320	0
6 Tamaqua	300	0
Pennsylvania summary:		
Metro C/CC (16)	122,078	58,090
Other (52)	21,599	0
Nonmetro (29)	15,561	0
Total (97)	159,238	58,009

CITY MANAGER'S OFFICE, CITY OF FRANKLIN,
Franklin, Pa., February 24, 1977.

Congressman JOSEPH S. AMMERMAN,
Longworth House Office Building,
Washington, D.C.

DEAR CONGRESSMAN AMMERMAN: It has come to my attention that H.R. 1522 was introduced on January 6, 1977. This Bill would prevent the phaseout of hold-harmless communities under the Community Development Block Grant Funding Program. As you well know, the existing law indicates that these hold-harmless communities, such as Franklin are to be phased out of the funding beginning in 1978.

The hold-harmless provisions of the Community Development Block Grant Program has been extremely beneficial to the City of Franklin. Because of the Community Development Block Grant, hold-harmless provisions, the City has been able to plan its activities, access its needs and begin to solve its problems.

We have, I believe, used the money wisely in picking the priorities which the community leaders of the City felt needed to be delt with.

We are using the money to help upgrade our water system, provide sanitary sewers to a low to middle income neighborhood, purchase a playground and equipment, provide rehabilitation to deteriorating housing, construct an access road and rehabilitate the Library, etc. Without this money these problems could not have been solved.

I would urge your support for H.R. 1522, and particularly the portion of the Bill which strikes subsection 106(h)(2) of the Housing and Community Development Act of 1974. I would ask that you talk with your colleagues in the House Subcommittee on Housing and Community Development and ask for their support also.

Thanking you in advance for your cooperation.

Very truly yours,

WILLIAM P. BUCHANAN,
City Manager.

OFFICE OF THE MAYOR, CITY OF WASHINGTON,
Washington, Pa., March 3, 1977.

Re H.R. 1522, H.R. 2638, S. 801, Hold-Harmless Funding Provisions, Housing and Community Development Act of 1974.

HON. JOSEPH S. AMMERMAN,
*House of Representatives,
 House Office Building,
 Washington, D.C.*

DEAR CONGRESSMAN AMMERMAN: As you are aware, the two House Bills and Senate Bill referenced above have been introduced recently, calling for the removal of Hold Harmless phase-out provisions of the Housing and Community Development Act of 1974. This will allow communities under 50,000 population across the Nation to continue to receive initial Hold Harmless funding levels.

Being a Mayor of one such community, and desiring to continue to receive full community development funding, I have called a meeting of Mayors and other Chief Executive Officers of communities across the Country affected by the present phase-out language in the Act. The meeting is scheduled to be held during the Congressional-City Conference of the National League of Cities on March 6, 1977, at the Washington, D.C., Hilton Hotel, between 3 and 5 P.M. in the Terrace Level Conservatory. We would greatly appreciate your attending and your support of the House and Senate Bills necessary to continue initial Hold Harmless funding levels under the Act.

It is critical to all smaller communities throughout the Nation to continue to receive the current level of funding if we are to achieve our goals of a balanced local community development program.

Please make every effort to personally attend this most important meeting.

Sincerely,

MICHAEL E. JOHNS, *Mayor.*

CITY OF BRADFORD,
Bradford, Pa., January 11, 1977.

Representative JOSEPH AMMERMAN,
*Rayburn Office Building,
 Washington, D.C.*

DEAR CONGRESSMAN AMMERMAN: Under the present provisions of the Housing and Community Development Act of 1974 the so called "hold harmless" communities will lose one-third of the Community Development Block Grant funds in 1978, two-thirds in 1979, and all of it in fiscal year 1980. If this provision remains in the Act, the City of Bradford will stand to lose \$2,651,000 in Community Development funds over the next three years.

It is our understanding that authorization levels for the Community Development Program will be agreed upon as part of the budgeting process by the Congressional Subcommittee by May 15, 1977. The City of Bradford's level of Community Development funding, as well as over 200 large cities and over 700 smaller ones, will be significantly affected by the magnitude of the funding authorization.

We recognize that limited resources are available and that to maintain our present level of funding will be to prevent increases elsewhere. However, in view of the tremendous need to preserve and/or increase the vitality of our urban population centers we strongly recommend that you consider support of the following: One, postpone or eliminate the present scheduled reduction of funding levels for "hold harmless" communities for at least three fiscal years; and Two, increase the annual authorization level for the Community Development Block Grant Program by 10 percent. An increase of this amount will enable Congress to continue funding of "hold harmless" and entitlement communities as well as permitting an increase in funds available through Community Development Discretionary Grants.

If you wish to discuss this situation, please contact Mayor Moore at your convenience.

Sincerely,

MAXWELL S. MOORE, *Mayor.*

CITY OF OIL CITY,
BUREAU OF COMMUNITY DEVELOPMENT,
Oil City, Pa., February 14, 1977.

Hon. JOSEPH AMMERMAN,
Longworth House Office Building,
Washington, D.C.

DEAR CONGRESSMAN AMMERMAN: We have recently been advised that a dire situation exists for towns under 50,000 in population as per the Housing and Community Development Act of 1974. There is currently no provision in said Act that will keep our communities at their present level of funding under the Housing and Community Development Act of 1974. In fact, the Act as now written will result in our receiving two-third's of our funding in 1978, and only one-third of our funding in 1979, with zero dollars in 1980. At the same time, provisions are being made for continuation of a 100 percent level of hold-harmless for towns over 50,000 in population.

It is imperative that towns under 50,000 in population also be allowed to retain their 100 percent hold-harmless level during the extended period of time, in that we have problems that impact just as greatly on our community as those problems do for cities over 50,000 population. For example, Oil City is a very old town, with a large proportionate share of blighted and dilapidated housing and buildings. We, like any large city of over 50,000 population, are also struggling to maintain our economic tax base, while inflation continues to increase the cost of governmental services. Community Development funds have allowed us to undertake projects that have literally saved our community and plans are now being made for additional use of the Housing and Community Development Act of 1974. However, the phase-out of hold-harmless will seriously impair our plans and will virtually provide for no Federal assistance to the community of Oil City.

Hence, I call your attention to H.R. 1522 which was introduced on January 6, 1977 into the House of Representatives. A copy of this Bill is enclosed. This Bill would prevent the phase-out of hold-harmless for both large and small towns. The reference to "striking out paragraph (2)" of Section 106(h) of the Housing Act is the language that would prevent the phase-out of four small towns. It is important to state that H.R. 1522 is not expected to go anywhere unless there is strong legislative support for it. Therefore, we urge you to contact your colleagues in the Senate Subcommittee on Housing and Urban Affairs and the House Subcommittee on Housing and Community Development and express their support for H.R. 1522, especially the part that strikes 106(h) (2).

As stated, I am enclosing a copy of H.R. 1522 and a copy of a February 7, 1977 letter from our Ad Hoc Committee for Adequate & Assured Community Development Program Funding, which completely explains our plight. (The letter of February 7, 1977 referred to is retained in the subcommittee file.)

Your support in this matter will be greatly appreciated.

Thank you.

Sincerely,

DONALD E. ENGLISH, *Director.*

[H.R. 1522, 95th Cong., 1st sess.]

A BILL To amend title I of the Housing and Community Development Act of 1974 for the purpose of providing that units of general local government receiving grants under the hold-harmless provisions of such title, shall be entitled, after fiscal year 1977, to continue to receive at least the amount to which they are presently entitled under such provisions.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) subsection (g) of section 106 of the Housing and Community Development Act of 1974 is amended by striking out "(1)" immediately after "(g)", and by striking out paragraph (2).

(b) Subsection (h) of section 106 of such Act is amended—

(1) by striking out "(1)" immediately after "(h)";

(2) by striking out "subsection (g) (1)" each time it appears and inserting in lieu thereof "subsection (g)"; and

(3) by striking out paragraph (2).

(c) Subsection (i) of section 106 of such Act is repealed.

CITY OF BRADFORD, INC.,
Bradford, Pa., March 23, 1977.

JOSEPH S. DADDONA,
President, Pennsylvania League of Cities,
Harrisburg, Pa.

DEAR MR. DADDONA: I am writing this letter on behalf of the small towns under fifty-thousand (50,000) population.

In the Housing and Community Development Act of 1974, the first sentence of Section 101(a) states: "The Congress finds and declares that the nation's cities, towns, and smaller urban communities, face critical social, economic and environmental problems."

These cities and towns and smaller urban communities are faced with the same problems that cities over fifty-thousand have, only on a proportionate basis. The cities and smaller communities *under* fifty-thousand have the same creeping virus that has invaded every portion of the cities, both large and small.

Each elected official of every city has had to take the bull by the horns and try, through the Community Development Block Grant Program, to plan and program activities to overcome the social, economic and environmental problems.

Before the advent of the CDBG Program, previous local administrative officials were ham strung in trying to cope with these problems.

If the cities under fifty-thousand population are to be phased out by 1980 due to the phasing out of the Hold-Harmless Entitlement, every city under fifty-thousand population will be subject to dwindling population, loss of tax dollars, and will be unable to provide the services that are needed. Most of all, we would be unable to initiate or complete the physical development activities which should be carried out in a concentrated manner to serve a common purpose or strategy in a geographic delineated code enforcement and rehabilitation area, or a similar area with a Comprehensive Community Development Program for neighborhood improvement, conservation or preservation.

