

728.1  
:325  
H68ne  
c.3

# NEW OPPORTUNITIES FOR OPEN OCCUPANCY ...Through Nonprofit Sponsorship

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



*"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."*

*Lyndon B. Johnson*

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

New Opportunities for Open Occupancy  
.....Through Nonprofit Sponsorship

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

---

For sale by the Superintendent of Documents, U.S. Government Printing Office  
Washington, D.C., 20402 - Price 30 Cents



## FOREWORD

Those who can relate cause and effect can readily link the tragic need for homes for low-income families, especially nonwhite, with the mounting, inescapable problems of the urban ghettos. The poor who are trapped in these ghettos have neither the necessary money nor the capability to promote housing for themselves.

But organizations which traditionally serve the community have the opportunity to help them. Congress has provided legislation to encourage private builders, developers, and community leaders to increase the country's supply of homes and neighborhoods for people of all races.

The degree to which citizens—working through their churches, unions, fraternal organizations, and other nonprofit groups—respond to the opportunities in these programs will be the measure of their success.

This book has been planned by Intergroup Relations Service of the Department of Housing and Urban Development to interest and assist groups of citizens and organizations in sponsoring housing developments for open occupancy. It is a Federal requirement that homes built with assistance from HUD programs *must be available* without regard to race, color, creed, or national origin. Nevertheless, we recognize that a sponsor or developer whose central objective is to provide homes on an open-occupancy basis may have special problems to solve. I believe the suggestions provided here will give guidance in this worthy work.

There are many neighborhoods where families of various races live together in comfort and harmony. Most of them developed apart from the general civil rights movement, and with no disruption of their communities. Some occur from a natural coincidence of convenient locations, attractive homes, competitive rents or purchase prices, access to jobs, and congenial neighbors. Many have been created with open occupancy a major factor in their planning, particularly since the issuance of the 1962 Executive Order on Equal Opportunity in Housing.

The experience of these communities provides us with guidelines that can be helpful to all developers of homes for open occupancy. There are many special opportunities. And there are some pitfalls to be avoided. Through the wise use of Federal programs, private industry's know-how, community leadership, and the experience of others, progress toward the goal of providing an equal housing choice for families of all races can be made.

Robert C. Weaver, Secretary

<i>Contents</i>	<i>Page</i>
Foreword by the Secretary .....	1
The Nonprofit Sponsor .....	4
Benefits of Sponsorship .....	6
HUD Programs for Nonprofit-Sponsored Housing .....	7
The Nonprofit Corporation .....	8
Financing and Renting .....	8
How to Develop a Nonprofit-Sponsored Housing Project for Open Occupancy .....	9
Seeking Competent Advice .....	9
Planning the Project .....	10
Selecting Professional Talent .....	10
Finding Mortgage Money .....	10
"Seed" Money .....	11
Special Considerations for Sponsors .....	11
The Need for Experience .....	12
Community Resistance to Open Occupancy .....	13
Market Study .....	14
Rentals .....	14
Facilities and Services .....	15
Location Factors .....	16
The Open-Occupancy Development as Part of the Total Community .....	18
Appendixes .....	20

*Marksdale Gardens, Section II  
Boston, Massachusetts*



## THE NONPROFIT SPONSOR

Housing the Nation's nonwhite families, especially those with lower incomes, is an economic and social problem that defies a marketplace solution. Private industry wants to help, but it can't usually build or rehabilitate homes cheaply enough to bring them within the financial means of low-income families and still make a profit.

Federal legislation offers several new approaches to building low-cost homes for open occupancy through a partnership of private industry and the Federal Government, aided by community leadership and nonprofit sponsors. Such sponsors may be formed by churches, fraternal organizations, labor unions, foundations, colleges, or any group that functions for the community welfare rather than private profit.

