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OPPORTUNITY AND RESPONSIBILITY IN URBAN FINANCING

Remarks by

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I am delighted that the National Association of Real Estate Brokers and the United Mortgage Bankers of America asked me to visit with them during their Annual Convention. I am particularly pleased because I understand that this is the first time such a joint meeting has been held during the 20-odd years the two groups have been in existence.

Rather than roaming about the general terrain of urban financial ills -- all of which is so familiar to you -- I propose to focus on a few of the opportunities (some of which are still on the horizon) which may be especially appealing to you -- who spend so much of your time actually working in our central cities.

First, I will look at evolving opportunities arising from changes in public policy at the Federal level:

- The widened availability of FHA insurance in selected parts of central cities.
- The recommendation for removal of the 6 per cent ceiling on FHA interest rates.
- Proposed Federal charters for mutual savings banks.

On the other hand, none of us should be led into believing that the Federal Government will be able to finance the entire cost of urban reconstruction. In the short run, the high and rising cost of the Vietnam War -- combined with the persistent drive to reduce the growth of Federal spending -- will insure that only modest amounts of Federal funds (in relation to the magnitude of the task before us) will actually be available for our cities. Moreover, even with the cessation cessation of the Vietnam War, it may still be difficult to shift a sizable proportion of the released financial resources into the fight to save our urban communities.

Thus, it is obvious to me that we must rely much more heavily on the resources of State and local governments as well as the private sector to finance the enormous tasks of urban rebuilding. I am also convinced that -- given the skills you have accumulated through years of activity in the urban core -- you can play a significant role in this undertaking.

The opportunities which State governments can provide are illustrated by two experiences:

- The policy governing the deposit of State funds developed by the Treasurer of the State of Illinois.
- The promising proposals being shaped by the Superintendent of Banks in the State of New York.

But, as I mentioned above, any really significant volume of funds for uban rehabilitation must come from the private sector -- undoubtedly with varying degrees of incentives, insurance, and guarantees from the Federal Government. Several developments along this line are of particular interest to anyone active in the real estate business:

- The $1 billion investment program announced by leading life insurance companies last year.

- The changing role of savings and loan associations and mutual savings banks in urban lending.

Change in Public Policy: Federal Government

As previously observed, several modifications in public policy (either already in effect or in prospect) should provide greatly enhanced opportunities for expanding the availability of funds for urban housing. Since 1966, the Department of Housing and Urban Development (HUD) has been able to relax the requirement that a property be "economically sound" as a condition of eligibility for FHA insurance of a home mortgage -- if the property is located in a blighted area and is otherwise an acceptable risk. Officials of HUD estimated that FHA is currently issuing about 300 commitments each week to insure home loans in blighted areas; some 350 commitments each week are also being issued to insure home loans in what FHA calls riot-prone areas. Undoubtedly, this volume of activity could be greatly expanded, and all of you are strategically placed to see that this is done.

In my judgment, one of the really promising moves is the Administration's recommendation that Congress remove the 6 per cent ceiling on FHA interest rates. As we know, during periods of monetary restraint, this artificial lid becomes a prime factor in reducing the availability of mortgage funds in this sector of the market. The burden is particularly great in the central city where inherent risks necessarily require lenders to demand higher returns on loans extended. While there is a natural tendency among many observers to stress the benefits to low and moderate income groups provided through holding down FHA interest rates, such benefits may be more apparent than real. It may be far more important that central city home buyers be able to obtain mortgage funds than that they pay a few basis points less in interest costs. Thus, in my judgment, the ceiling on FHA interest rates should be removed.

I also think that the availability of housing finance will be greatly improved by the early adoption of the Administration's recommendation for Federal chartering of mutual savings banks. The details of the various versions of the specific legislation that is under review in Congress need not concern us here. The key points are that all of the versions would permit the establishment of such institutions throughout the nation, and they would have much broader powers to mobilize savings and channel them into a wider variety of uses than savings and loan associations and mutual savings banks can generally do today. They could offer a greater variety of instruments to attract funds which would enable them to compete more effectively in the capital market under changing credit conditions. But above all, they could lend such funds for a much wider range of purposes than they can today. Specifically, they would be able to finance a greater variety of housing, commercial properties, small businesses as well as small industrial plants. Thus, they could make a substantial contribution in the redevelopment of our central cities.

Finally, with the broadened opportunities to launch these new financial institutions, you and your associates could certainly become applicants for the new federal charters. Undoubtedly, a number of these applications would be granted to groups which would concentrate their activities in the central cities.

Changes in Public Policy: Innovations by State and local Governments

In my opinion, State and local governments can -- and must play a key role in urban reconstruction. I am fully aware of the severe limitations on their financial resources and the growing extent to which they rely on grants from the Federal Government. The fact is that they do have some resources, and the way these are managed can be helpful in supporting the attack on urban problems.

