

POLICY FORUM

New Directions in Federal Housing Policy

(Editor's note: the following talk was delivered by Richard A. Kaiser, Acting Area Director, Milwaukee Area Office, HUD, at the American Association of Housing Educators Conference, October 12, 1973. The talk generated considerable discussion of housing policy among members present. Your comments on this presentation or other policy alternatives are encouraged. Comments received will be included in an ongoing "Policy Forum" section of this publication.)

Today I want to spend some time with you outlining some of the changes that have been and are yet to take place in the housing programs of the Department of Housing and Urban Development.

Three weeks ago, on September 19, the President submitted to Congress a series of housing policy recommendations including both legislative and administrative proposals designed to accomplish four goals.

1. Ease the present tight mortgage credit situation.

2. Make it easier for homeowners — urban and rural to obtain mortgages over the longer term.

3. Assist low-income families to obtain decent housing.

4. Improve the community environment for housing.

Taking each in order, the first three recommendations are directed at easing the current crunch in mortgage credit.

First, the Federal Home Loan Bank Board will authorize a new program of "forward commitments" to savings and loan associations — promising to loan them money at a future date if they need it to cover commitments they are now making. This authority will cover up to 2.5 billion dollars in loan commitments.

Second, HUD will reinstitute the "Tandem Plan" under the Government National Mortgage Association. GNMA will provide money for FHA-insured residential mortgages at an interest rate somewhat below current market rates. In order to encourage new construction, only mortgages on new starts will qualify — and up to 3 billion dollars in mortgages will be assisted under this arrangement.

And third, legislation is being introduced to authorize increases in the permissible mortgage amounts of FHA-insured loans for both

single and multi-family units; at the same time, a request will be made to adjust the loan-to-equity restriction. The present limits had some basis in realism when they were set in 1968, but the ceiling and downpayment terms are totally *unrealistic* in today's market. This authorization to adjust to current realities would bring the advantages of FHA insurance to many homebuyers who cannot obtain conventional loans in the current mortgage market.

All that is for right now. To make it easier for urban and rural homebuyers to obtain mortgages not only in today's tight squeeze, but over the long term as well additional four legislative proposals are being made:

1. To permit homebuyers to pay market-level interest rates and still be eligible for Federal mortgage insurance. This procedure would eliminate the necessity for discount "points" — which too often raise the price of the home, the size of the downpayment, the cost of insuring the property, and the magnitude of the property taxes and mortgage payments. It would also eliminate the inequity that arises when a home is resold before the mortgage term has run its course — which is the usual case. Since, as you know, the points were paid to compensate the lender for what he would lose in interest over the full term of the mortgage, the lender can reap an unfair profit when the mortgage is paid off early.

2. To authorize more flexible repayment plans under Federally-insured mortgages. What we're after here is the authority to innovate on a carefully experimental basis. One possibility we'd like to explore, for example, is gearing the level of repayments to expected changes in family income. A young family just starting out would make smaller payments in the earlier years — when they are hardest pressed — and larger payments as their income grows with the years. Not only would they be able to purchase a home earlier in life, but they would be able to arrive at

their more-or-less ultimate — or at least "intermediate" — home at an earlier stage. We would also like to experiment with negative-payment clauses, which would obviate foreclosures when default is caused by a temporary interruption of income due to illness or loss of job.

3. To establish a mortgage interest tax credit to ensure a steady supply of housing credit. A tax credit on interest earnings — of up to three and a half percent — would be given to financial institutions that invest a certain percentage of their portfolios in residential mortgages. The higher the proportion invested in such mortgages, the greater the tax credit on interest earned by the mortgages in the portfolio. This credit would rise to the full three and one-half percent when at least 70 percent of a portfolio was invested in residential mortgages. Thus, investment in housing loans would be made more attractive to those institutions that have traditionally provided mortgage money. And second, it would provide incentive to institutions not heavily involved in mortgage lending to do so.

4. To further the development and institutional acceptance of private mortgage insurance companies. Such private companies — performing a function like those of FHA, VA and FmHA, but at lower premium rates — have become a significant factor in the housing market in recent years. A final legislative proposal is aimed at allowing these companies to purchase inexpensive Federal reinsurance in much the same way as the FDIC insures bank depositors. This would have the twofold effect of providing added protection to the owner of a mortgage, and accelerating the acceptance of a private mortgage insurance — especially in the secondary markets. The desired end result, of course, would be additional sources of low-downpayment, long-term home financing for prospective buyers.

Both the immediate and longer-term improvements in credit flow and availability, of

course, should bring back to the housing market many Americans who are currently unable to enter that market because of high downpayment requirements and the relative unavailability of mortgage commitments.

All of the above is aimed at helping those of moderate or middle incomes and won't really be of benefit to those of low income.