We, the cities under fifty-thousand, will no longer be able to have long-term planning with which to be able to eliminate our social, economic and environmental problems.

I, as an elected official, plead for your support to continue "Hold Harmless" at the 1977 level of funding for the small towns which can, by their own performance record, demonstrate to the secretary that they have needs requiring funding beyond the fiscal year 1979.

Sincerely yours,

JACK K. BURNS, *Councilman.*

THE VILLAGE OF
SHOREWOOD

3930 N. MURRAY AVE.

332-4200

SHOREWOOD, WISCONSIN 53211

March 7, 1977

The Honorable Thomas L. Ashley, Chairman
 House Sub-Committee on Housing & Community
 Development

2132 Rayburn House Office Building
 Washington, D.C. 20515

FOR ENTRY INTO THE RECORD

Dear Congressman Ashley:

We are informed that hearings are presently being held before your committee concerning the extension and "re-authorization" of the Housing & Community Development Act of 1974.

This letter is written in the hope that the committee and it's staff will consider certain modifications to the program regulations governing Metropolitan Discretionary Community Development Block Grants.

The Village of Shorewood, is, in general, in favor of the extension of the Block Grant Program. We believe that the modifications indicated below would provide for the more equitable administration of the program and serve to better fulfill the purposes of the Act. It is with this in mind that we request that this letter be entered into the Official Records of your committee.

The modifications we suggest are:

- I. Eligible Applicants (SS 570.402 (a))
 (SS 570.402 (h)(1) & (2))

We believe that community development needs can best be identified and served at the most local governmental level. We also feel that these needs vary in significant ways from community to community. Presently, the program regulations for discretionary funding allow a County, which has been unable to obtain the necessary written agreements from enough communities to achieve "Urban County" status, to submit a pre-application for a community development activity

which would be administered within several communities or parts of communities in the County WITHOUT obtaining written permission from those communities at the pre-application stage.

There are really two problems here:

A. We feel that a Multi-Community Block Grant Program administered at a County level cannot be as responsive to the special needs of individual neighborhoods and the people living in them as could the City, Village, or Town of which those neighborhoods are a more immediate part. In order to administer a Multi-Community Program, a County must establish procedures which are designed to address the common problems encountered in a given program and cannot pay as much attention to the "Special Needs" which may be unique to a particular community within the County's over-all program. At the same time, we recognize that individual communities within a County may not have the staff time or expertise to prepare a funding application. We would therefore suggest that if a County is to be allowed as an eligible applicant, that it only be allowed to submit separate applications on behalf of each individual community (i.e., one application per community); and that the review and ranking criteria of SS 570.402 be applied separately to each of these applications.

B. It is our feeling that if the County is allowed to continue as an eligible applicant (under SS 570.402 (h), (1) & (2) that it should be required to obtain WRITTEN Co-operation Agreements from those communities within which it proposes to act PRIOR to submitting a Pre-Application. Experience has shown that the pre-application stage of the funding process is really the level at which the funding decisions are made. If you don't make it past this point, you don't go any further. This means that a County, if not required to obtain a written agreement at this stage, would be able to in a sense "Gerrymander" communities with census data advantageous to an application in order to be more competitive. If the County is successful, it becomes a "carrot & stick" approach at the final application stage for those communities which had not signed earlier.

If our concerns as noted in (A) above are addressed as suggested, this point becomes less significant.

II. ELIGIBLE ACTIVITIES (SS 570.200 (a)(8))

We believe that the restrictions placed on the eligibility of "Public Services" as a fundable Community Development Activity are too severe.

SS 570.200 (a)(8): requires that in order to be eligible, a Public Service must be directly in support of another community development activity which is being applied for or was funded in a previous year. - This was interpreted by the Milwaukee Area H.U.D. Office to exclude any health or social services which might be needed to serve residents of a Sec. 8 housing project. The Village of Shorewood as well as officials of the State of Wisconsin have recognized this as being an area within which funds are needed but not available (see attached letter from WISCONSIN HOUSING FINANCE AUTHORITY). We would therefore suggest that this regulation be expanded to provide for the provision of Public Services which would serve to directly enhance the housing opportunities and living conditions for persons of low and moderate income. It should NOT be necessary that they be in direct support of another activity for which funds have been requested or received.

III. THRESHOLD CRITERIA (SS 570.402 (c)(k))

This particular regulation states in part that:

"with respect to all previously approved assistance under this part, the applicant has made reasonable progress with the type of activities it has undertaken to permit a determination of a continuing capacity on the part of the applicant to carry out the proposed activity or program of activities in a timely manner."

The criteria which has been used to make the determination of "reasonable progress" and "continuing capacity" has changed considerably over the past two years. For fiscal 1977, a variety of factors were considered to make this determination.

We feel that H.U.D. should establish a very rigid criteria to evaluate the performance of a past grant recipient. We feel that the recipient should be required to show that at least 70% of the total grant amount has been expended by the end of the second program year. In other words, within two years from the time H.U.D.

and the applicant execute the Grant Agreement, 70% of the funds should have been expended. This would bring the threshold evaluation in line with SS 570.402 (b) (1) "Scope of Pre-Application" which states:

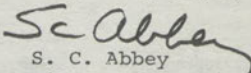
"A Pre-Application may propose activities to be undertaken during a reasonable period of time necessary to complete them which generally is expected not to exceed two years".

We feel that this would provide the opportunity for communities to compete which have shown a demonstrated ability to perform and would prevent a community from receiving funds on an annual basis if they had not discharged their obligations under a previous grant. In the long run it might also serve to distribute the funds to more communities with Community Development needs, in that, during the time that a successful community is discharging an obligation under a prior grant, they may opt to sit out of the funding competition until they were certain of the staff availability to assume a new project.

We hope the Committee will give serious consideration to these proposed modifications as we believe they would serve to better provide local governments, who are dealing on the "front line" with community development problems, an equitable opportunity to obtain the desperately needed funding to address the problems as identified in the Housing & Community Development Act of 1974.

We would be most appreciative if we could be kept advised of the status of this legislation and any action which might be taken on the specific matters outlined in this letter.

Very truly yours,


S. C. Abbey
Village Manager



Richard D. George
Executive Director

Wisconsin Housing Finance Authority

February 17, 1977

Mr. James J. Lynch
Director
Dept. of Community Development
The Village of Shorewood
3930 N. Murray Ave.
Shorewood, WI 53211

Dear Mr. Lynch:

The Wisconsin Housing Finance Authority has been asked if it has any ideas as to the appropriate use of Community Block Grant funds to support activities associated with the River Park Housing Development for senior citizens. In light of the new commentary contained in the site standards for elderly housing which stresses the fact that the lives of the elderly in one area, I think the River Park complex serves as a model for community block grant funding.

Specifically I see a need for funding for the following activities:

- a) Personnel to provide assistance for social security, estate, and taxation assistance.
- b) Medical delivery assistance and medical personnel to provide the needed health protection for the elderly.
- c) Funding for additional nutritional programs such as the "Meals on Wheels"
- d) Additional recreational opportunities through both on-site programs and specialized programs at the various facilities located within the Village of Shorewood.
- e) The development of "prototype" guidance manuals and the subsequent training of personnel who deal with the elderly (such as a manual on how personnel should handle the problem of relocating a tenant to a nursing home).

The WHFA has been very conscious of the specialized social environment associated with the River Park development. Through various physical planning measures it will provide the necessary space and facilities for expanded programs which might be funded from the above. Additionally, WHFA has scrutinized the management plan and personnel for River Park and has modified the plan so that management personnel can assist with expanded programs for the elderly.

I am very hopeful that through the combined effort of the Village of Shorewood and other agencies with additional funding that Riverpark can truly be a model environment for the elderly.

Sincerely,

L. G. Shilton /kae

L. G. Shilton
Director of Housing

LGS:kaa

STATEMENT ON THE NEED FOR LONG-TERM FINANCING ASSISTANCE FOR LARGE-SCALE REDEVELOPMENT ACTIVITIES, SUBMITTED BY EDWARD HELFELD, ADMINISTRATOR, COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES, CALIF.

I want to thank the Subcommittee on Housing and Community Development for this opportunity to submit a statement on behalf of the Community Redevelopment Agency (CRA) of the City of Los Angeles. This statement will focus on the need for federal assistance to encourage large-scale city development and redevelopment projects, an opportunity now difficult to maximize due to an absence of a federal program aimed at achieving this end.

The Los Angeles CRA was created in 1948 to deal with the problems of urban decay and blight. Presently, eleven redevelopment projects have received City Council approval and are in various stages of implementation. These projects encompass a wide range of activities—from revitalizing the downtown core area, to creating an industrial park in the Harbor area, from establishing a new residential development on hillside terrain, to the rehabilitation and conservation of existing neighborhoods throughout the City. This Agency has used or is using a variety of federal community development tools to accomplish its programmatic aims, including traditional Title I urban renewal, a Title I loan only project, the Neighborhood Development Program and Community Development Block Grants. CRA therefore feels that it has the experience to make some general comments on the need for federal aid to encourage large scale redevelopment.