Some typical sponsors now operating successful fair-housing projects with Federal assistance are:

- Tompkins Square Neighbors of New York City, which consists of four churches of various denominations and three church-affiliated groups.
- St. John Baptist Church of Grand Prairie, sponsor of St. John Medallion Apartments, Grand Prairie, Texas.
- The Maritime Association and the Longshoreman's Union, sponsor of St. Francis Square Co-operative Apartments, San Francisco.
- Volunteers of America, sponsor of a rehabilitation project in Los Angeles.
- The Philander Smith College of Little Rock, Ark.
- Cumberland Courts, in Greensboro, N.C., has a board of civic and business leaders, plus a city official to assure continuity. It is not rooted in an existing church or other institution.
- Metro Northeast Harlem Housing Association in New York City is a neighborhood-based sponsor whose board mem-

bers are from four established organizations—a settlement house, a Protestant church, a Catholic church, and a foundation.

- Hope, Inc. (Housing Our People Economically) of Cleveland, Ohio, sponsors an apartment rehabilitation project in the Hough area. The sponsor was formed through the efforts of two churches in the area.

Sponsors serve several vital functions:

- Community leaders who sponsor housing developments for open occupancy can help dispel many of the myths and fears that exist about integrated neighborhoods. Through their organization they have recognized liaison with other

*Marksdale Gardens, Boston, Massachusetts*



area groups, with the municipal government, school administration, and social agencies. Their long-term commitment to the management of the property to be developed is a stabilizing influence in the community.

- A nonprofit sponsor can lower housing costs significantly by acting as the developer. Costs normally incurred as part of the developer's fee can be eliminated, thus making it possible to charge lower rents. Since rents do not have to yield a profit, they can be set correspondingly lower.
- In some cases, the sponsor will be able to save on operating costs by supplying some management services.
- Sponsors of some housing developments can get insured mortgage financing at 3 percent interest—considerably less than the current market rate. This lower interest rate results in as much as a 25 percent lower rent for the finished dwelling.

#### *Benefits of Sponsorship*

By definition, financial profits cannot be expected from management of these projects. However, sponsors derive a great many other benefits in the course of developing housing.

More direct benefits to groups may be the opportunity to enhance their civic image in the community. Through housing activity, clergymen and other civic leaders can demonstrate social leadership. Churches in neighborhoods facing racial transition often can maintain the stability of their areas and prevent the flight of their members to other parts of the city by building attractive homes open to families of all races.

Labor unions, many with long histories of providing low-income housing, recognize opportunities to generate employment in construction and building maintenance. They know that additional housing in the city for low- and middle-income families provides more in-city jobs and stems the flight of middle-income consumers to the suburbs.

Civic and business groups realize that providing economic integration of neighborhoods and achieving open occupancy is the single most effective action they can take to break up slums and halt urban decay.

Homes in open-occupancy developments frequently are the avenue of a family's escape from substandard quarters in a crumbling ghetto. Studies indicate that many of the social problems

of slum families are solved after they move into decent surroundings. For instance, in a demonstration project in Washington, D.C., among 50 families who were placed in private housing by the public housing agency, incomes rose by a substantial amount.

On initial occupancy, average net family income was only \$4,090. Eighteen months later, the average had risen by about \$1,000—nearly 24 percent. Helping disadvantaged families help themselves by providing good homes is one of the greatest contributions a civic-minded organization can make to its community. It is more than an investment in bricks and lumber—it is an investment in human beings.

#### HUD PROGRAMS FOR NONPROFIT SPONSORED HOUSING

HUD offers substantial help to foundations, unions, churches, private nonprofit organizations, associations, and universities to provide housing for low-income families. This help is provided through programs authorized by Section 221 of the National Housing Act.

The key feature of these programs is insurance by the Federal Housing Administration of long-term mortgages so that sponsors can borrow money to build or rehabilitate housing. This mortgage insurance, usually for the total cost of the project, makes it easier to obtain financing for large projects that may be located in areas which private lenders without mortgage insurance might not consider prime investment locations, such as urban renewal areas, older run-down neighborhoods, and code enforcement areas.

