

728.1
:325
H68no
c.3

Nonprofit-Sponsored Housing for Open Occupancy

Federal Housing Administration
Library

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT • WASHINGTON, D.C. 20410

ROBERT C. WEAVER, SECRETARY



MAR 20 1964

"I propose that we make massive additions to the supply of low-and moderate-cost housing. . . . Equal opportunity in the choice of housing must be assured to every race."

President Lyndon B. Johnson

*Front Cover: Florence Virtue Homes
New Haven, Connecticut*

100
A2421
1767
et

Nonprofit-Sponsored Housing for Open Occupancy



728.1
:325
H6870
c.3

St. Francis Square Apartments
San Francisco, California

FOREWORD

The below-market interest rate program of housing for low- to moderate-income families, under Section 221(d) (3) of the National Housing Act, was established by Congress in 1961. Since that time development under the program has annually far exceeded that of the previous year and it has become the most popular of FHA multi-family programs.

The Section 221(d) (3) program is quite flexible. Eligible mortgagor-sponsors include certain local public agencies, limited dividend corporations, cooperatives and nonprofit corporations or associations. The loans can apply not only to new construction but under certain conditions to rehabilitated or refinanced housing. Moreover, loans to eligible sponsors can be made at market interest rate, enabling them to contract with the Department for rent supplement payments in behalf of certain categories of low-income individuals and families.

Although the suggestions provided here are intended to be of assistance primarily to *nonprofit organizations* interested in sponsoring *newly developed, rental* housing for *open occupancy*, they should offer helpful guidance for all planners and developers of such housing. For our experience is that many of the growing volume of successful open occupancy developments are the handiwork of nonprofit sponsors. We know too that many other foundations, colleges, unions, and churches also are interested in undertaking Section 221(d) (3) developments of the same kind but naturally lack housing development experience and are therefore unwitting of how to proceed.

The provision of housing which successfully rents to white and nonwhite households alike, especially at the low- to moderate-income level, is of manifest importance. It is one of the most useful means available for accelerated movement towards that narrowing of the housing gap between the deprived and the more affluent and assuring a racially equal housing choice, for which the President has called.

The basic draft for this publication was prepared by George B. Nesbitt, Deputy Assistant to the Secretary (Intergroup Relations) and former Director of the Low-Income Housing Demonstration Program.

It is our hope that these insights will encourage and assist private nonprofit organizations of goodwill further to build upon the successes thus far attained.

Robert C. Weaver
Secretary

Contents

	<i>Page</i>
General Potential	2
Open Occupancy Facility	5
The Problems	6
Organizing the Sponsor	7
"Seed" Money	10
Technical Assistance	10
 Facilitative Development Factors	 12
Market study	13
Site	14
Rentals	17
Facilities and services	19
 Appendices	 22
Selected Publications	22
The Local Development Foundation	24



GENERAL POTENTIAL

The open occupancy potential in nonprofit housing providable mainly through the FHA-insured Section 221(d) (3) mortgage insurance program, but also through Section 202 direct loans for elderly housing, rests first in the general attractiveness and utility of those financing aids.

It is plain that these low-to-moderate income financing aids are a major element of national housing policy:

- (a) Since the initial authorizations for the Section 221(d) (3) program, in 1961, and the Section 202 program, in 1959, thousands upon thousands of such dwellings have been built and occupied.
- (b) The Government obviously views this experience as successful. In 1965 Congress authorized \$150 million for additional Section 221(d) (3) projects; another \$150 million for more Section 202 elderly projects; and authorized \$1.6 billion more for FNMA special assistance funds, which largely support such specialized housing developments through advance commitments to purchase their mortgages.
- (c) Moreover, in 1965 the Congress fixed the interest rates for both types of loans at 3 percent, a feat accomplished with little or no open objection to the public subsidy inherent in each.
- (d) The Congress also, as part of the same legislation, created a program of rent supplements for the benefit of low-

income families to be provided in Section 221(d) (3) housing, financed at the market interest rate.

- (e) Those "massive additions to the supply of low- and moderate-cost housing" at the core of the Demonstration Cities Program are largely predicated on the availability and efficacy of Government programs for nonprofit housing.

It can be quickly indicated that FHA-insured loans to nonprofit developers are palatable with mortgage lenders, if they are at the market interest rate. Most bankers view investments in FHA-in-

Marksdale Gardens, Boston, Massachusetts



sured mortgages as in the nature of commercial paper, since there is no risk involved with the principal investment and almost no risk with interest payments. The Federal National Mortgage Association (FNMA) can purchase or make advance commitments to purchase Section 221(d)(3) mortgages.

The practicability of Section 221(d)(3) and Section 202 financing (as well, of course, as recognition of the technical problems entailed for nonprofit sponsors) is reflected in the establishment of service-type, nonprofit corporations at national, state, and local levels to provide technical guidance and services to nonprofit sponsors of housing. Illustrative of such service agencies are:

At National Level

Division of Local Services
Urban America—The Action Council for Better Cities
New York, New York

At State Level

Interfaith Housing, Inc.
Boston, Massachusetts

At Local Level

Housing Development Corporation
Washington, D.C.

The nonprofit sponsors must, of course, be motivated to undertake such housing development ventures. This is obviously a critical matter since by definition profits are not to be expected and housing development is at once both so complicated and so foreign to the experience of the lay organizations out of which nonprofit sponsors are usually formed.

On the other hand, most well-established community organizations find considerable motivation in the opportunity to accumulate for themselves the assets to result after the mortgages are paid off, as well as in the social satisfaction certain to result from helping to meet low-to-moderate income housing needs in the community. Moreover, experience on the part of those churches and labor unions which have provided nonprofit housing clarifies that in each instance additional factors stimulate their undertakings.

In the case of the churches, they sometimes undertake the projects in order to provide housing badly needed by their members. But churches are also moved by the desire to strength-

en their social images and positions in the community, as well as by the growing tendency of clergymen to demonstrate social leadership in concrete fashion. As for the labor unions, they have the historic examples of such labor organizations as the Amalgamated Clothing Workers and the International Ladies Garment Workers to follow in providing nonprofit housing. They recognize the opportunities to generate and level-upwards employment in the construction and building maintenance occupations. They know that additional housing at the level of mass needs can provide in-city jobs and alternatives to the flight of middle-income consumers to the suburbs. But they also sense and seek the social gains in lower-cost housing, the counteraction of urban decay, the economic integration of neighborhoods, and even the achievement of racially open occupancy patterns.