Almost every major city has a desperate need to redevelop major, important areas within it. This is necessary not only to eliminate slums and blight but also to accomplish other equally important goals—e.g., to generate new investments and tax revenues; to maintain or to create new economic activity centers; to enhance employment opportunities, especially for low and moderate income families and minorities; to revitalize core downtown areas; to convert undeveloped or under-utilized land to more appropriate purposes; and to maintain or to create new and vital neighborhoods. These are important programmatic objectives, but extremely difficult to achieve. These are the types of projects which require an intensive amount of planning, a large amount of "up front" capital, and long "lead time" before results are achieved. They are difficult, often controversial and not easily adaptable to the community development process offered in the 1974 Housing and Community Development Act.

In Los Angeles, for example, we now have approved by City Council a redevelopment plan for the Central Business District. This is a massive project involving almost the entire Center City area; its total cost can not even be estimated. One relatively small part of it—the retention of the Produce Mart—will be cited later as an example of the type of project where federal assistance in obtaining developmental capital is needed. This downtown redevelopment cannot proceed under the block grant program. Instead, what is needed is a program of federal guarantees of locally issued bonds to finance parts of the project. The federal guarantee loan provisions contained in the 1974 Act are not adequate to assist in the large scale development.

The 1974 loan provisions are restrictive in the sense that they require the following actions before HUD will provide a federal guarantee of local notes or bonds: (1) an "up front" reservation of a portion of the locality's community development grant funds equal to at least 110% of the difference between the estimated cost of acquisition and site preparation, and the anticipated amount of proceeds upon sale of the land; (2) a local pledge of full faith and credit or a pledge of revenues to replace any excess above the reserved amount; and (3) a local pledge of future community development grant proceeds to cover additional sums not repaid.

These limitations on the federal guarantee, especially the initial reservation of funds, make this provision almost totally inoperable. The federal government is asking a locality to reserve, or forego the use of, a portion of its yearly community development funds to help finance a project, the results of which may not be visible for a number of years. This is difficult to do in a political environment of local pressures for immediate use of all available funds and quick results.

Let me give an example, assuming a community which expects to receive an annual grant entitlement of \$50 million. Within the community a plan is developed to revitalize a small blighted area, replacing it with a mixed use residential-commercial complex. Assume that the total project cost, including such activities

as land acquisition, relocation of existing tenants, clearance of existing slum properties, realignment of streets and modernization of utility lines, is estimated at \$25 million. Further, that the expected sales price of the land, after treatment, is \$15 million. The estimated difference between the two items is therefore \$10 million. In order to obtain a federal guarantee of local bonds issued to finance this \$25 million project, the City would be required to reserve from its Community Development Grant, in a single year, 110% of this difference, or \$11 million (110% \times \$10 million). This means that over 20% of the locality's Block Grant (\$50 million) would be reserved and thus unavailable for use.

Added to this mandated creation of a "reserve fund" are the other provisions requiring pledges from the City to make up any differences from the estimated figures. It is often difficult to obtain such assurances from local governing bodies due to legal restrictions on borrowing limits, referendum requirements and overall fiscal pressures.

A local example of the type of project where federal assistance is called for involves Los Angeles' attempts to retain and to modernize its Produce Center. The existing Central Produce Market, the major wholesale fruit and vegetable distribution center for the metropolitan region, is now located in the southeastern position of the Center City's Central Business District. It provides 2,500 primary jobs, mainly held by minorities, as well as related supporting employment.

The present facilities, however, are outmoded and inadequate, and the continued presence of the Produce Mart in the Center City is jeopardized. New, modern facilities—including adequate loading docks, proper traffic circulation, sufficient customer and employee parking, display and storage areas—in a clean, modern environment are needed by the produce wholesalers. At least one other locality is actively seeking the relocation of the Product Mart to its jurisdiction. Should this occur, the results would be extremely damaging to the City—not only would there be a loss of 2,500 primary jobs and tax revenues, but the already troubled economy of the older Center core would be further depressed, and the psychological blow to the City of losing a primary industry would be difficult to overcome.

To counter this possibility, the City has developed a plan to relocate and to expand the Produce Mart operations in a modern, efficient complex meeting the industry's economic needs. The new facilities, covering a 58-acre nearby site, would not only retain the current jobs and local tax income but also, by expansion of operations, create new employment opportunities, especially for those of low and moderate income. These new jobs would be welcomed in a city where minority unemployment is estimated at approximately 20 percent. Likewise, the new Produce Mart would be expected to generate other adjacent activities, such as restaurants, additional storage facilities, and office space, once again creating new employment opportunities for minorities and the low income.

Thus, the Produce Mart Plan would benefit the city, the wholesale fruit and vegetable industry and the minority communities.

The total project cost of building these new facilities is estimated at between \$15 million to \$20 million of which approximately one-half would involve land acquisition, site and public improvements. The current Community Development Block Grant Program—with its annual \$50 million local grant, inadequate loan provisions, and local competitive demands for funding—cannot be used as the primary vehicle to implement this necessary and important local project. Instead, the City is investigating alternative financing methods, when, in fact, the federal government's community development efforts should be the logical source for grant and loan guarantee assistance.

Other local examples could be given. There have been proposals to convert a large part of our eastern Central Business District into a modern Industrial Park attracting light and medium industry and generating new jobs. The City is also developing plans to provide new facilities for its Flower Mart, the wholesale center for fresh cut flowers for the metropolitan region. These plans also will probably require a major infusion of public funds, now difficult to envision under current federal programs.

Congress should act immediately to fill this major gap in federal assistance activities. Leading Congressional experts, elected local officials and redevelopment experts have offered a variety of solutions, involving new federal programs of direct grants, loans and/or loan guarantees to support local rebuilding efforts. These proposals, for example, a National Development Bank, an Urban Rein-

vestment Bank, or a Community Development Bank, should be used by this Subcommittee as the basis for developing a major federal commitment to the redevelopment of our cities.

However, the analyses and review of these proposals by federal and local experts and the Subcommittee will require time and they are really long-term solutions to this problem. In the interim, an immediate revision of the loan guarantee provisions of the Community Development Block Grant Program (Section 108) should be enacted.

The revision should include the elimination of all local "pledges" for repayment; these revenue "back-ups" are unnecessary based on prior experience under the Title I categorical program. Likewise, the requirement of an immediate reservation of Block Grant funds to cover the estimated difference between project expenses and revenues should be dropped. Instead the loan program should be written to permit the loan to be secured by expected proceeds from land sales and expected future entitlement grants or other local sources of revenue. A federal commitment in authorizing legislation to maintain the Community Development Program for an additional five years—subject to annual appropriation—would indicate to localities that Block Grants will most likely continue to flow to them and can be used as one source for repayment of these loans.

A repayment schedule should be established based on the expected timing of land sales. Local contributions to make up shortfalls between land proceeds and project costs should be phased over a multi-year period (five to seven years, for example) commencing as late as the time when land disposition activity begins. The proposed Urban Development Action Grants Program, if enacted, could also serve as additional security for these loans as well as a source of funds for repayment.

To safeguard the federal exposure on these guaranteed loans, standards for HUD review of guarantee applications as well as prudent limits on the level of outstanding local and national loans should be established.

These immediate changes will permit communities like Los Angeles to convert redevelopment plans into concrete rebuilding effort. The national goal of redeveloping our cities will be easier to accomplish with the addition of this workable federal loan guarantee program.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 2, 1977.

Hon. THOMAS I. ASHLEY,

Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance, and Urban Affairs, Washington, D.C.

DEAR CHAIRMAN ASHLEY: As per the suggestion of your staff, I am forwarding you a copy of a letter from a constituent, Mr. Norbert J. Kenkes, of Hart Realty, Inc. to be included in your hearings involving Rent Supplement Funding.

In this letter, Mr. Henkes seeks assistance on three matters:

1. The availability of Rent Supplement Funds.
2. An increase in the Government's share of the rent from 70 percent to 85 percent.
3. Eligibility of prospective residents because of their being in the low income class.

I share the concerns of all individuals involved in this situation. Please advise me as to the result of these hearings.

Thank you for your kind assistance on this matter.

With kind personal regards.

Sincerely,

THOMAS A. LUKEN, *Member of Congress.*

HART REALTY, INC.,
Cincinnati, Ohio, January 27, 1977.

Representative THOMAS A. LUKEN,
Rayburn House Office Building
Washington, D.C.

DEAR REPRESENTATIVE LUKEN: Our company manages two Section 236 housing projects in Cincinnati, Ohio, at which seven families are now receiving assistance through the Rent Supplement Program. We also manage twenty-nine Section 221

(d) (3) housing projects, at which 1197 families are receiving this same assistance.

Recently because of drastic increases in utility costs, we submitted to HUD Rental Increase Requests on all thirty-two projects and hopefully, we will be implementing these increased rents effective March 1, 1977.

Three matters now concern us—the availability of rent supplement funds and/or the ability of the residents to pay their increased share of the rent.