Interest charged on these loans under one program is very low—3 percent—so that rents can be reduced well below normal levels. Under another program, sponsors may sell homes to low-income families at very low cost and with a small downpayment.

Organizations which have been established for purposes other than gain or profit for themselves, or persons identified with them, may participate in these programs. They must have a history of reliability and demonstrate the capacity to maintain a long-term responsibility for a major project.

## THE NONPROFIT CORPORATION

The sponsor develops, owns, and operates the housing project through a nonprofit corporation established for that purpose.

This corporation is a legal arm of the sponsor. It is the entity which actually enters into mortgage commitments and construction contracts and is responsible for managing the completed project. Another possibility is for the sponsor to enter a purchase contract with a builder-seller prior to the beginning of construction, leaving the details of construction financing to the builder-seller. The sponsor may want to manage the project directly, or the corporation may hire a management staff or property management firm. The sponsor must maintain a close and active interest in the project management.

## FINANCING AND RENTING

Housing projects may be high-rise apartment buildings, garden-type apartments, duplexes, individual homes, rehabilitated existing houses and buildings, or any suitable combination. They must meet FHA property standards and conform to local housing and zoning requirements.

Financial assistance falls into two categories: mortgage insurance at below-market interest rate (3 percent) and rent supplements.

In addition, HUD will help in determining the market for proposed housing—where it is needed, how much is needed, the income level for which it should be built, and the rents that should be charged. The Department will also give advice on location and planning of the homes, and guidance in development and management.

Under the below market interest rate program, tenants' incomes can't exceed a maximum established by FHA.

The HUD Rent Supplement program, under which a tenant pays 25 percent of his monthly income toward the rent and the Government pays the landlord the difference between the 25 percent and the full market rent, is normally combined with mortgage insurance. Thus a sponsor may rent to low-income families and still be sure the rents will be paid. To qualify for a rent supplement a tenant must have an income at or within the limits set for eligibility for admittance to federally assisted low-rent public housing in the area.

In all nonprofit-sponsored housing, rents must produce enough income to pay all operating expenses, taxes, and mortgage payments, and establish a reserve fund to replace wornout equipment and other items that must be purchased periodically. Rents must be low enough to be afforded by low- and moderate-income families.

Detailed information on all of the programs for nonprofit-sponsored housing may be obtained from the HUD Regional Offices, listed in the back of this book, or by writing to the Department of Housing and Urban Development, Office of Consumer Relations, Washington, D.C. 20410.

### HOW TO DEVELOP A NONPROFIT SPONSORED HOUSING PROJECT FOR OPEN OCCUPANCY

*Northport Apartments  
Madison, Wisconsin*

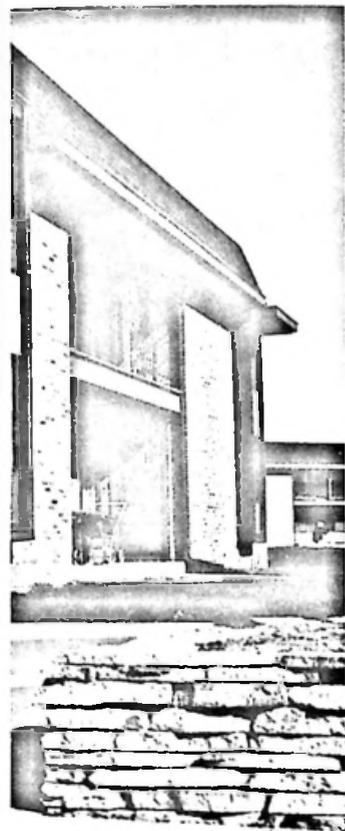
A few individuals, an organization, or a public agency often can start the process leading to development of housing for open occupancy. Typically, the need for such housing may be seen by members of a church or civic organization within the Negro community, or a civil rights organization. These interested people then seek out an organization or group that will sponsor a housing development. Such a procedure was successful in Atlanta, Ga.—the local Urban League became concerned. The minister of the Wheat Street Baptist Church was interested in the problem. Result—the Wheat Street Gardens, a 22-acre tract of homes near downtown Atlanta where new two-bedroom apartments rent for about \$72.50 a month.