OPEN OCCUPANCY FACILITY

In a growing number of instances apartments in Section 221(d) (3) below-market interest rate developments are being successfully rented on an open occupancy basis. The quiet, little-heralded achievement of open occupancy in such developments in some instances demonstrates its feasibility through ordered corraling of an optimum of facilitative factors. But all of them also reflect the considerable facility inherent in the nature of Section 221(d) (3) housing, particularly under below-market interest rate financing, for attaining open occupancy patterns:

The low-cost financing, now pegged at a three-percent interest rate, effects a lowering of the rentals required to levels \$20 to \$25 below those otherwise necessary. This results in such a competitively advantaged price for the housing as generally to make it attractive to white as well as nonwhite households. Thus, the housing becomes more readily marketable in both color directions. A true color balance, of whatever proportion, becomes achievable rather than a distribution which is either "white token", on the one hand or "nonwhite token", on the other hand.

The housing is rental and should therefore be somewhat more attractive to white demand than open housing of sales type.

At the same time, its rental character leaves it subject to initial marketing in larger blocs than sales housing, a factor

serviceable to overcome hesitancy of nonwhite households to pioneer singly or in such small numbers as to heighten insecurity.

Most of the nonwhite households at low-to-moderate income levels who are eligible for the housing are also those nonwhite households who are younger and more mobile, and hence of greater prospect as pioneers in open housing.

The housing can often be located in urban renewal project areas in which local renewal agencies can provide sites at prices reasonably related to the intended rents, thus to protect and reinforce open marketability.

In renewal project areas, concurrent needs for improved community facilities and services, especially better schools, libraries, recreational and commercial operations can be simultaneously met, thus serving further to make a "bargain" value of the housing and to shore-up its attractiveness for open occupancy.

THE PROBLEMS

Nevertheless, as substantial and stimulating as the potential for open occupancy inherent in nonprofit housing for low-to-moderate income households may be, the fact is that such nonprofit housing development is exceedingly complicated on several levels.

These complications are not insurmountable. Indeed the purpose here is to provide approaches for dealing with them. But the first step in that process, of course, is squarely to face them.

These complications may be summarized thusly:

The Section 221(d)(3) developer will, of course, have to deal with the usual development problems facing any developer.

But, in addition, the process will be complicated for the nonprofit sponsor by its lack of specialized knowledge and experience in organizing, planning, conducting, and financing the housing development.

Moreover, the complications with each of the basic steps in development are compounded by the lowered cost objective. To illustrate, the provision of low-to-moderate income housing requires a more convincing assessment of market demand and cheaper land than for other private rental housing. The adjustment of building and zoning requirements, as necessary, the achievement of a good quality of needed community amenities and services, and the countering with neighborhood and other vested opposition may also be more difficult than usual.

Also, the objective of open occupancy itself will still further compound the problems already mentioned, since a complex of ignorance, mythology, uncertainty, and resistance respecting its desirability and feasibility will obtain in most communities.

GUIDELINES

On the other hand, the surmounting of the problems just noted obviously makes the development process for low-to-moderate income housing one which transcends the usual private or routine provision of housing. Especially with first ventures, community intervention, usually joined-in by local government and more often than not including the participation of local university, foundation, or business leadership and fair housing or other community resources, becomes necessary to firm-up acceptance of the open housing objective, locate and motivate competent builders, obtain suitable sites, counter opposition, and clear the way for financing. The likely necessity of this community involvement is not to be feared but utilized. It enables planning and programming simultaneously directed to low-cost and open marketing for the housing.

Organizing the Sponsor

The FHA will require and assure itself that the nonprofit corporation is not controlled or under the direction of persons or firms seeking to derive profit from it. FHA will also make certain that the nonprofit body bears adequate promise of a continuous life throughout the life of the mortgage.

But the nonprofit sponsor of open housing will face special complications. It must therefore be prepared to take all the actions necessary to avoid frustrations by those who may oppose its central objective as well as to strengthen its capacity for achieving it. This precaution must first be applied as the sponsor is organized:

Often the established church, union, or other organization, which fosters the nonprofit corporation, may be primarily interested in housing to meet the needs of its members—and this provides useful motivation for organization. However, commitment to the open occupancy objective must be unequivocally clear-cut, lest the color characteristics of the parent group result in confused and limited outlook.

The need for closing the gap in technical knowledge on the part of the nonprofit sponsor is obvious. This gap-closing should have its beginning in assembling a board of directors which includes building, mortgage financing, architectural, legal and real estate expertise. While most of such skills will be employed to carry out the project, they are needed internally and early to enable sound planning and advice on decisions, including employment of such skills. External reservations and doubts respecting open occupancy further dictate the special importance of sound internal direction for such ventures.

In addition, respected business leaders and strong civic leaders, particularly including those with assured access to policy and staff members responsible for local zoning and building matters, should be included on the board, or at least associated with the nonprofit sponsor in some effective auxiliary capacity (e.g., members of an advisory or technical advisory committee). The business leaders can offer sound business-like judgments but also strengthen the image of the nonprofit corporation. The particular type of civic leader can help expedite and assure achievement of local public approvals without which construction cannot go forward.

It is possible that an interested church or fraternal order within the Negro or other minority group community may be so small or impecunious, or have existed for such a limited period, that the organization may not alone appear to have the capacity and stability for sponsoring long-term operation of the housing. Such limitations can possibly be overcome by amalgamating a local church, for example, with other local bodies, joining the forces of parent or overall bodies with the interested local unit, or by including participation of a functionary of the city or other acceptable public body.