In a letter directed to Mr. Sherman Gardner, President, Association of HUD Management Agents, dated October 27, 1976, Secretary Carla Hills made the following statements: "The appropriation Act approved by Congress and signed by the President for fiscal year 1977 did not include funding for increases in Rent Supplement Contract necessitated by rental increases in HUD assisted projects. Therefore, it is impossible for this Department to approve any increase in contract authority. We will, however, continue to have existing Rent Supplement Contracts in their present amounts."

We are greatly concerned about this cutback and ask for your assistance.

Second, even if additional Rent Supplement funds are forthcoming, the resident has a problem. When any Rent Increase is implemented, the resident's payment also goes up. Since most of these residents are on limited and/or fixed incomes they will be unable to pay their increased portion of the rent.

Under the Rent Supplement Programs, the Government's share cannot exceed 70 percent. One solution would be to increase this percentage to 85 percent, such as is available under the Section 8 Housing Program. As a result, a much needed Rental Increase could be implemented without causing further financial hardship to the residents.

Finally, the Rent Supplement Program has three eligibility requirements for prospective residents—elderly individuals, handicapped persons or families presently living in substandard housing. If the family is a low income family, but does not meet one of these requirements, it is not eligible for a Rent Supplement Apartment. It becomes increasingly distressing to turn these families away.

We are, therefore, asking for your assistance on three matters:

- (1) The availability of Rent Supplement Funds.
- (2) An increase in the Government's share of the rent from 70 percent to 85 percent.
- (3) Eligibility of prospective residents because of being in the low income class.

Many thanks for your interest and assistance.

Sincerely,

NORBERT J. HENKES.

FLAIR HOUSE,

Santa Maria, Calif., February 26, 1977.

HON. THOMAS L. ASHLEY,

Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs, Washington, D.C.

DEAR CHAIRMAN ASHLEY: Having only today received through the courtesy of our Congressman, R. Lagomarsino, 19th District, California, your name for the responsible Chairman of this important and vital Sub-Committee, we hasten to forward a copy of the memorandum sent recently to Secretary Harris of HUD and other listed recipients.

We trust that we may count on your added support in helping prove some of the claims and statements indicated for more efficient housing construction on a national level. Thank you very much, Sir, for your response and favourable comments to this presentation.

Sincerely,

WALT STANLEY, *Facility Consultant.*

FLAIR HOUSE,

Santa Maria, Calif., February 26, 1977.

HON. THOMAS L. ASHLEY,

Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs, Washington, D.C.

Our deep concern for the serious national housing shortage, especially as it applies to homes for the needy, the young and the elderly, has prompted us to make special efforts to aid this problem.

As Facility Engineers and Consultants we have developed and researched a number of building systems that can assist in finding solutions to supply enough budget housing for those in need. The enclosed report outlines some of the ways in which this can be accomplished. Your support to achieve these results is urgently requested through active participation and practical encouragement.

Allowing a small company, such as ours, to receive limited funding for a practical demonstration contract will bring actual proof of the capability of the recommended system, and your serious concern and interest to help in the solution to the national housing problem.

Sincerely,

WALT STANLEY, *Facility Consultant.*

MEMORANDUM TO SECRETARY HARRIS REGARDING BUDGET HOUSING

"Appalled" is the word heard most frequently today in describing the reactions of prospective homebuyers when they hear of the ever soaring cost of houses, especially when they are young and looking for their first home. Nationwide the price of houses, and in particular new construction, rose another ten percent—10 percent—this past year in most cities and suburbs. This put a new house out of reach of many buyers normally considered potential home owners. The solution to this problem is strictly in the hands of builders-developers, financial firms furnishing construction funds and certain government agencies. They must change their viewpoint and attitude to new concepts and designs, and must be prepared to aid the fight for their acceptance.

NEW DESIGN CONCEPTS

A careful evaluation of existing needs and requirements, and the new design concepts brought to the market place by young designers and others with more practical ideas and suggestions, introduces concepts that can and will bring the price of housing to acceptable levels.

Detailed cost analysis shows that the pre-fabricated, individual building sections which are assembled "on-site" into complete homes within a minimum time span, is the lowest priced building on today's market. Installation of electric wiring, plumbing lines and fixtures into sections and sub-assemblies on a production line at the manufacturing plant, is much more efficient, permits close quality assurance inspection, develops speedier production and therefore reduces manufacturing costs over similar "on-site" construction efforts.

Building wall and roof section structural sandwiches with urethane foam or resin impregnated honeycomb cores, exterior facings with varied finishes, and smooth interior surfaces ready for finishing with paint or wall coverings, offer outstanding insulation values above minimum requirements, limited completion requirements and quick, easy installation. These wall and roof sections can also be installed on all standard wood or steel as well as custom framing in a very short time for added construction savings.

FLEXIBILITY FOR THE GROWING FAMILY

Once the housing shell need is defined, the next question must concern itself with family unit room needs. A newly wed couple normally only really requires a bedroom, bath and kitchen plan, thus permitting use of the balance of the shell space as a large living room area. This also allows them to furnish the home for their immediate short term need without extending themselves financially to equip a much larger residence. As the family increases in size and their income improves, the home owner can add new requirements with available funds. Extra walls can be installed for additional rooms required and improved fixtures can be supplied and more furnishings added. When in time all required rooms have been completed, but the family finds that the original living area has become too small, the addition of a "CORE UNIT" can solve this problem. This is a pre-engineered, factory fabricated total shell unit fully equipped as a complete kitchen, full size bath with tub/shower combination and a laundry area. This shell section is placed into position after relocation of one of the exterior wall sections, which now becomes the exterior wall for the added section, to give the home an improved, larger living area for the growing family. Larger families will require two or more bedrooms and two baths from the very beginning, and this system allows ready installation of all requirements before the family unit moves into their new home.

Additional equipment installations such as Solar Heating systems for all hot water supply can be made wherever this is practical. About 26% of all water requirements in an average home are for personal hygiene, laundry operations and cooking needs. Use of water conservation devices in showers permit water savings of up to 60%, with the same being possible when similar devices are installed in all waterlines serving basins in kitchen and bathrooms.

CONTROLLING COSTS

The subject of costs for materials and equipment items must take into consideration the unbelievable mark-up that occurs from the time an item leaves the origin of manufacture until it is installed in the new construction unit. There are far too many middle-men who should be eliminated. Government has a positive responsibility and duty to pass necessary legislation to put a stop to this practice.

In a shell building, the home owner should get a break. Now if he were to try and purchase certain equipment, products or supplies from a manufacturer or master wholesaler, he is unsuccessful. These suppliers of plumbing, electrical and other products state "we only sell to the trade that actually installs this type product"; or "we are not permitted by the manufacturer to sell direct to you, the home owner. We must sell through a state licensed builder/contractor or installer."

In a hypothetical case product "A" is manufactured by the ABC company and shipped to their regional master wholesaler that covers usually an entire county or larger area, depending on population numbers. This master wholesaler now ships the product to an area wholesaler or major dealer, who in turn sells it to a trades firm or general contractor, who sells it again to the future home owner.

Taking a random manufacturing sales price of \$10.00, with normal mark-ups of at least 20% by each of the people or firms handling this item, the home owner is asked for an installed price of approximately \$16.00, or sixty percent—60%—for the actual item plus the labor charge for installation. Since such costs run usually at least \$10 or more for the tradesman's time and effort, a home owner is forced to pay perhaps as much as 100% over the actual factory sales price.

The continued cost increase of land is a part of the entire building cost program that requires separate handling and solution. Federal and state legislation may find legal approaches that can bring private, state or federal lands at desired locations on to the market place as acceptable construction sites.

GOVERNMENT TRY AND BUY METHOD—APPLIED TO HOUSING

To really save money, government at state and federal levels should follow an old established system used by them now. When they require a new product item, the government invites qualified companies to submit design proposals. After careful evaluation by experts, proposals are selected for production of one or more sample units. These then go through extensive testing procedures, and from the final evaluation a final product is chosen for quantity manufacture. This well established and tested procedure is low in cost and allows at the same time evaluation and testing of more than one product design. No extensive funds are expended, and the individual minimal procurement allows "the small firms" to participate on the same level as their larger competitor. In the government's minimal procurement for testing, the smaller dollar cost also allows the "small firms" to secure necessary funding from their financial sources more readily than would be possible if large volume was the only way to obtain government contracts.

Since this works so well already, why can this not be applied equally to the housing industry? Why should not HUD carry out the same procedure to evaluate and test different building concepts and designs? There are a multitude of "small businesses" in this country that have or are proposing housing ideas that are unique and different.

Why not evaluate their concepts with the understanding that they meet all basic building codes that affect health and safety standards?

Following sample-unit construction, the government should allow selected tenants to live in these test homes for a specified time period, after which the tenants and other qualified building officials determine the values, benefits and faults of the specific design. Once faults have been corrected, and the design is otherwise desirable, volume construction can proceed to meet building demands for this type design.

COMMON SENSE AND SOME DEREGULATION REQUIRED

While no one questions the basic regulations and requirements of a Uniform Building Code that offers safety and protection to health, life and the tenant, too many building officials on all levels of government—from Washington, D.C. to the smallest, local office—are many times unnecessarily nitpicking on regulations that have nothing to do with health and safety. They have denied designs because the seal of approval does not come from their choice of available sources. They have rejected designs because they did not personally like a feature of the design, which often requires numerous appeals to obtain reversal of such a decision. They have delayed presentations too often and for too long for reasons only known to themselves.