The program of deposit allocation developed by the Illinois State Treasurer, Adlai E. Stevenson, III, is a striking example of these opportunities. Currently, the program applies to the disposition of about $577 million of state funds. Of this amount, roughly $210 million (in the "basic deposit program") has been earmarked for general distribution among banks throughout the state. Of vital importance from the point of view of urban developments, another $100 million has been set aside for deposit in banks offering support for housing. Another $100 million has been earmarked for banks that have been or/ have proposed to become active in the financing of "community services." (The balance of the funds has been allocated in forms and for purposes less directly related to urban reconstruction.)

The $100 million set aside for support of housing will go to banks prepared to make FHA 221d(3) loans. So far, $61 million has been allocated to nine or ten of the largest banks in the state. It is reported that more than 100 banks around the state have expressed interest in a plan that is still being developed for some kind of pooling arrangement under which the full $100 million would be taken up by a large group of banks agreeing to place funds in housing loans of the type specified.

Apparently, the program for community services financing -- the support of which another $100 million of deposits will be devoted -- is still in the development stage. It seems that the Treasurer, in effect, has asked the banks to describe local community needs that require financing. Those banks that have furnished descriptions of financing programs that they have already adopted and also projected for the future were alloted state funds equivalent to 2.6 per cent of their deposits. Those banks which simply described what they have been doing up to now in community services financing have been scaled to allotments of 1 per cent, and those only expressing an intention to engage in this business in the future have been held down to an allotment of 0.75 per cent of their deposits. So far, responses indicative of interest in this facet of the Treasurer's program have come from about 450 banks.

Among the types of financing that have been adjudged consistent with the community services objectives are student loans, small business loans, loans to borrowers in urban renewal areas and local industrial development loans.

Another indication of the awareness of the state's contribution to urban development (although less specific than that in Illinois) comes from New York State. Mr. Frank Wille, Superintendent of Banks, has invited various sectors of the banking industry in New York to designate representatives to work with state officials to develop the incentives needed to mobilize resources of the private sector to further urban development.

He has suggested a number of approaches which he thinks may be helpful:

- A small business and housing loan guarantee program with interest supplements to be paid by government;
- An authority-type agency which would finance income-producing projects with the proceeds of tax exempt revenue bonds or full faith and credit bonds issued to private investors;
- Advisory or screening groups which would work in cooperation with lending institutions to judge the credit worthiness of Negro business applicants.

Private Initiative and Cooperation

Despite the above promising departures in the public sector, I am convinced that the really significant sources of financing must be found in the private area. Indeed, so many efforts are already under way that it would be impossible to summarize them.

But, undoubtedly, the most widely known among these is the program announced last summer under which some 150 life insurance companies plan to invest $1 billion in our urban centers. As many of you know, soon after the program was announced, I commented rather extensively on it. While commending the companies for their decision to launch this effort, I emphasized the need to under take steps to insure that the program actually moved from the planning stage to effective implementation in the nation's ghettos. Among other things, I stressed the obstacles that they could expect to encounter because of the limited flexibility of FHA policies -- particularly in the regional offices where so much of the work is done. I also pointed out the need to involve directly the business and professional people who actually work in the ghetto. In this regard, I observed that (as of last September) I could not find a case in which a major life insurance company had appointed a Negro mortgage banker as a correspondent.

Without any desire to take personal credit, let me report (as you may already know) that several institutions have subsequently made such appointments:

- Metropolitan Life has designated Carver Savings and Loan in New York as an agent, able to originate and service FHA and VA mortgages. Carver is also a mortgage correspondent for Teachers Insurance and Annuity. Both arrangements went into effect last December. (It is also reported that Carver had an offer from another company which they had to turn down on the conviction that they already had enough to handle.)

- The New York Bank for Savings and the Philadelphia Savings Funds Society have both designated Sivart Mortgage Corporation of Chicago as a correspondent.

There may be other examples which have not come to my attention. Let me stress again that, in calling attention to the importance of such appointments, my purpose was to stress the need to involve businessmen who have actually acquired skills in ghetto housing finance through on-the-spot experience. In my judgment, it is not enough simply to liberalize internal company policy to allow more investment in urban areas; nor is it sufficient to go one step further to press for changes in FHA insurance practices. Rather, it is also necessary to take even a third step to link up with businessmen actually working in the ghetto. I still think such a three-way arrangement would be a powerful instrument in the campaign to finance the reconstruction of the ghetto.