Churches, and possibly other organizations within the minority group community, will in many instances have very limited knowledge of financing housing development. Availability of 100 percent financing can tempt an initial and vastly oversimplified view of what is entailed on the part of such a sponsor. Or, in the reverse, such financing may appear so unbelievable as to tempt suspicions. FHA Intergroup Relations Officers have learned that church members will quickly inquire as to: the extent of financial responsibility in the event of failure, including any encumbering of its church properties; the amount of money needed to get started; and how to minimize loss of "start-up" money in the event of failure to get started.

*Northport Apartments
Madison, Wisconsin*

Persons familiar with organizing nonprofit subsidiaries of churches caution that adequacy of consensus for the venture is to be carefully ascertained. They stress that some important members may feel that a housing development is beyond the proper province of a church; several units of the local church or a superior church authority may have to approve the sponsorship; important elements in the church may differ with the pastor, etc.

Nonprofit sponsors represent an effective coalescing of various kinds of interests with which organized groups in the fair housing movement might join forces. The following, for example, are actual cases:

- (1) The nonprofit Maremont Foundation of Chicago operates through a wholly-owned nonprofit corporation sponsoring each of its developments.
- (2) Similarly, Philander Smith College in Little Rock created its wholly-owned nonprofit corporation.
- (3) The American Federation of State, County and Municipal Employees formed a series of local nonprofit corporations in various cities.
- (4) A nonprofit sponsor in Greensboro, N.C., is not rooted in an existing church, labor, or other institution. Its board is instead comprised of civic and business leaders, plus a city official to assure continuity for the sponsor.

- (5) Metro Northeast Harlem Housing Association is a neighborhood-based and neighborhood-run sponsor whose board members are drawn from four other established organizations, a settlement house, a Protestant church, a Catholic church, and a foundation.

"Seed" Money

The availability of "100% financing" should not be allowed to leave potential sponsors under the illusion that cash out-of-the-pocket will not be necessary. Initial agency and legal fees, organizational expenses, engineering and architectural drawings, and consultant fees are some of the early costs requiring a supply of cash:

Private nonprofit development funds are a good source for "seed" money, but such agencies are not yet widespread.

Advances from the parent body to the nonprofit sponsor are frequently made.

The nonprofit subsidiary of one church is known to have met its preliminary expenses with an advance from the church, comprised of 50 units of \$500 each loaned to the church for the purpose by its members.

Another church employs a related but novel approach for the purpose. Its minister organizes "10-36-50" Clubs. (Ten dollar contributions over a 36-month period by groups of 50 each.)

In one instance, a nonprofit sponsor of limited assets and unable alone to find a lender of preliminary expense money received the cooperation of the local renewal agency as co-signer. The local bank lent the money at the same rate as that for the mortgage loan, as a civic gesture.

Technical Assistance

Prospective sponsors are certain to need the services of technical resources experienced in the development, construction, and management of projects for low and moderate income families. They will need assistance and guidance in locating and purchasing land; determining the scope of the development; selecting the architect, attorney and other professional experts; assessing the market; and determining and demonstrating economic feasibility to the satisfaction of FHA.

The very first resort to technical guidance to be made by any prospective sponsor is a conference with responsible officials in the local FHA office. The prospective sponsor will be wise to solicit the advice of FHA respecting competent and acceptable consultant, or "packaging", resources. The experience has been that in failing to take this step soon enough the prospective sponsor all too often finds itself tied to a "sharpie" packager, an incompetent, "would-be" packager, or a land speculator or builder with a "lemon" site to unload.

In addition to responsible and experienced consultant firms and builders, there are other resources of which prospective sponsors are not always aware. When the prospective site is located in an urban renewal project area, the local public agency is able to work with FHA in analyzing feasibility, eligibility, and other matters, since it must know whether the housing should be located in the project area. In addition, local public agencies are authorized to use project funds for the preparation of illustrative plans and general specifications for Section 221 (d) (3) developments.

Private development foundations or funds, which may be able and willing to provide much, if not all, of the needed technical assistance exist in some localities and are being established in others. Among the existing such organizations are: the Cleveland Development Foundation; Urban Action Foundation of Oklahoma City, Oklahoma; Purdue-Calumet Development Foundation of East Chicago, Indiana; the Pittsburgh Development Fund of ACTION-Housing, Inc. in Pittsburgh, Pennsylvania; the San Francisco Development Fund; the Philadelphia Housing Development Fund; and the Economic Development Foundation of Oakland, California. In addition the Division of Local Services of Urban America, Inc., as of March 1966, was helping to establish development funds in Hartford, Connecticut; Cambridge, Massachusetts; Baltimore, Maryland; Washington, D.C.; Poughkeepsie and Corning, New York; St. Paul, Minnesota; Omaha, Nebraska; Paterson, New Jersey; Fremont, California; Phoenix, Arizona; and Kansas City, Missouri.

Under Low-Income Housing Demonstration Program grants, public or private bodies are providing technical assistance to nonprofit developers as follows: Housing Development Corporation, Washington, D.C.; Interfaith Housing

Corporation, Boston, Massachusetts; Department of Administration of the State of North Carolina at Raleigh; and Commissioner, Office for the Aging, Department of Public Welfare, State of Pennsylvania at Harrisburg.

Not to be overlooked also as sources of technical advice and assistance are sponsors of existing 221(d) (3) developments in the area and executives and staff members of local housing authorities.

Facilitative Development Factors

The favorable mortgage financing is an assured first step towards the open occupancy objective but only that. Resting on the oars thus placed in hand invites failure. Careful planning in support of and extending the advantage is necessary. A nonprofit sponsor genuinely committed not merely to nondiscrimination but to open occupancy of measurable and sustainable quality has homework to do.

There are four factors which can be corraled in orderly fashion to facilitate Section 221(d) (3) housing for open occupancy:

Market study which not only establishes the adequacy of white and nonwhite demand for the housing but identifies special and related circumstances and procedures for enhancing open occupancy feasibility.

Site which is suitable for the price level of the housing but is accompanied by a maximum of locational advantages.

Rentals which leave the housing in a competitively advantaged position, offering the most housing for the dollar available in the market area.

Facilities and services, both public and private, which are ample and of the best quality that can possibly be achieved.