It is therefore high time that responsible government leaders, be it in the nation's capital or the county seat, carefully review all building regulations not totaly concerned with our health and safety. They should be changed, stricken from the books or modified to permit easy adjustments in individual cases. This can be accomplished through establishment of a series of regional or area tribunals or ombudsman comprised of knowledgeable, sincere persons whose determinations on all matters not affecting health and personal safety shall be the final decision. Too many applicants when dealing with building departments are intimidated by the manner in which they and their plans are received by officialdom. This may discourage them to exercise their constitutional rights when rebuffed in such a positive manner. An appeal to an industry-oriented tribunal certainly could aid in many problem solutions, just as is done now by local planning commissions on all matters concerning land use and developmet.

We are eager to work with someone to find a solution towards the entire housing problem. With the new Administration in Washington concentrating their efforts on finding answers to the problems that trouble this country, a fresh, new beginning can be made at this time by all concerned with the housing needs of the people.

A comfortable shelter is the first step to improving the well being of all Americans.

SIEGMUND SPIEGEL, A.I.A.,
East Meadow, N.Y., February 15, 1977.

Re: "The Spiegel Plan" Conversion of Surplus School Buildings to Housing for the Elderly.

Hon. THOMAS L. ASHLEY,
Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance, and Urban Affairs, Washington, D.C.

DEAR MR. CHAIRMAN: In my experience as an Architect, I become fully aware of the enormous need of Housing for Elderly. At the same time, and seemingly unrelated, there is available an ever increasing number of superfluous School Buildings—nationwide. These are becoming available as our Communities "grow older" and the children born into Communities become less. Empty School Buildings become an enormous burden on the tax paying Community, in addition to becoming a target for vandalism, in turn, causing deterioration of good residential neighborhoods.

My solution to both above problems—as more fully outlined in "The Spiegel Plan" is: Make superfluous School Buildings and Grounds available for Conversion to Housing for Elderly! It will prevent making migrants of our Elderly and keep them in the Community they helped build! Elderly Housing is the only fully compatible use for surplus School Buildings and Sites in residential areas.

Because of many incompatible uses proposed in certain areas, some School Boards have resorted to disposing of School Buildings, and Properties for subdivision to single family housing plots. This, we all know to be a most unproductive, wasteful and ultimately tax-consuming rather than producing, use.

I have made efforts in the past thru HUD to help solve the above problems via a separate program. Perhaps the Section 8 Program can be a viable vehicle in the alternative. However, to my mind, if to be really effective, much larger appropriations will be needed.

By the same token, while Section 202 Funds are generally available for New Construction only, they should be permitted to be used for conversion of empty School Buildings to Housing for Elderly.

I much appreciate your giving consideration to the above. I sincerely believe that the tax burden caused by empty schools, and alternatively, the Housing for Elderly provided therein, can play a substantial part in providing reasonable Housing for our Elderly Americans.

May I look forward to hearing from you?

Sincerely,

SIEGMUND SPIEGEL,
Architect and Planner.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., February 23, 1977.

Mr. SIEGMUND SPIEGEL,
Architect and Planner,
East Meadow, N.Y.

DEAR MR. SPIEGEL: Thank you for your recent letter forwarding your proposal for converting superfluous school buildings and grounds into housing for the elderly. This sounds like a most intriguing idea and I plan on taking advantage of the current hearings the subcommittee is holding on housing legislation to bring this proposal to the attention of the Secretary of HUD in order to obtain the expert views of that Department.

I will be in further contact with you after I have received these views.

Your interest in the problems of the elderly and the problems of housing and community development generally is appreciated.

Sincerely,

THOMAS L. ASHLEY,
Chairman, Subcommittee on
Housing and Community Development.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 7, 1977.

Hon. THOMAS L. ASHLEY,
Chairman, Subcommittee on Housing and Community Development, Committee
on Banking, Finance and Urban Affairs, Washington, D.C.

DEAR CHAIRMAN ASHLEY: On January 4, I introduced the "Surplus School Conservation Act", H.R. 487. This legislation presently has 27 House cosponsors.

In brief, the purpose of this legislation is to allow the Department of Housing and Urban Development to make grants to communities covering 80 percent of the cost of remodeling schools into facilities suitable for such purposes as day-care and senior citizen centers, libraries, and community health centers.

As a result of changing population patterns, it is estimated that, nationally, public school enrollment will drop by 5 million in the next few years. In my own home county, a 39% drop in enrollment is expected by 1985. Unless some action is taken to utilize these abandoned facilities, their mere indebtedness and maintenance will continue to be a burden on already overburdened local property taxpayers. Further, as you will note from the enclosed article in the Long Island Press of March 3, 1977, the abandoned buildings can be havens for heroin addicts, and they are prime targets for vandals.

While this problem affects many suburban areas which have experienced the beginning and end of the "baby boom", it also affects the Nation's cities, which have experienced sharp reductions in population. In short, this is a national problem which will not be improving, and I believe we would be better off if we attacked it now.

Accordingly, I would hope that your subcommittee would commence hearings on this legislation at an early date, and I would respectfully request that comments be received from the appropriate Federal agencies.

I appreciate your consideration of this request.

Sincerely,

NORMAN F. LENT,
Member of Congress.

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, D.C., March 10, 1977.

Hon. PATRICIA R. HARRIS,
Secretary, Department of Housing and Urban Development, Washington, D.C.

DEAR MADAM SECRETARY: Please provide to the Committee on Banking, Finance, and Urban Affairs the comments of the Department of Housing and Urban Development on the bill, H.R. 487, To Authorize the Secretary of Housing and Urban Development to make grants to local agencies for converting closed school buildings to efficient, alternate uses, and for other purposes.

A copy of the bill is enclosed.

Sincerely,

HENRY S. REUSS, *Chairman.*

95TH CONGRESS
1ST SESSION

H. R. 487

IN THE HOUSE OF REPRESENTATIVES

JANUARY 4, 1977

Mr. LENT introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

A BILL

To authorize the Secretary of Housing and Urban Development to make grants to local agencies for converting closed school buildings to efficient, alternate uses, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SHORT TITLE**

4 That this Act may be cited as the "Surplus School Con-
5 servation Act of 1976".

6 **Findings**

7 (a) The Congress finds that—

8 (1) declining school enrollments and population
9 migration have caused the closures of schools at all levels
10 throughout the country;

★I—O

1 (2) the school buildings that have been closed
2 represent valuable resources to communities and should
3 be maintained and operated for other productive uses;

4 (3) local communities lack the necessary funds to
5 adequately recycle closed school buildings on their own;
6 and

7 (4) the Federal Government has a responsibility
8 to assist communities in recycling closed school build-
9 ings with Federal funds.

10 (b) It is the purpose of this Act to provide grants to
11 communities to enable these communities to maintain and
12 operate, in the most efficient, creative, and economical man-
13 ner possible, closed school buildings for other productive pur-
14 poses determined by the respective communities. Such other
15 productive purposes shall be in the fields of educational and
16 social services and may include any purpose described in
17 section 3 (a) of this Act.

18 SEC. 2. As used in this Act, the term—

19 (1) “closed school building” means any building
20 or structure which has been used during any period as a
21 school or as a classroom or related facility for educational
22 or training purposes including athletics but, as of the date
23 of application for a grant to renovate such building or
24 structure under this Act, is not so used;

25 (2) “costs” includes expenses for preparing draw-

1 ings and specifications, for remodeling, altering, or im-
2 proving a building, for materials and labor, and for
3 inspecting and supervising construction;

4 (3) "elementary or secondary school" means any
5 school which provides elementary or secondary educa-
6 tion, as determined under State law, except that such
7 term does not include any education provided beyond
8 grade 12 or its equivalent;

9 (4) "local agency" means any agency or other
10 instrumentality of a State, county, city, parish, township,
11 or other political subdivision of a State and includes an
12 agency or other instrumentality of one or more such
13 political subdivisions;

14 (5) "school year" means an academic year or its
15 equivalent as defined by State law;

16 (6) "Secretary" means the Secretary of Housing
17 and Urban Development; and

18 (7) "State" means any State of the United States,
19 the District of Columbia, the Commonwealth of Puerto
20 Rico, Guam, American Samoa, the Virgin Islands, the
21 Trust Territory of the Pacific Islands, or any other
22 territory or possession of the United States.

23 SEC. 3. (a) The Secretary may make grants to local
24 agencies, and such local agencies shall use the money received
25 from such grants, to pay the costs of renovating closed school

1 buildings so that such buildings may be converted for use by
2 such local agencies for productive educational and social
3 service purposes including any of the following such
4 purposes—

5 (1) community centers;

6 (2) senior citizen centers;

7 (3) day care centers;

8 (4) preschools;

9 (5) community colleges;

10 (6) vocational schools;

11 (7) walk-in centers for drug abuse or other
12 counseling;

13 (8) medical facilities or centers;

14 (9) dental facilities or centers; and

15 (10) recreational centers.

