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Business & Financial Letter

No More a Slumlord?

Last week, in the fifth installment of his serialized State of the Union report, President Nixon emphasized again his intention to end programs that "have been turning the Federal Government into a nationwide slumlord." In his view, housing subsidy programs have not provided results commensurate with their costs, especially since existing commitments could cost the taxpayer somewhere between $63 billion and $95 billion over the next 40 years.

According to the Administration indictment, subsidy programs:
1) have provided "a fortunate few" with subsidies ranging from $700 to $3,000 annually, but have left other low-income families to pay the full costs of unsubsidized housing;
2) have provided "inordinate financial gains" for various intermediaries, including speculators;
3) have increased pressures on construction and land costs, leading to higher prices for subsidized housing, and 4) have placed some families in homes they cannot afford to maintain at all.

Holding the line
With this indictment in mind, we should not be surprised that the Administration has announced its moratorium on new commitments for subsidized housing, pending a thoroughgoing review of the entire structure of subsidized-housing programs. The Administration's plans involve the suspension of four housing-assistance programs—low-rent public housing, rent supplements, home-ownership assistance, and rental assistance—along with the termination of seven urban development programs. (New policy recommendations on the suspended programs are promised within the next six months.) Nevertheless, the Department of Housing and Urban Development expects that subsidized starts under **existing** commitments will remain close to the 1972 level through fiscal 1974, at an annual rate in excess of 250,000 nonfarm units.

Housing assistance payments under existing commitments are budgeted to rise from $1.7 billion in fiscal year 1973 to $2.1 billion in fiscal year 1974. (At that figure, spending would be 2½ times greater than in 1971.) Most of the payments will be in support of some 1.2 million units of low-rent public housing, the great majority of which were built prior to 1970, and in support of some 665,000 units of Section 235 (home ownership) and 236 (rental assistance) units constructed since the advent of those programs in 1968. And as a reflection of rising default rates, net outlays related to mortgage insurance are expected to rise sharply to $628 million in the

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next fiscal year.

Production vs. financing

Despite the uncertain future, a considerable amount of work remains in the pipeline. In the background, moreover, stands an achievement which is notable in terms of production, if in terms of nothing else. In the past three years, more federally-assisted units have been constructed than the public-housing program produced in the previous thirty years.

As a consequence principally of the rapid growth of the Section 235-236 programs, the number of housing units produced or rehabilitated under all subsidy programs rose sharply from 185,000 in 1968 to 433,000 in 1970. (The latter figure represented almost 30 percent of all housing starts in 1970.) By 1972, however, the number of such units fell to about 325,000, as HUD tightened its procedures in response to the rising incidence of defaults —and even of fraud—in these programs.

Paralleling the expansion of production, however, has gone an increase in financial troubles. According to former HUD Secretary Romney, HUD repossessions have been increasing sharply, and might rise to 240,000 units within five years. But still, only about one-fifth of all repossessions last year involved Section 235-236 directly-subsidized units. The vast majority of the repossessions came under older FHA nonsubsidized insurance programs, or else under the Section 233 "high risk" insurance program, which involves Congressionally mandated activity in former "red lined" areas such as deteriorating inner-city neighborhoods.

Other problems

Other financial problems have developed in low-rent public housing—another major area of subsidized activity. (These problems do not show up in HUD's mortgage default and repossession statistics, since mortgage financing is not involved in the program.) The Federal government defrays the interest and amortization costs of local housing-authority construction bonds, and since 1969 it has helped to defray operating expenses as well. But this year, perhaps one-fourth of all housing authorities in the nation, managing some 250,000 units, may be unable to pay their bills with present levels of Federal assistance. In this situation, many authorities threaten to dump their problem-laden projects into the lap of the Federal government.

One difficult problem is the inability of subsidy programs to stabilize inner-city neighborhoods. Income-eligibility requirements for public housing have guaranteed, in Mr. Romney's words, "that the best, upwardly mobile, stable families would be constantly moving out of the central city." Similarly, the HUD 235-236 programs have provided a means for stable families to join the migration to the suburbs.

Who benefits?
Much controversy surrounds the question of who benefits from subsidies. In 1971, only about 4 percent of families receiving home-ownership assistance, and only about 25 percent of those receiving rental assistance, had annual incomes under $4,000. Conversely, a family of five with an adjusted income of $10,800 in a high-cost area could be eligible for a subsidized $24,000 mortgage with very attractive terms—$200 down, 40-year maturity, and 1-percent interest rate.

Moreover, if mortgage-interest and property-tax deductions are included with other subsidies, the major beneficiaries turn out to be middle- and high-income families. In 1971, the value of this type of subsidy approximated $5.7 billion, with two-thirds of the total accruing to families with incomes over $10,000. Builders and owners of subsidized rental housing also benefit from the very generous depreciation and capital-gains features of projects undertaken under direct-subsidy programs.

Financing features
Budgetary problems also have been created by certain financing features of the subsidized housing programs. When it enacted these programs, Congress opted in favor of interest-rate subsidies rather than capital appropriations; this has deferred the impact on the budget, but at the cost of much greater expenditures in the long run. Similarly, under the "tandem plan" of the Government National Mortgage Association, that agency has purchased over $6 billion in subsidized mortgages at prices favorable to sellers, for resale at lower prices favorable to buyers; this has required Treasury funds to make up the difference.

In any event, a rationalization of present housing programs is needed, including a resolution of a number of sometimes conflicting objectives—providing housing, helping the poor, revitalizing the inner cities, and promoting racial and social integration in the suburbs. The Administration believes that the necessary re-evaluation should begin with the termination or suspension of present programs; Congressional Democrats, speaking through the Joint Economic Committee, argue in rebuttal that existing deficiencies can be corrected not through a "meat-ax treatment," but rather through a reform of ongoing programs. The Government may remain a "slumlord" for a while yet, but hopefully on a more rational basis than in the past several years.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 2/28/73	Change from 2/21/73	Change from year ago Dollar	Percent
Loans adjusted and investments*	69,820	+425	+8,221	+ 13.35
Loans adjusted—total*	52,257	+396	+8,917	+ 20.57
Commercial and industrial	18,850	+313	+2,879	+ 18.03
Real estate	15,351	+ 31	+2,520	+ 19.64
Consumer instalment	7,957	+ 42	+1,428	+ 21.87
U.S. Treasury securities	6,235	— 64	— 681	— 9.85
Other securities	11,328	+ 93	— 15	— 0.13
Deposits (less cash items)—total*	67,331	—546	+6,754	+ 11.15
Demand deposits adjusted	20,167	+311	+1,019	+ 5.32
U.S. Government deposits	1,430	+ 15	+ 739	+106.95
Time deposits—total*	44,302	+ 27	+4,632	+ 11.68
Savings	17,991	— 41	+ 45	+ 0.25
Other time I.P.C.	17,744	+100	+3,150	+ 21.58
State and political subdivisions	6,212	— 40	+ 913	+ 17.23
(Large negotiable CD's)	7,205	+ 25	+2,027	+ 39.15

Weekly Averages of Daily Figures	Week ended 2/28/73	Week ended 2/21/73	Comparable year-ago period
Member Bank Reserve Position			
Excess reserves	31	101	54
Borrowings	127	250	0
Net free (+) / Net borrowed (—)	— 96	—149	+ 54
Federal Funds—Seven Large Banks			
Interbank Federal funds transactions			
Net purchases (+) / Net sales (—)	+831	+371	—142
Transactions: U.S. securities dealers			
Net loans (+) / Net borrowings (—)	+124	+ 3	+345

*Includes items not shown separately.

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