It is the optimum practicable achievement of these objectives which can result in housing that will attract a desirable balance of white and nonwhite demand and make for racially inclusive occupancy on a stable basis.¹

¹ Skilled and resourceful *management* is obviously a fifth requisite factor. However, the subject is large and important enough to warrant separate treatment, in a publication which is expected to follow this one.

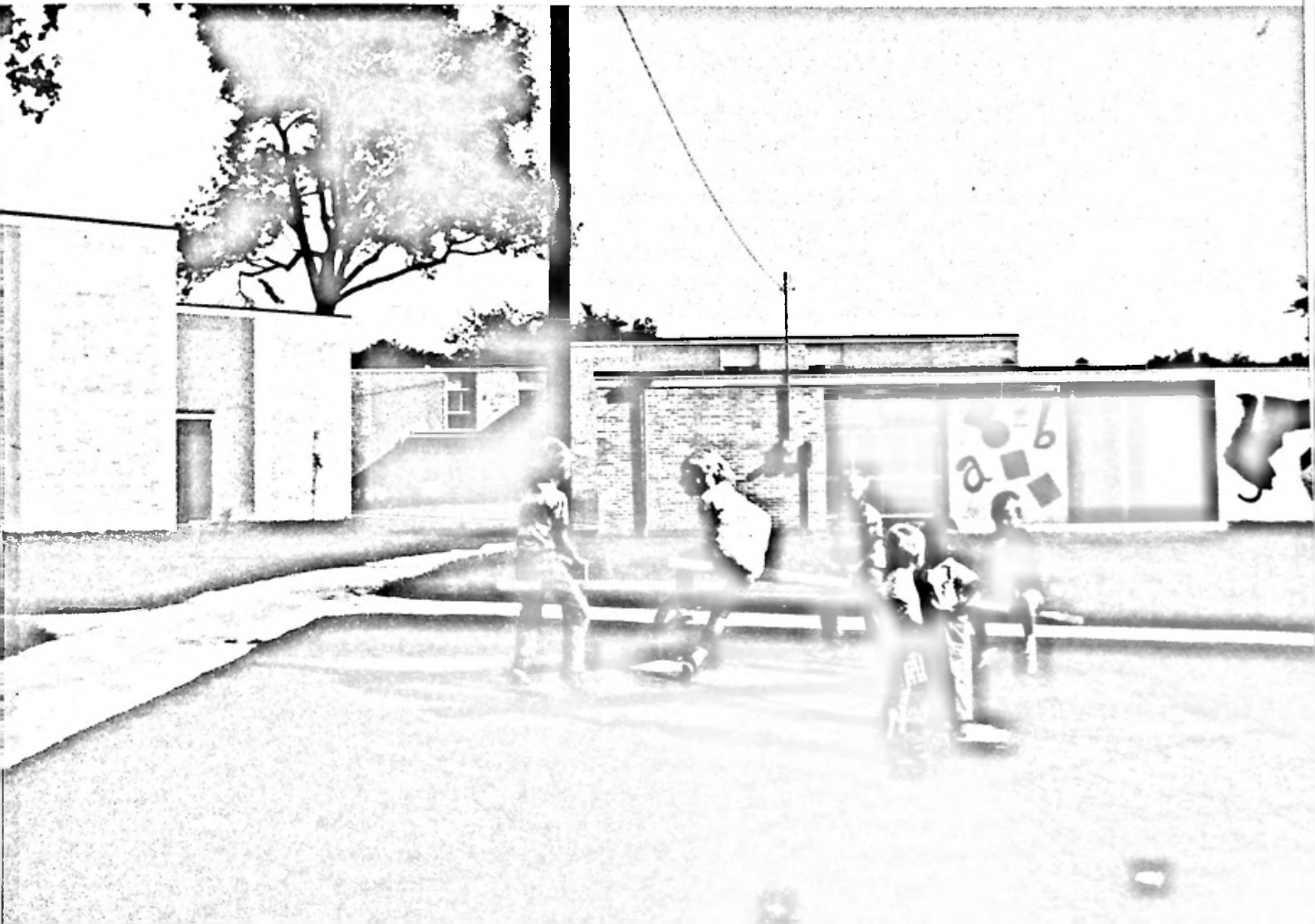
Market study is a complex but generally familiar process. Market study centered on demand for open occupancy housing is not so familiar and the precautions which follow are therefore in order:

It is not advisable to rely altogether upon the market assessment which FHA, as the mortgage insurer, will make.

Nor should the sheer magnitude of nonwhite unmet needs at income levels above eligibility for public housing be counted upon, lest free play be given to faulty assumptions about housing requirements and preferences among nonwhites.

The analysis should not be confined to nonwhites, thus to leave white occupancy in the hands of "hope".

University Gardens, Minneapolis, Minnesota



The study should give special attention to avenues of common association among whites and nonwhites, such as church membership, place of employment, and union membership.

Special attention should be given to families within the nonwhite segment of demand who are younger and of more recent residence in the community, since they offer more potential for pioneering occupancy.

General canvassing among both whites and nonwhites for their views respecting open housing is not advisable; rather the prospective housing *quality* and *value* for the dollar spent should be emphasized among both.

Any constructive experiences with nonwhite dispersion in the existing supply and open patterns in new private or public housing should be recounted and interpreted.

Relatedly, any untoward experiences of the kind, as well as with "for-Negro" developments, private or public, must also be noted and carefully interpreted.

The resources for the market study should be carefully selected and assembled. Among sources of personnel which can and may prove willing to help are: economists and other specialists with the local planning, housing, and urban renewal agencies; sociologists, economists, etc. at local colleges and universities; staff members of the chamber of commerce; and persons with training in the social sciences who are active in the fair housing movement, the junior chamber of commerce, etc.; and local Urban League staff. Advice from the FHA Intergroup Relations Officer should also be sought.

Site location is perhaps the key factor upon which the success of housing for open occupancy will turn. If the site is fortunate enough, it can almost alone assure success. If it is poorly enough located, the best possible analysis of market, control of costs and achievement of low rentals, provision of supportive facilities and services, and quality of management may not suffice to overcome its handicaps.