16 (b) A local agency desiring to receive a grant under
17 this Act shall submit to the Secretary an application
18 containing—

19 (1) a plan for renovating a closed school building
20 and for using such building after such renovation for
21 educational and social service purposes;

22 (2) an estimate of the costs of such renovation;

23 (3) a statement evaluating the social and economic
24 impact of the renovation and use of such building for
25 such purposes; and

1 (4) such other information which demonstrates
2 to the Secretary's satisfaction sufficient financial ability
3 on the part of such local agency to carry out the pro-
4 visions of such plan.

5 (c) The amount of a grant under this Act shall be
6 80 per centum of the estimated cost of renovation contained
7 in the application submitted to the Secretary under subsec-
8 tion (b) of this section.

9 (d) If the amount of a grant under this Act is more
10 than the actual cost of renovation under such grant, the
11 local agency which received such grant shall return such
12 surplus money to the Secretary, who shall use such surplus
13 money to make other grants under this Act.

14 (e) Notwithstanding section 3648 of the Revised
15 Statutes of the United States (31 U.S.C. 529), the Secretary
16 may advance public money to local agencies for grants under
17 this Act.

18 SEC. 4. In approving applications for grants under this
19 Act, the Secretary shall—

20 (1) give priority to an application for renovating
21 a closed school building which is located in a school dis-
22 trict whose current school enrollments have decreased
23 by 10 per centum or more from the school enrollments
24 of the previous school year as determined by the Secre-
25 tary based on the most recent information available to

6

1 the Commissioner of Education, except that an educa-
2 tional institution other than an elementary or secondary
3 school shall not be given priority under this paragraph;

4 (2) give priority to an application for renovating
5 a closed school building which is not on the date of such
6 application being fully utilized for a productive educa-
7 tional and social service purpose (other than utilization
8 as a storage facility) ;

9 (3) require assurances that the closed school build-
10 ing for which a grant is being applied for under this Act
11 will not, after its renovation, be used primarily as a
12 storage facility; and

13 (4) include in his consideration the following fac-
14 tors:

15 (A) the need of the local agency for a grant
16 under this Act based upon the number of closed
17 school buildings located in the same school district
18 as the closed school building for which the local
19 agency is applying for a grant under this Act and
20 upon the size of the population served by that school
21 district;

22 (B) the suitability of such closed school build-
23 ing for renovation including the value of such build-
24 ing before renovation; and

1 (C) the value of such closed school building
2 after renovation including the number of individuals
3 who will use such building, the number of different
4 uses of such building, and the length of time during
5 which such building will be so used.

6 SEC. 5. The Secretary shall prescribe reasonable regula-
7 tions to carry out the provisions of this Act and to assure
8 that a closed school building renovated under this Act shall
9 be used by a local agency in accordance with the plan of
10 that agency required under section 3(b)(1) of this Act.

11 SEC. 6. For any fiscal year, no more than 10 per centum
12 of the funds appropriated by Congress for grants under this
13 Act shall be granted to local agencies in any State.

14 SEC. 7. The Secretary shall serve as a national clearing-
15 house to local agencies by having available publications on
16 alternative uses of closed school buildings and by suggesting,
17 at the request of a local agency, how a closed school building
18 can best be used for educational and social service purposes
19 given such building's unique location and design.

20 SEC. 8. For each fiscal year for which funds are appro-
21 priated under this Act, the Secretary shall prepare and sub-
22 mit, not later than ninety days after the end of such fiscal
23 year, to the President and the Congress a report listing the
24 local agencies that received grants under this Act during

1 such fiscal year and the purposes for which such grants were
2 made. The report for the third such fiscal year shall also
3 include—

4 (1) a cost analysis of the effectiveness of grants
5 made under this Act;

6 (2) the findings of a survey, which the Secretary
7 shall conduct, on the extent of the problem of school
8 closures nationwide, including an analysis of where and
9 why schools are closing;

10 (3) results of a study and cost analysis, which the
11 Secretary shall conduct, on the impact declining school
12 enrollments have on local communities; and

13 (4) an evaluation of whether grants under this Act
14 are the most effective and economical way of recycling
15 closed school buildings.

U.S. HOUSE OF REPRESENTATIVES,
 COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS,
 Washington, D.C., March 11, 1977.

HON. NORMAN F. LENT,
House of Representatives,
 Washington, D.C.

DEAR COLLEAGUE: This is in response to your letter concerning H.R. 487, a bill which you introduced to authorize the Secretary of Housing and Urban Development to make grants to local agencies for converting closed school buildings to efficient, alternate uses, and for other purposes.

Enclosed is a copy of our request to get the Administration's official views on this bill. I hope to include their reply in the record of the hearings on the reauthorization of housing and community development legislation which the subcommittee just completed. While it will probably not be possible to hold special hearings exclusively on this legislation, I would think it important to get the official views of the Administration on this most interesting and possibly very useful legislative proposal.

Sincerely,

THOMAS L. ASHLEY, *Chairman.*

[The letter referred to is retained in the subcommittee's files.]

MILLMAN AND BRODER, P. C.,
 Washington, D.C., March 10, 1977.

Re Housing: On/Off Budget.

HON. HENRY S. REUSS,
*Chairman, House Committee on Banking, Finance and Urban Affairs, Rayburn
 House Office Building, Washington, D.C.*

DEAR CHAIRMAN REUSS: This firm represents the National Council of Senior Citizens on housing matters. Although we did not request the opportunity to testify on the recent round of hearings held by your subcommittee, we would appreciate it if our views concerning the above referenced matter be printed in the record.

NCSC is concerned with a position taken in testimony recently by Secretary Harris in which she renewed the call for placing the 202 program on budget. We feel strongly that this proposal is ill advised. The Secretary has stated that this proposal was being made "in the interest of achieving fiscal discipline in view of the impact of the 202 program on total Federal resources for domestic programs".

In our opinion placing 202 on budget will not foster fiscal discipline but will, instead, distort the role of 202 by counting a secured real estate investment repaid at interest as an expenditure instead of as an asset. The only proper amounts to be included in the budget would be any interest subsidy involved—of which there are none—and any repayments of the loan that come from Federal sources.

Furthermore, Section 8 rental assistance payments are provided in tandem with the 202 loan, and these funds are already on budget. If 202 is also placed on budget, expenditures will be counted twice—once when the loan is made and once when Section 8 assistance payments are made. The obviously distorted result could only result in the death of the program.

For your information, we have enclosed an analysis of this budget issue prepared by the National Council's Staff Economist, Betty Duskin.

Thank you for your attention to this matter and your concern for housing needs of this nature.

Sincerely,

RICHARD M. MILLMAN.

THE BUDGET STATUS OF THE SECTION 202 PROGRAM, BY BETTY DUSKIN, NATIONAL
 COUNCIL OF SENIOR CITIZENS

Deliberations leading up to the Report of the Commission on Budget Concepts in 1967 and the proceedings of a technical conference, which followed shortly thereafter indicated total agreement in only one area: the "proper" budget depends on the purposes it is intended to serve. As a corollary, in that

a "unibudget" serves multiple purposes, in trying to serve them all, it may not serve all of them well. Section 202 of the Housing Act of 1959 is a case in point of an activity particularly ill-served and which ill-serves the budget by gross inclusion "above the line".

Among the frequently posited purposes which the budget is used for are the following:

- (1) measurement of the economic impact of the budget;
- (2) measurement of the "size" of government;
- (3) specification of the financing needs of government;
- (4) enforcement of some concept of fiscal responsibility; and
- (5) service as an instrument of management over programs by the Executive and Congress.

In regard to the first, direct loan operations of the government may potentially impact credit markets, but are not thought to operate via a "multiplier" effect on income in the same way as direct government expenditures. There is an obvious difference in effect between a loan to an individual or group which must be repaid and an outright grant or transfer which raises disposable income. The only element of a loan program which may be considered in the same way as a grant which directly increases income is the element of subsidy which may be present if the loan is offered at/or below market rates of interest. If this element of subsidy is present, the correct question to ask concerns the existence and size of the subsidy and not the total size of the loan for inclusion in or exclusion from the budget.

Additionally, it is probable that the impact on credit markets may be slight or nonexistent in the presence of offsetting monetary policy. It therefore appears reasonable to question the inclusion of only one actor in the play of monetary policy when the star of the show—Federal Reserve open market operations—is excluded. Partial information may distort the picture rather than enhancing our insights in this area.

Second, the relevance of a loan for long-term capital investment to questions of the "size" of government is not correctly understood. Questions regarding the magnitude of government activity should not attempt to add together apples and oranges. Government expenditures and revenues which represent flows over the course of a fiscal year cannot be properly added to assets and liabilities which represent stocks and not flows, particularly when the assets and liabilities appear on the ledger in the private sector. Again, the only legitimate element which represents government activity in the same way as flows of expenditures and revenues is the explicit or implicit subsidy element. The size of the loan overstates the role of government when its function is that of an intermediary.

Third, determining the financing needs of government again underscores the difficulties and the importance of the differences between current and capital transactions. Certainly, the two types of borrowing cannot and should not be forced into the same time frame. Where excluding lending operations and consequent borrowing needs from the budget serves to make this crucial distinction, direct loans of this type should be excluded. Exclusion of 202 loans would legitimately move in this direction.