*Those familiar with organizing nonprofit subsidiaries of groups caution that consensus for the venture must be carefully assessed within the membership. They stress that some important members may feel that a housing development is beyond the proper province of the organization. Several units of the local organization, or a superior authority, may have to approve the sponsorship; important elements of the membership may differ with the elected officers.*

### SEEKING COMPETENT ADVICE

Once a prospective sponsor is found, the proposal for a project should be discussed with the local HUD insuring office.

A sponsor who intends to use HUD insured financing should



discuss his proposal with the FHA before he spends money on buying land or having plans drawn, and before he signs any contract. Money thus spent would be wasted if FHA found the proposed project not feasible.

## PLANNING THE PROJECT

A local FHA official will explain the various financing methods available under HUD programs. Before beginning formal discussions of a specific project, he will suggest that the sponsor make decisions on:

- The income group and neighborhood from which tenants will be selected.
- Who is to form and join in the sponsorship.
- The type of owner-mortgagor organization to be formed.
- The neighborhood in which the project will be developed.
- The type of housing to be produced—style and construction.
- What sizes and kinds of dwellings are needed.
- How much the land should cost in the chosen location.

## SELECTING PROFESSIONAL TALENT

As soon as the sponsor has answers to these questions, it should choose the professional people to work on the project—an architect, a builder, an attorney, and a representative of the firm that will manage the housing after completion. These should all be people interested in the sponsor's objective of providing low-cost housing for open occupancy. They should be present with the sponsor at the first formal conference with the FHA office. The FHA staff can advise the sponsor and its specialist in their efforts to develop a sound project.

## FINDING MORTGAGE MONEY

At an early stage the sponsor should discuss financing arrangements with a mortgage lender. A formal application for mortgage insurance is made through the proposed lender after the feasibility of the project has been determined. However, it is well for the sponsor to make sure that he has a prospective lender early in the project planning phase.

## "SEED MONEY"

There are certain cash expenses that will have to be paid before mortgage money can be obtained. These may include fees for architects, engineers, attorneys, and consultants, and for land options. The amounts can be substantial. Although the sponsor can be reimbursed for these expenses out of the mortgage at the time of initial closing (before construction starts), he will need cash to pay for the items before that time. *Processing the application can take months.*

The sponsor may be able to raise the money through a fund drive, contributions or loans from the membership, or through a loan or grant from a foundation or institution that has funds for this purpose. The sponsor may borrow from the contractor or other parties furnishing services or materials, but he can only borrow to pay for items that are to be covered by the mortgage. Any borrowed money must be repaid at the time of closing.

Sponsors have been resourceful in raising "seed" money. A church-sponsor met its preliminary expenses with an advance from 50 of the church's members, each of whom loaned \$500.

Another church employs a novel approach: its minister organizes "10-36-50" Clubs—\$10 contributions over a 36-month period by groups of 50 members each.

In one instance a nonprofit sponsor couldn't borrow the preliminary expense money. When the local renewal agency agreed to become a cosigner of a loan, the local bank—as a contribution to the community—loaned the money at the same rate as that charged for the mortgage loan.

## SPECIAL CONSIDERATION FOR SPONSORS

Substantial as the potential for open occupancy inherent in non-profit-sponsored housing may be, the fact is that such developments are complicated at several levels. These complications are not insurmountable, and the purpose here is to provide some techniques for dealing with them.

The developer of homes for open occupancy will obviously have to face all of the problems confronting any developer. The prime objective—lowering costs so that rents can be lower—will affect

each development step. A more stringent assessment of market demand and cheaper land than for other private rental housing is necessary. Building and zoning requirements may have to be adjusted in order to achieve good quality, community amenities and services. This part of the process will be more difficult for the sponsor when he lacks specialized knowledge and experience in organizing, planning, financing, and supervising construction.