The Director of the Division of Local Services for Urban America emphasizes that: "Location of the project will affect its initial acceptance on the market and the entire course of its future. A poor location or a badly chosen site can alter the application and validity of the best market analysis. . . . You cannot

force anyone, even the poorest of men, to live in a place he simply does not want to live in."

Bluntly and quite simply put, if the location is not good enough, whites, with options elsewhere, will not find its housing acceptable. If the location is bad enough, neither will nonwhites, who are looking for the good housing that is expectedly the context for open color patterns.

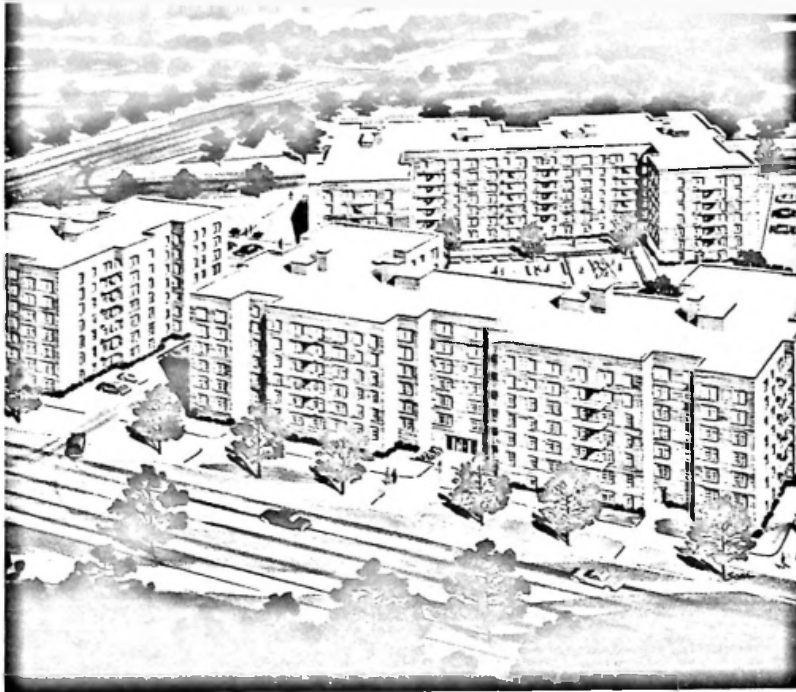
A site should not be sought defensively, in terms alone of a choice where community opposition is *expected* to be minimal. This approach confines the search to too few alternatives, with those few being of poorer quality.

Sites isolated by distance from existing white areas may prove more readily attainable, perhaps at more reasonable prices, and with less likelihood of adamant white opposition. But care must be exercised that a good quality of the necessary supporting facilities, particularly schools, transportation, and shopping is available.

Sites which are isolated from established white areas by natural or artificial barriers (such as water, elevated or suppressed railroads, super-highways, public parks or public buildings, commercial or industrial construction) have been found by analysts sometimes to escape white opposition. But again the site must be no less desirable in terms of freedom from nuisances, access to community amenities and safety and ease of access across or around the barrier. Such a site should not be so small nor otherwise so set-off as to leave it to appear "pocketed-in".

Mixed-area sites are tempting. They appear to be along the line of least white resistance and to result in housing both certain to attract Negroes but also whites, as has occasionally happened. But again care must be exercised that the area is not in color transition because it is rapidly deteriorating or otherwise undesirable, and that it is not well on its way to a "for Negroes" image, despite the remaining presence of whites.

Sites in areas of heavy Negro occupancy are manifestly unsuitable for open occupancy housing (in the absence of location within urban renewal areas which are well-planned



Fox Hill Apartments, Staten Island, New York City, New York

and programmed, are moving ahead expeditiously, and clearly promise upgraded environs with quality amenities, including additional open housing development).

Several types of site options more readily extendable to sponsors of open housing have been experienced or are conceivable, such as:

Sites in the ownership of speculators or builders. The sponsor must take care that these sites are not "lemons", burdened by problems of zoning, topography, soil characteristics, irremovable nearby nuisances, or other difficulties, inordinately difficult or costly to counter.

Sites may be in the ownership of the nonprofit sponsor, such as a lot adjoining a church, or other institutionally owned property. Nevertheless, the suitability of the site for low-to-moderate income housing for open occupancy has to be appraised. It is good to have the site in hand, but the qualitative considerations must be kept in hand also. If suitability of site is lacking, the church or other such potential sponsor, might be able to arrange a useful exchange of land.

Sites in urban renewal project areas carry especial advantages designed for the benefit of nonprofit sponsors. Such sites can be sold to nonprofit sponsors at a price that will facilitate achievement of the objective of low-to-moderate income rentals. Moreover, staff of the local renewal agency can assist the potential sponsor with analyses, planning, cost

estimation, and other preliminaries necessary to determination of economic feasibility of the housing for FHA-insured financing.

Sites which are anchored to university and hospital campuses in racially-open use obviously merit careful exploration.

In some metropolitan areas tracts of land suitable for residential development may occasionally be found in Negro or other ownership more readily amenable to cooperation with sponsors of open housing. This is not to suggest that the nonprofit sponsor will not have to seek out and take the initiative with such owners, as well as pay a fair price for the site.

Careful exploration should be made for cleared or clearable sites in public ownership, Federal, state, or local. Federally owned sites, for example, may be potentially available as a result of closing of defense installations or relocation of an agency. City or other local public ownership of sites may result from tax foreclosures, relocation of city schools or other facilities, abandonment of outmoded installations, gifts, etc. The nonprofit sponsor should, of course, view itself as entitled to a responsive attitude from such public owners.

Site acquisition through the intercession or services of a nonprofit development foundation or fund conceivably represents a resource for assistance with site acquisition of effective usefulness, as indicated in Appendix I.

A nonprofit sponsor should not hesitate to use an agent for site acquisition, without disclosure of itself as principal, as quite often is done generally in real estate practice, provided that such an indirect procedure is not considered likely to generate or accelerate insurmountable opposition to carry through of the development.