Next, in regard to fostering fiscal responsibility, it belies the astuteness of Congress to assume that fiscal responsibility is solely a function of whether or not items are included or excluded from the budget. Certainly, Congress itself would argue against this preposterous presumption. Indeed, transactions which have a built-in discipline based upon current or anticipated receipts may not require external discipline in the same way that open-ended programs or programs which must annually compete for the scarce resources of government amidst changing priorities do.

Last, the management prerogatives of the Executive branch and the Congress are also not a function of the characteristics of the budget, but are legally determined within the context of specific legislation and by the Constitution. These, and not the make-up of the budget are the controlling factors.

In summary, different approaches to the treatment of direct lending operations for capital investment such as Section 202 of the Housing Act of 1959 may be applicable for different purposes, but none of the circumstances discussed legitimizes the inclusion of gross lending operations on an annual basis.

This is not to deny the importance of credit operations but to emphasize the following points:

- (1) The economic effects of such operations are not properly assessed even when lending is netted out by repayments;

(2) Capital expenditures are not properly additive to income-generating expenditures; and

(3) Overstating the meaningful total expenditures in order to effect fiscal responsibility and maintain management prerogatives is a curious and inefficient form of discipline on the budgeting process.

THE DISTRICT OF COLUMBIA,
Washington, D.C., April 7, 1977.

HON. THOMAS L. ASHLEY,
Chairman, Subcommittee on Housing and Community Development, House of Representatives, Rayburn House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: Your Committee is now actively considering several amendments to the Housing and Community Development Act of 1974, including a major change in the community development funding formula. The revision of the Community Development Block Grant Entitlement Formula, as proposed by HUD, will result in a very substantial drop in funding for the city of Washington, D.C. The District funding will decline by \$17.3 million (or 42 percent), from \$40.8 million in fiscal year 1977 to \$23.5 million in fiscal year 1980.

We believe that the new formula does not accurately reflect the major housing and community development needs here in the Nation's Capital, and quite possibly the needs of many other cities throughout the country. The major drop in funding projected for our city stands in stark contrast to the facts:

More than 55,000 housing units (one out of every five) in the District require rehabilitation, and

More than 70,000 renter households (two out of every five) in the city require lower income housing assistance.

We believe there is general agreement that the funding under the old formula is grossly deficient in measuring need. The new proposed formula does represent an improvement in funding levels for the District, and most other cities, from the formula contained in the current law. We are concerned, however, that many persons are evaluating the soundness of the new formula mostly in comparison to the old formula, and not in relation to how well it addresses housing and community development needs.

Our specific concerns regarding the new formula are threefold. *First*, we believe the new formula still does not accurately measure need among cities, and in fact uses data of questionable reliability. *Second*, in consideration of the new formula's questionable measure of need factors, it provides little protection to a significant number of cities which will experience significant funding drops. *Third*, the proposed criteria for new discretionary funding do not appear broad enough to address major community development problems faced by some cities, or the problems faced by cities whose funding drops severely. Each of these concerns is addressed in summary fashion in the enclosed analysis of the proposed formula. We call particular attention to the per capita grant chart at the end of the analysis which graphically shows wide variations in grant levels despite similar levels of need.

We hope that you will give close attention to these concerns in your action on the legislation proposed by HUD. We would be pleased to discuss this matter further if you or your committee members have any questions.

Sincerely yours,

WALTER E. WASHINGTON, Mayor.

Enclosure.

SUMMARY ANALYSIS OF PROPOSED CDBG FORMULA

Following is a summary analysis of HUD's proposal for a new funding formula for CDBG entitlement cities (50 percent age of housing, 30 percent poverty and 20 percent population shift). Without the benefit of the raw data and computer runs of alternative formulas available to HUD, this analysis has been limited.

PROPOSED FORMULA AS A MEASURE OF NEED

The two factors under the new formula which seem to account for the largest difference in funding levels between major cities are the age of housing and population shift (i.e. decline). As further noted below, it is unclear that these

factors accurately measure housing and community development needs from city to city.

The attached table compares for several large cities the per capita grant under the proposed formula with a variety of housing and community development need measurements. Except for age of housing and population change, the variations in need measures between major cities are not great. By emphasizing these two factors (70 percent of the formula) there are large variations between cities on a per capita grant basis.

St. Louis will receive almost twice the per capita grant as Washington D.C., under the formula, despite the fact that both cities have about the same degree of problem in overcrowded housing, overpayment of rent and poverty population.

Chicago will receive a per capita grant more than 20 percent higher than New York based primarily on population loss, while most other need factors are the same for these two cities.

Pittsburgh will receive almost 25 percent higher funding than Boston based primarily on population loss.

Because of these large variations in per capita grant funding, it makes sense to look at the individual factors in the proposed formula:

1. *Age of Housing (units built in 1939 or earlier).*—The physical condition of the housing stock is a primary factor in determining the need for community development funds. Unfortunately, no reliable and uniform measure for housing conditions among all cities exists. Therefore, HUD has proposed that housing units built in 1939 or earlier be used as an indirect measure of housing condition. Using age of housing as a single factor (with 50 percent of the CDBG formula) has the following problems:

Age of housing data is collected by asking occupants of housing their personal estimate, with no independent check against city records. To quote from the U.S. Census Bureau's methodology—"year built data are particularly susceptible to response errors and nonreporting, since respondents must rely on their memory or estimates of persons who have lived in the neighborhood a long time." To illustrate, comparison of U.S. Census surveys for Washington, D.C. of housing units built in 1939 or earlier show that the absolute number of such units increased by more than 14,000 (11.3 percent) between 1970 and 1974. This increase is too large to be accounted for by unit conversions and throws serious question on the reliability of this data being used for 50 percent of the new formula.

Age of housing does not always reflect actual condition. For example, in Washington, D.C., housing in old neighborhoods such as Georgetown, Capitol Hill, and Cleveland Park is in good condition, while a large amount of housing built since World War II across the Anacostia River is seriously overcrowded and deteriorating.

As shown on the attached table, there is no correlation between age of housing and housing overcrowding. Since overcrowding has a direct bearing on the physical condition of housing, to exclude this factor from the formula is questionable.

2. *Poverty (number of poor population).*—There is general agreement that the number of poor people in a city is a good measure of the need for housing and community development assistance. However, HUD has applied a single national standard for poverty to all cities. The problem with using this single standard is that it does not take into account the higher cost of living in cities such as Washington, D.C., and therefore the fact that Washington has a larger number of poor (subsistence level) than the use of the national standard would indicate. HUD has indicated that cost of living adjustment is difficult since only about two-thirds of the SMSA's have cost of living indexes. However, given the roughness of measures such as age of housing, it is unclear why approximate adjustments might not be made using factors such as median income, median rent levels, or welfare case workloads.

Other additional or supplemental factors that might be used to measure this element more accurately include:

Households paying more than 25% (or 35%) of their income for rent. Such households are overwhelmingly in the lower income range, and this is one of the primary factors used by most cities in measuring need in their local Housing Assistance Plans.

Number of very low income households under the Section 8 program (below 50% of the median income for the SMSA). Section 8 housing limits are calculated by HUD for SMSA's, and tend to reflect differences in the cost of living from city to city.

Degree of poverty concentration in census tracts. The Census has issued reports showing how many tracts in a city have more than 20% poverty level households. This provides a rough indicator of the geographic spread of poor families in a city, and the potential area in need of CDBG assistance.

3. *Decline of Population.*—This factor was added to the formula, presumably as an indicator of general trouble in a city. It seems questionable, however, that it is a measure of housing and community development need. For example, the large loss of jobs in New York is not reflected by population loss. In fact, a decline in population can be of some assistance to a city by relieving housing overcrowding and substantially easing pressure for price increases on the existing housing market. It may allow for the "trickle-down" of the housing stock to lower income households, and avoid the necessity for the extremely expensive process of land acquisition and redevelopment as a means for expanding lower income housing opportunities within the city.

We seriously question the validity of this factor for a CDBG formula. In Washington, D.C., for example, the major housing/community development crisis we face is the movement of middle-income families into the inner-city. While this is a positive factor for the city tax base, this movement is displacing large numbers of lower income families. The demands on CDBG funds in the District to preserve and expand lower income housing to meet this need are extremely heavy.

In summary, it is clear that creation of a formula which accurately measures housing and community development need and treats various cities in an equitable manner is extremely difficult. While the new proposed CDBG formula does represent an improvement over the existing formula, it still has large deficiencies in both equity between cities and accuracy of measuring need. Specifically, it does not appear to recognize substantial needs in the District of Columbia (and other cities), and results in large discrepancies in per capita grant allocations among cities with similar needs, as illustrated on the attached chart.

CITIES WITH LARGE FUNDING DROPS

In consideration of the new formula's questionable measure of housing and community development needs, special consideration is appropriate for those cities which will experience significant drops from current funding levels. Among those entitlement cities who would drop from 1977 hold-harmless funding levels under the current formula, we note the following impact of the new proposed formula:

More than 47 percent of the cities (97 cities) will drop by 15 percent or more from 1977 funding, and more than 38 percent of the cities (79 cities) will drop by 25 percent or more.