So far, it is not possible to judge how much progress is being made in carrying out the life insurance company program. I understand that sometime during the next month a six-month progress report will be released. In the meantime, a fragment or two of information has come from individual companies. As of mid-February, two companies have reported the following:

	Share of Program	Allocated or Committed	Per cent of Company Share
Metropolitan Life	$175 million	$25 million (approx.)	14.3
Equitable Assur.	83 million	26.5 (approx.)	32.0

Clearly, we cannot infer much from these figures about the progress of the over-all program. Circumstances will vary greatly from one company to another. The key point is that progress is being made in carrying out the program. In fact, industry spokesmen suggest that the $1 billion target may well be exceeded, since many companies have indicated their intention to continue with the effort after their own commitments under the program have been met. Again, I urge all of you to make every effort you can to ensure that your own community shares fully in the funds being made available by the life insurance companies.

But the life insurance companies are not the only financial institutions that can help. The savings and loan associations can also play a vital role, because they are the primary source of funds to finance residential housing. In the nation as a whole, S&L's had total assets of some $143 billion as of November, 1967. At the end of 1966, they held just under one-quarter of the total savings held by the principal types of savings institutions. Yet, they also held about 40 per cent of the mortgages on residential real estate.

How much of these assets represented investments in the urban ghettos -- or loans to Negroes -- cannot be determined. However, based on data from the 1960 Census of Housing, savings associations play a far more significant role in financing home ownership by Negroes than do other financial institutions. At the time of the 1960 survey, savings associations had financed 37.2 per cent of all the single-family mortgages on Negro homes; all other financial institutions combined had financed 30.3 per cent. The corresponding figures for white families were 35.8 per cent for savings associations and 52 per cent for all other financial institutions.

On the other hand, we should not conclude that the S&L's do a disproportionate share of their total business in the ghetto. Quite the contrary.

My impression is that only a small proportion of these mortgages is on properties located in the urban ghetto. Instead, S&L's (along with most other lenders) are concentrating on financing of homes in suburban communities and in a few areas of central cities -- well removed from the ghetto -- where the risks are very small.

At the same time, of course, many S&L's do have branches in or near ghetto areas which serve as depositaries for ghetto savings. Just what proportion of these savings is invested in the ghetto obviously cannot be measured statistically. However, comments by those engaged in the S&L business clearly suggest that it is small. For example, at the 24th annual convention of the National League of Insured Savings Associations meeting in San Francisco last October, one official from a S&L located in an eastern city was reported by the newspapers as having said that 60 per cent of his community was blacked out -- meaning that his institution made no loans at all on properties in three-fifths of the territory in his community.

Here is a situation which I believe calls for immediate attention. As we know, many S&L's in central cities have been at their locations for many years. During their life time, racial composition of many of their neighborhoods has changed substantially. Yet, the institutions (partly because of restrictive laws governing relocation) have remained to mobilize the savings of the new neighbors. However, there is a widely held belief that many of these institutions do not concentrate the bulk of their efforts on financing the home requirements of those currently living in the immediate area from which a large proportion of their savings come. Instead, a large share of their loans apparently is made to borrowers in the suburbs and outlying areas of the cities. To what extent this pattern actually prevails from one city to another obviously cannot be determined. However, it seems to me that this is a situation which each of you should examine closely.

But in the S&L industry also, the winds of change are stirring. Last October, a leading figure in the S&L business from Southern California (Bart Lytton, Chairman of Lytton Financial Corporation), also speaking at the industry convention in San Francisco, urged his colleagues to invest $60 billion in the nation's ghettos over the next 12 years. Whether the S&L industry can divert successfully an average of $5 billion a year to the ghetto is a critical question. Nevertheless, this suggestion does represent an awareness of the rising aspirations in the ghetto and a desire to help meet them.

What about savings banks? They, too, are making an effort to expand their financial support of projects in the ghetto. One example is the pioneer effort undertaken by four Philadelphia savings banks which launched a home financing program in that city in early 1966. They pledged to invest $20 million in private homes to be insured by FHA and purchased by residents of the ghetto. Although they originally encountered a number of difficulties in translating the programs into action (including inflexible FHA procedures), they are still moving ahead with determination.

Moreover, we might recall that the mutual savings banks (although relatively few in number) have generally been among the leaders in the movement to improve housing in urban areas. The spokesmen for the industry were among the first to call for a national policy of open housing, one which would apply to homes financed with conventional mortgages as well as to those insured or guaranteed by FHA and VA. They were also among the first to support a comprehensive program of public housing, and they were persistent champions of cabinet status for the housing agency. They are currently the strongest advocates for the proposal for Federal chartering of mutual savings banks -- which, as mentioned above, could make a significant contribution to urban development. With this pattern of support, I am certain that we can look forward to an even greater effort by these institutions.

Concluding Observations

Let me say, in conclusion, that I am glad to see all of you still devoting yourselves so vigorously to the improvement of your urban neighborhoods. As one observes the almost frantic effort of some groups "to help solve the urban crisis," one could easily conclude that many of them only now are discovering that our cities are in serious trouble. Since all of you have been there all the time trying desperately to prevent the crisis from arising, I must salute you for your persistence, and I urge you to carry on!