Rentals for Section 221 (d) (3) dwellings which leave them in a competitively advantaged position as among rental offerings throughout the area are of crucial importance to open occupancy success. This is because appreciable, if not predominant, white residence appears necessary to achieve and stabilize open occupancy. Since white families have choices elsewhere in "white only" housing, attraction of a sufficiency of such occupancy is

more likely if the housing offers them a greater value for the dollar than those alternatives.

The factors to be dealt with and the processes involved in achieving the optimum lowering of rents are complex. They cannot possibly be well directed to that end except by the technical personnel used by the nonprofit sponsor. However, several basic approaches to lowering rents and related precautions can be suggested here:

Consistency requires that the basic start towards lowering of rents provided by the liberal financing be accompanied by economizing with other cost elements, but without undue sacrifice of quality.

Land acquired in renewal project areas at prices related to the moderate rents target, as permitted under Section 107(b) of the Housing Act of 1949, is an obvious aid in this category.

Sites sought from other public owners, Federal, state, or local, may well be acquirable subject to similar policy.

Design and materials reductive of maintenance costs merit careful attention, though here again housing quality and market appeal are not to be sacrificed.

Where advanced construction systems productive of lowered per dwelling costs have been tested through actual practice in the area, produce dwellings acceptable in the market, occasion no inordinate building code or union problems, and are accessible competitively, they should be considered.

Real estate taxes are an appreciable element of monthly operating costs. Where nonprofit corporations are entitled to tax concessions they should be employed. Special tax concessions by way of assessment may be possible in some instances.

Where donations, waivers, or reductions of fees for professional assistance involve no impairment in the quality of services provided, they can be helpful also.

In achieving access for the tenants to an ample and superior quality of community amenities, maximum effort to assure their provision nearby but as installations for which other private and public bodies are responsible is suggested. In

this way development cost to the housing sponsor can be reduced, and hence rentals lowered accordingly (with the result also of residency of the development being better integrated into the larger community).

Facilities and services in ample amount and which are of good, even superior, quality are an integral element of nonprofit housing for open occupancy. Livability and attractiveness of housing are, of course, the results not only of dwelling quality, but of neighborhood facilities and services. It is obvious, moreover, that the lower the income levels the dwellings are designed to serve, the more these supportive attributes will have to be provided on a neighborhood or community basis.

When low-to-moderate income housing is planned for open occupancy, that objective renders the necessity of quality facilities and services even more urgent. Again, white demand for housing at its price level may have choices in "white-only" areas where the amenities are not only of good quality, but are special features, included for "market pull" purposes. The nonwhite demand, coming as it will from the racial ghettos that are so lacking in essential facilities such as schools and commercial facilities of standard quality, will inevitably look forward to such facilities being a part of the improved housing package at long last made available and within its financial reach.

Basic community facilities (schools, public transportation, etc.) and services should be available and improved upon if necessary. The nonprofit nature of the sponsor and the community relations it thereby enjoys should enable it to close gaps in and catalyze upgrading the quality of the neighborhood amenities.

Where the site is in an urban renewal project area, useful and reliable information will be available on neighborhood amenities. This information should be assessed early so that any helpful modifications in the planning can be sought.

Where the site is in an established, older setting, but outside an urban renewal project area, the capacity and quality of existing facilities will generally need careful examination. In the critical area of schools, additional plant, stronger faculties, and improved curricula may be necessary. But recreation, library, traffic pattern and even police adequacy are areas also not to be overlooked.

In connection with sites outside of as well as inside urban

renewal areas, such Federal aids as grants for neighborhood facilities, open space uses, and urban beautification may be helpful and possible to obtain.

Timing is of critical importance. Efforts should be made to have the supportive facilities and services available for use when the housing is ready for occupancy.

Bowdoin Apartments, Malden, Massachusetts



APPENDIX I

Selected Publications

on

Section 221(d)(3) Below-Market Interest Rate Housing

- (1) *FHA Mortgage Insurance—For Rental and Cooperative Housing for Families of Low and Moderate Income*, FHA No. 221, a Consumer Bulletin

A folder outlining the requirements respecting eligible mortgagors, mortgage limitations, working capital, the Workable Program, FHA controls during the life of the mortgage, and equal opportunity. Available from HUD at no cost.

- (2) *Utilizing FHA Section 221(d)(3)*, Urban Renewal Service, Bulletin No. 4

Reports several selected examples of 221(d)(3) developments of differing types and constituency of sponsor, approaches to preliminary expense money, etc., and emphasizes local renewal agency assistance available when developments are sited in renewal project areas. Available for \$.20 from Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

- (3) *Questions and Answers Pertaining to Non-Profit Sponsors Participation in the Section 221(d)(3) Housing Program*, April 1966

Asks and briefly answers in non-technical language a series of questions of interest to non-profit organizations planning to sponsor housing for low and moderate income families, under Section 221(d)(3) of the National Housing Act. Available from Urban America, Inc., Division of Local Development Service, 2 West 46th Street, New York, New York 10036/212-757-6060.

- (4) *Nonprofit Housing Under Section 221(d)(3) of The National Housing Act – Illustrative Case*

Provides a summary of the major requirements, forms, and steps involved in nonprofit sponsor-development of a 221(d)(3) project, covering: pre-application conferences, selection of mortgagee and architect, pre-application analysis, application for mortgage insurance, initial and final processing, initial and final closing, etc. An invaluable guide available

for \$5 per copy at: Urban America, Inc., 1717 Massachusetts Avenue, N. W., Washington, D. C.

- (5) "221(d)(3) Used to Meet Varied Social and Economic Needs", *Journal of Housing*, July 1962, p. 318

Summarizes and illustrates early housing ventures undertaken through Government-insured financing under Section 221(d)(3) of the National Housing Act, up to July 1962, in several cities, including Cleveland, Milwaukee, Cambridge, Massachusetts, Los Angeles, Minneapolis, Providence, and Tulsa, and in Hawaii.

- (6) "Union-Sponsored Middle-Income Housing: 1927-1965", *Monthly Labor Review* June 1965, by Doris K. Lewis

Summarizes the options open to unions interested in sponsoring non-profit housing under Federal Government assistance programs and describes the advantages which unions themselves gain from sponsorship of non-profit housing.