Out of 26 cities over 500,000 in population, Washington, D.C. is one of only three (Denver and Kansas City, Mo.) that drops from current funding levels. The District is the only major loser from 1977 funding levels among the larger cities, with a funding drop of \$17.3 million (or 42 percent).

A significant number of cities which would receive lower funding under the new formula in comparison to the old formula are in affect being "held-harmless" at their existing formula amount based upon the dual-formula concept.

Although it must be conceded that 1977 hold-harmless funding levels do not necessarily measure need accurately, it does not appear that the new formula is an accurate measure of need either. Accordingly, if a better formula cannot be developed at this time, it makes some sense to provide some downside protection to "losers" under the new formula (e.g. limit reduction in funding so as not to exceed 25 percent of 1977 funding level).

The cost of providing such protection might well be possible within the overall funding level proposed for the CDBG program. For example, of the 26 cities over 500,000, 3 cities will drop a combined total of \$20.2 million while the remaining 23 cities have a combined increase of \$358 million.

SPECIAL DISCRETIONARY "URBAN DEVELOPMENT ACTION GRANTS"

A special new fund of CDBG discretionary money (\$400 million in fiscal year 1978) has been proposed to meet the special needs of cities with significant housing and community development problems and needs. HUD has widely indicated that these funds can be used to compensate for inequities under the new formula, including those cities which will experience major funding drops but still have large unmet needs.

However, HUD's legislative proposal to the Congress for "Urban Development Action Grants" sets up a needs test which cities must meet to qualify for the program. The criteria used are age of housing stock and abandonment, declining tax base, average income and degree of outmigration. The HUD proposal would appear to be too narrow in scope based on the following:

The criteria proposed for funding are very similar to the basic entitlement formula, and therefore would appear to favor those cities which are the largest gainers under the formula.

The whole formula type of approach seems to contradict the discretionary nature of the program, and does not allow a city to demonstrate special local housing or community development needs which may differ from the general criteria.

No priority consideration is given to cities whose entitlement funding levels will drop significantly under the new formula, and no provision is made to recognize prior local program commitments to meet local needs.

COMPARISON OF PROPOSED CDBG GRANT ON PER CAPITA BASIS WITH NEED FACTORS

City	1970 Population	Proposed CDBG 1980 Grant (\$in Mil.)	Per Capita CDBG Grant	% Renter Occup. Overcrowd. Units		%Renter Units with Overpay- ment of rent		% of Poverty Concentration (% of Census Tracts w/More than 20% Pov. Population)	Proposed CDBG Formula		
				1.01+ per room	1.51+per room severe	More than 25% Income	More than 35% Inc.		%Popula. below National Poverty Level	% Housing Units Built 1939 or Earlier	% Population Change 1960-1970
St. Louis, Mo.	622,236	\$ 37,911	\$ 60.93	14.6%	5.8%	38.4%	26.3%	72.1%	19.9%	74.2%	- 17.0%
Cleveland, Ohio	750,903	40.613	54.09	8.2	1.6	35.9	25.0	55.7	17.1	72.9	- 14.3
Pittsburgh, Pa.	520,111	27.373	52.63	7.5	2.0	41.5	28.1	47.7	15.2	74.3	- 13.9
Detroit, Mich.	1,511,482	66.411	43.94	7.7	2.2	37.7	26.6	56.5	14.7	61.0	- 9.5
Boston, Mass.	641,071	27.205	42.44	7.8	2.1	46.8	31.3	56.2	15.4	77.4	- 8.1
San Francisco, Ca.	715,674	29.419	41.11	7.7	3.3	46.8	30.1	40.9	13.7	66.7	- 3.3
Chicago, Ill.	3,366,957	134.251	39.87	11.0	3.4	38.1	24.9	54.9	14.4	66.4	- 5.2
Philadelphia, Pa.	1,948,609	73.392	37.66	8.7	2.4	38.9	26.3	54.5	15.1	68.9	- 2.7
Baltimore, Md.	905,759	32.832	36.25	11.4	2.5	41.6	27.2	66.2	18.1	59.3	- 3.5
New York, N. Y.	7,894,862	258.323	32.72	11.7	3.5	35.7	23.2	55.6	14.7	62.1	+ 1.5
Washington, D.C.	756,510	23.517	31.09	14.4	6.0	37.7	23.7	56.1	16.2	46.7	- 1.0

Source: 1970 U. S. Census

CITY OF NORTH CHICAGO,
North Chicago, Ill.

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF NORTH CHICAGO, ILL., ENDORSING H.R. 1522 (H.R. 2638) AND S. 801 RELATIVE TO "HOLD HARMLESS" PROVISIONS OF THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1974

Whereas with the passage of the Housing and Community Development Act of 1974 the Congress and President of the United States of America provided a vehicle through which communities throughout our Nation could continue to improve their physical and social environment, and

Whereas certain funding levels were established under the act through "Hold Harmless" provisions whereby communities previously participating in categorical programs would continue to receive funds from the Federal government for five (5) program years following the passage of the Act, and

Whereas these funding levels would remain constant for the first three 3 years, 1975, 1976 and 1977 and thereafter reduce to two-thirds of the initial funding level in the fourth year, 1978, and one-third of the initial funding level in the fifth year, 1979, with complete phase-out and a zero entitlement funding level in the sixth year, 1980, leaving the majority of those communities actively participating in these programs in the past with no assured annual Federal funds to combat their community development problems, and

Whereas those over 750 communities under 50,000 population across the Nation, will not receive a "Formula" share of Community Development Funding and in order to continue their programs based solely on the possibility of receiving discretionary funding will be required to incur considerable speculative local expense, and

Whereas Congressman Henry S. Reuss introduced H.R. 1522 (H.R. 2638) on January 6, 1977, which calls for the removal of the phase-out provisions of the act by elimination of section 106(h) (2) thereof, thereby effectively continuing the community development funding at its initial level into the 4th and subsequent years to allow program continuation through assurance of continual annual funding levels conducive to sound program management, and

Whereas the City Council of North Chicago, Illinois unanimously endorses H.R. 1522 (H.R. 2638) and S. 801 and actively supports the introduction of companion legislation in the Senate of the United States of America, and

Whereas the City Council of North Chicago, Illinois wishes to continue to function in a leadership capacity relative to community development programs and legislation formulation, for the betterment of communities throughout our City and State: now, therefore, be it

Resolved by the City Council of North Chicago, Illinois, That the within Resolution, including all whereas clauses, is hereby adopted and that a copy thereof be forwarded by letter of the Mayor of the City of North Chicago to each member of the Illinois House and Senate Delegation, and each member of the House Committee on Banking, Finance and Urban Affairs and the Senate Committee on Banking, Housing and Urban Affairs, urging unanimous Congressional support of H.R. 1522 (H.R. 2638) and S. 801 in order to continue funding levels so vital if our Nation's communities of under 50,000 population are to continue to rebuild and upgrade themselves to provide a decent and safe environment in which to live and work.

Dated this 28th day of March, 1977.

LEO F. KUKLA,
Mayor.
RUDOLF B. NON,
City Clerk.

Passed: March 28, 1977.

MONMOUTH, OREG., *March 10, 1977.*

Congressman AL ULLMAN,
150 Church N.E.,
Salem, Oreg.

DEAR MR. ULLMAN, I'm writing to express my feelings about the formula for allocating Community Development Block Grant Funds. There are, at present, some inequities caused by the current formula used to allocate this money.

At present the funds are allocated objectively according to a "needs formula" based on population, overcrowded housing, and extent of poverty. In the 1977 allocations the Department of Housing and Urban Development plans to use 1973 Bureau of Census population estimates and 1970 data on the extent of poverty and overcrowded housing because they are the most recent data. This results in allocating funds on a basis which doesn't reflect a community's current needs and could result in Block Grant funds being shifted from the poorer cities to wealthier suburban areas.

For the allocations, poverty was given double weight because it is considered the most important of the variables and was closely related to the purpose of the act. The present formula doesn't recognize differences in regional or area cost of living and uses the same criteria for determining poverty levels in all communities. Accordingly, cities with low costs of living will have their poverty count overstated while cities with high costs of living will have their poverty counts understated. The cities with low costs of living will therefore receive relatively more funds than cities with high costs of living unless the differences in costs of living among communities are taken into account.

In updating the population figures, Census relies mainly on the birth and death records and data on income tax forms which it obtains from the Internal Revenue Service. Community Development Block Grant Funds will therefore be shifted from the poor central cities to the wealthier suburban areas if just the population variable is updated. I feel that the funds should not be distributed on this basis of the latest census data until a method can be established to periodically update the other two variables; poverty and overcrowded housing. Congress should direct the Secretary of Housing and Urban Development to undertake the necessary research to enable the development of a feasible new method.

Under the present formula many cities with large levels of poverty receive less than they would have received if poverty had been weighted only once instead of twice. One solution for this might be if HUD were to compute two allocations for each community. One with the poverty level counted twice and the other with the poverty level counted once and assign each community the greatest amount. The allocations would then be added together and each allocation reduced by the percentage required to reduce the total allocations to the appropriate amount.

I hope that in the future a new method of allocating funds will be investigated so that more funds will go to cities with high concentrations of poverty than to cities with low concentrations of poverty.

Sincerely,

SHARON M. LYNCH.