Before turning to the proposals outlined last month which are designed to help the families and individuals of low income, let's briefly review some of the highlights of HUD's recently completed housing study.

The study began at HUD shortly after the January 5 suspension. It was a full-scale review of the Federal Government's role in housing production and finance — including all the housing programs not only of our department, but of the Department of Agriculture and the Veterans Administration as well. In addition, the study explored the housing role of private and government lending institutions and the regulatory agencies.

Because of this broad scope, our Housing Policy Review Team relied heavily on participants from other departments and agencies — including HEW, Agriculture, the Office of Management and Budget, the Federal Reserve Board and the Census Bureau.

In all, 135 temporary and career employees were detailed to the study. 17 full-time consultants from outside the Department were hired. Beyond that, we contracted for 99 consulting studies, and considered 508 public responses to our request for comments, ideas and suggestions. These more than 500 responses, adding up to over 8,000 pages, came from knowledgeable individuals, and from such interest groups as realtors, builders, mortgage bankers, urban organization, and civil rights groups.

The study will be published shortly but its main conclusion for the existing subsidized housing programs is that they just have not provided the kinds of benefits for poor people

for the vast amounts of public expenditures being made.

For example, the study will show that it costs anywhere from 15 to 40% more to construct comparable units under a subsidy program than it does to build the same unit conventionally.

Another factor is that although the existing programs are designed to serve 40% of the Nation's population, in fact only 6% of the eligible families within that category receive assistance.

But probably the main disadvantage of the existing programs is that they tend to subsidize a thing rather than a person. By that I mean that our existing programs subsidize a structure rather than the low-income family or individual himself.

Some have described this by saying that for years HUD has been attacking the symptoms of our low-income housing problem that being the inability of the low income people to pay for adequate housing.

It is this basic change in policy that is the main thrust of the new policies for low-income housing. First, the President has identified direct cash assistance as the most promising principal approach to helping such families obtain decent housing. By this means, we would make maximum use of *existing* decent housing, afford them the freedom and dignity of choice, and reduce the cost-per-family as compared with the present approach of concentrating on new housing construction.

Second, we have to take steps to complete the development and evaluation of an operational program based on direct cash housing assistance. This would be scaled to make up the difference between what a family could afford for housing on its own — and the actual cost of decent housing in the area. What we're talking about here is an estimated 8 to 11 billion dollars a year, so this kind of program would have to be phased in over a number of years. The first phase, quite probably, would

cover the elderly poor. It is presently estimated that the program could become operational in late 1974 or early 1975.

Third, we will continue to undertake limited programs for subsidized housing. This part of the program could result in the additional approval, this fiscal year of 200,000 subsidized units — 150,000 of which would be new construction. About half of these would be constructed under the 236 program to honor assurances for urban renewal, relocation, and other Departmental commitments.

We would administer one of the existing programs — Section 236 construction for leasing — to make maximum use of the freedom-of-choice principle inherent in the concept of direct cash assistance. Eventually, with Congressional authorization of our proposed new construction program, we would expand the development and ownership of projects under Section 236 to private builders.

The fourth part of the housing recommendations have to do with improving the community environment for housing. In this area the following has been recommended:

1. Request the Congress to improve the Home Improvement Loan Program by having longer terms and amounts.
2. Reinstating the 312 rehabilitation loan program for FY 1974 making available \$60 million in rehabilitation loans with priority being given to communities which need these loans to complete present projects or where complementary local rehabilitation efforts have already been launched, to further assist in the transition to the Better Communities Act in fiscal year 1975.
3. Developing a partnership of local government, local financial institutions and the

citizens of the neighborhoods involved along with the Federal Government so that Federal mortgage insurance in older, declining areas will be provided as part of a total approach which is necessary to arrest decline in such neighborhoods.

There you have, in essence, our new policy recommendations, the administrative steps we are taking to implement part of them, and the laws that will be required for the rest.

As you evaluate these proposals, I ask that you keep in mind that we are addressing two related — but quite different goals.

One goal certainly is to make sure that those poorer Americans who are still in sub-standard housing shall get decent housing. We are committed to that goal, but decent housing certainly does not, in most cases, mean new housing.

A quite separate goal is a healthy housing industry capable of meeting the continued very high level of demand for housing middle Americans that we anticipate to continue for many years.

To confuse one goal with the other is what leads some to believe that the needs of our lower-income families have to be met primarily by new construction. Please believe me, however well-placed the sentiment, such thinking does a real disservice to those who need help. Because to focus on new construction as the primary way of helping low-income people get decent housing, is to do three things: (1) it deprives them of freedom of choice; (2) it is unacceptably expensive and wasteful; and (3) because of the huge amount it would cost, it practically guarantees that we will never achieve the goal of decent housing for all.