- (7) *Survey of Housing Financed Under Section 221(d)(3)*, September 1964

Reports, in some detail, on a survey of 30 Section 221(d)(3) developments (16 rental and 14 cooperative) in 9 metropolitan areas. Includes a number of photographs. Available from Community Relations Section, Peoples Gas Light and Coke Company, 122 South Michigan Avenue, Chicago, Illinois 60603.

High Point Apartments, Roxbury, Boston, Massachusetts



APPENDIX II

The Local Development Foundation:

Its Potential for Servicing Nonprofit Developers of Open Housing

General Potential

Local development foundations, or funds, do not yet exist widely throughout the country. But they so clearly promise to become a mechanism of great resourcefulness for stimulating and expediting the provision of housing at the low-to-moderate income level that this appendix has been prepared.

In 1964 a special committee of the board of directors of ACTION had a study made of development funds then operating in a number of cities. Seven of them were involved in industrial development, six in commercial development, and only four in residential development activity. The study report, however, stressed that:

"A particularly unique function of the nonprofit Fund is its ability to act as a sponsor or local agency to permit fullest benefits under certain Federal loan programs. Two major examples of the aid that such a Fund can provide are indicated in the provisions for low-cost housing under Section 221(d) (3) or in housing for the elderly under Section 231 of the National Housing Act, whereby eligible nonprofit sponsors may obtain higher mortgage commitments (up to 100 percent of estimated replacement cost) than profit or limited dividend corporations. Furthermore such Funds can provide other local nonprofit groups (such as churches and fraternal groups) with technical guidance in formulating, organizing, and operating such programs."¹

Thus when soon afterwards the Ford Foundation granted funds to ACTION "to provide technical advice to nonprofit groups—churches and labor unions, for example—that wish to sponsor housing for the elderly, the involuntarily displaced, and those of low or moderate income," a companion purpose was indicated:

"The program is also aimed at stimulating the formation of local development funds—pools of private capital contributed

¹ *A Critical Analysis of Selected Private Development Funds*, p. 25. Available from ACTION Inc., 2 West 46th Street, New York, N.Y. 10036 at \$2.50 per copy.

to nonprofit corporations for the purpose of assuming risks beyond the capability or willingness of the ordinary capital market."²

The two-fold program is now under conduct by the Local Development Services Division of Urban America, Inc.—The ACTION Council for Better Cities.

Joseph B. McGrath, Director of Development Services, in an address made in November of 1965³ succinctly set forth the advantages to nonprofit housing which inhere in a nonprofit fund in this language:

"The second part of the grant program concerns development funds. As I speak of them these involve the use and investment of revolving funds, privately subscribed. Their function is to provide initial impetus and supplemental aid not otherwise available for the physical renewal or development of urban environment. They are a vehicle to bring about projects in housing which otherwise would never take place.

"Here are some of the purposes and goals which a development fund for housing can accomplish:

- A fund can provide "seed" money—or intermediate equity capital for developers and builders.
- It can purchase and hold land for future development and thus reduce speculative costs.
- It can provide technical assistance to and community liaison between developers, business leaders, and government officials.
- A fund can aid the consumer through restricting total financing and planning costs and elimination of speculative or excessive charges.
- It can provide or greatly influence architectural and planning controls for the benefit of both consumer and community, and it can do so free of the usual confines of political or other controls.
- In turn, a fund can make it possible for private enterprise to do a more effective job, in partnership with but not in total reliance on government at any level."

² Excerpted from the Public Affairs section of the Annual Report of the Ford Foundation for 1964 and appearing as preface of *First Annual Report*, Division of Local Development Services, Urban American, Inc.—The ACTION Council for Better Cities, 2 West 46th Street, New York, N.Y. 10036.

³ Before the Housing Conference of the Washington, D.C. Urban League, November 4, 1965.

In May of 1965, Louis Winnick, Associate Director of the Ford Foundation's Public Affairs Program, had, among other emphases respecting the role of the foundation in housing and community planning, observed that:

"Experience has shown that liberal Federal mortgage aids cannot be used to full effectiveness, or at all, unless there is a nonprofit intermediary willing to advance the seed capital needed to take title or option to a site, pay for the requisite legal and architectural work, and process the substantial paperwork required to obtain FHA and municipal approvals. The leverage of this seed capital can be enormous. While the multipliers will vary from case to case, a typical project with 500 dwelling units costing \$7,500,000 could be handled by advancing less than \$100,000 of seed capital, most or all of which would be recovered from the government-sponsored mortgage. Of course, such seed capital is also being offered by commercial builders who seek out church and community groups and fraternal organizations which are eligible for and interested in building under various government programs. Most of these commercial builders are legitimate businessmen seeking merely to earn the allowable builders' fees for a no-risk operation. Unfortunately, some builders seek profits in less approved ways, through inflation of building costs and land cost. Because the builder's profit is proportionate to the volume of housing built, there is an incentive to overestimate the amount of housing needed for a given project. Some builders, therefore, will recommend more housing units than can be rented or will add cost-increasing extras or will build on a site which is best for them rather than for the tenants.

"A foundation-supported nonprofit corporation could eliminate these pitfalls. A network of such corporations throughout urban America could see to it that the large amounts of government mortgage funds are translated into the largest amount of housing resources without waste and tailored to the particular needs of particular groups."

The report on the first year's activity of Urban America's Division of Local Services makes clear that the Division is winning a response from local commercial, industrial and civic leadership to its assistance with the establishment of private funds for housing development purposes. It reported having aided interested groups in Hartford, Connecticut; Cambridge, Massachusetts; Baltimore, Maryland; Washington, D.C.; Poughkeepsie, New York; St. Paul, Minnesota; Omaha, Nebraska; Paterson, New Jersey; Corning, New York; Fremont, California; Phoenix, Arizona; and Kansas City, Missouri. Awaiting services were interested groups

in New Orleans, Louisiana; Yonkers, New York; Huntsville, Alabama; Birmingham, Alabama; Rochester, New York; Norfolk, Virginia; and Lorain, Ohio.

Open Occupancy Potential

No one of the small number of established development funds is known to use its authority, as a matter of policy, for the provision of open occupancy housing. Nor has it been learned that any of the funds now being set up, in the communities indicated above, intends to emphasize open occupancy patterns for the housing to be assisted.

However, little imagination is required to envisage the potential for open housing inhering in a development fund, serving as a central mechanism—a sort of one stop, service station—providing sites, technical guidance, and packaging assistance to nonprofit developers of open housing. The potential would be vastly enhanced if the foundation were to be set up with metropolitan area jurisdiction, and with a board of metropolitan area-wide constituency.

Such an operation might not only sooner and with more certainty make reality of a massive push for low-to-moderate income additions to the housing supply in a particular metropolitan area than otherwise is possible, it could also concurrently provide a number of sites in idealized and deployed locations. This would deprive vested or antagonistic interest in each of such locations of the argument that their area is being “picked out” or “picked on” to “take-up the Negroes.” The prestigious positions of the members of the development fund would equip them effectively to treat with color-based political or other opposition, even at the very highest local levels. For the same reasons also the housing industry and local public officials would be more inclined to “go along with” rather than “scare away” from open housing ventures, as is often the case.

It is believed that in many metropolitan areas those business, industrial, and civic leaders who would ideally comprise a development fund are as keenly aware of the urgency of a massive strike against the fate-making, larger consequences of the prevailing schism of color and class between the central city and the suburbs as mayors of many larger cities are becoming. These consequences include the inevitable spread of slums; increased resistance to Negro residential expansion; residues of lower income, more prejudiced whites in the cities; increased Negro-white tensions; increasingly segregated community facilities, especially the public schools, and despite civil rights laws and pronouncements; the decline of business, the deterioration of property values and the

erosion of the tax base in the central cities; racialistic Negro political power in these cities; color conflict burdening urgently needed suburban-urban cooperation; and the retaliatory gerrymandering of Negroes.

It is difficult to believe that, once the leadership of such a fund examined local conditions of the kind, it would not endeavor to assure that the housing it catalyzes would market without regard to color. Where local housing or other development foundations exist, potential developers of low-to-moderate income housing for open occupancy should not hesitate to seek their assistance.

Liberty Square Homes, New Haven, Connecticut



RELATED PROGRAMS

The Department of Housing and Urban Development (HUD) administers programs useful to nonprofit sponsors in providing housing to meet low- to moderate-income needs, in addition to the Section 221(d)(3) *below-market interest* rate program which is the subject of this publication. The other such programs include:

Section 221(d)(3) insured-loans at the *market-rate* of interest.

Rent supplements to owners of housing financed under such insured-loans at the market-rate of interest, providing payments of the difference between one-fourth of the income of the eligible family and the economic rent.

Direct loans at below-market interest rates for housing to serve elderly households of low- to moderate-income.

HUD-administered programs and program aids of usefulness in providing nonprofit sponsored Section 221(d)(3) housing and particularly supportive of the open occupancy objective, include:

Grants of two-thirds of the costs of developing neighborhood facilities, to serve as community, youth, employment training or health centers, singly or in multi-purpose fashion.

Authority for sale of land and other real property in urban renewal project areas at prices that will facilitate the provision of housing for occupancy by families of low- to moderate-income.

Grants to finance up to half of the cost of basic water and sewer facilities in growing communities.

For additional information concerning these programs, communicate with the appropriate Regional Office shown on page 3 of cover.

REGIONAL OFFICES OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

REGION I: 346 BROADWAY, NEW YORK, NEW YORK
10013 (CONNECTICUT, MAINE, MASSACHUSETTS, NEW
HAMPSHIRE, NEW YORK, RHODE ISLAND, VERMONT)

REGION II: 1004 WIDENER BUILDING, CHESTNUT AND
JUNIPER STREETS, PHILADELPHIA, PENNSYLVANIA
19107 (DELAWARE, DISTRICT OF COLUMBIA,
MARYLAND, NEW JERSEY, PENNSYLVANIA, VIRGINIA,
WEST VIRGINIA)

REGION III: 645 PEACHTREE-SEVENTH BUILDING,
ATLANTA, GEORGIA 30323 (ALABAMA, FLORIDA,
GEORGIA, KENTUCKY, MISSISSIPPI, NORTH
CAROLINA, SOUTH CAROLINA, TENNESSEE)

REGION IV: ROOM 1500, 360 NORTH MICHIGAN
AVENUE, CHICAGO, ILLINOIS 60601 (ILLINOIS, INDIANA,

IOWA, MICHIGAN, MINNESOTA, NEBRASKA, NORTH
DAKOTA, OHIO, SOUTH DAKOTA, WISCONSIN)

REGION V: FEDERAL OFFICE BUILDING, ROOM 13-A-01,
819 TAYLOR STREET, FORT WORTH, TEXAS 76102
(ARKANSAS, COLORADO, KANSAS, LOUISIANA,
MISSOURI, NEW MEXICO, OKLAHOMA, TE.

REGION VI: 450 GOLDEN GATE AVENUE, BOX
36003, SAN FRANCISCO, CALIFORNIA 94102 (ARIZONA,
CALIFORNIA, GUAM, HAWAII, NEVADA, NEW MEXICO,
IDAHO, UTAH, WYOMING) AREA OFFICE, 1000
AVENUE, SEATTLE, WASHINGTON 98101 (ALASKA,
MONTANA, NORTHERN IDAHO,
WASHINGTON)

REGION VII: PONCE DE LEON STREET, P.O. BOX 3869
00919 (PUERTO RICO AND VIRGIN ISLANDS)

TO:

H. Sanghvi

ROOM:

6112

DUE IN LIBRARY ON OR BEFORE

3-21-77

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
LIBRARY
WASHINGTON, D.C. 20410

CHARGE SLIP

☐ YOUR INFORMATION ☐ YOUR REQUEST
☐ HOUSING AND PLANNING REFERENCES
NO. _____, ITEM _____.

See Page _____.

This publication is charged to you. It is not to be
reloaned without notifying the Library.

PLEASE REVERSE SLIP WHEN
RETURNING THIS PUBLICATION

RETURN TO:
HUD Library
Room 8141
Washington, D.C. 20410
Stop 98

[illegible]