### THE NEED FOR EXPERIENCE

Lack of experience in the housing field should not discourage non-profit sponsors from undertaking a project. A sponsor can rely on step-by-step guidance from HUD through every phase of development and building. The sponsor should also seek the services of competent consultants. Such services may be included in the construction contract. The costs of market surveys, planning, and designing may also be included in the total project cost.

The availability of 100 percent financing may lead potential sponsors to a vastly oversimplified view of what is entailed. A housing development is, in fact, a major financial undertaking. Unlike the private developer who usually seeks financial gain, the sponsor has a responsibility that reaches far beyond the housing development. The homes provided deeply affect the lives of the families who will occupy them. In turn, the neighborhood they create will affect the total community, its schools, churches, and government.

While most technical skills will be employed to carry out the project, the group initiating the project may not have the capacity or stability needed for long-term operation of a housing development. Nevertheless, such limitations may be overcome by joining with other groups—local churches, a college, a citizens' organization, or the parent organization of an interested local unit. Often public agencies can be persuaded to participate in the effort.

The sponsor can strengthen his resources by assembling a board of directors or an advisory committee that has expertise in building, mortgage financing, architecture, real estate, and public administration. This should be done in the early planning stages. The advisory group can offer sound counsel on questions in the technical fields, and help gain local acceptance of the project from the outset.

## COMMUNITY RESISTANCE TO OPEN OCCUPANCY

All of the problems may be compounded by public resistance to an open-occupancy development. The sponsor should anticipate resistance, and plan to meet it from the beginning. The degree of resistance can often be reduced by involving as much of the affected community as possible in the early planning. Some opposition can be forestalled by keeping all sectors of the community fully informed about the project's progress.

Involving the community means consulting with the leadership of local government, civic groups, churches, and institutions at the earliest possible time. It means working closely with all community resources to firm up acceptance of the open-occupancy objective. Once obtained, cooperation of the community leadership can help the sponsor locate and motivate competent builders, obtain suitable sites, counter specific opposition as it arises, and clear the way for financing.

After the project plan is approved and the site is purchased, any lingering resentment, doubt or opposition can be counteracted by full public exposure to the progress of the development. Every effort should be made to help the residents of the area understand the need for the housing and the long-term benefits that it can bring. This can be accomplished in a number of ways:

- The support of local newspapers is invaluable. Future neighbors of the project and all of the community can be kept informed about the housing project through information supplied to the press by the sponsor and other supporters of the development.
- The sponsor can provide guest speakers—ministers, businessmen, and civic leaders—to explain the project at meetings of local organizations.
- Public information meetings should be held in the project area as it progresses.
- When the homes are completed, "hospitality tours" should be arranged for community groups and the general public, so they can observe for themselves that the development is an attractive addition to the neighborhood.
- Wherever possible, future neighbors of the development should be invited to participate—a garden club could help design landscaping, the PTA could make arrangements for welcoming new children in school, or retail businessmen could be informed of the potential needs of future tenants who will become new customers.

### *Market Study*

A market study for open occupancy, in addition to the more familiar aspects of such surveys, must give balanced attention to both white and nonwhite segments of the housing market and to intergroup relations. In doing this, it is advisable to go beyond the market assessment normally made to:

- Analyze both the white and nonwhite demand for housing at relevant income levels.
- Determine common avenues of association—churches, schools, labor unions—between whites and nonwhites in the community.
- Evaluate any constructive or untoward past experiences in community intergroup relations.
- Determine the number of families in the area who may be willing to pioneer in open housing.

Resources for a market study should be carefully selected and assembled. Among persons who may be of help are:

- Economists and other specialists with local planning, housing, and urban renewal agencies.
- Sociologists, economists, etc., at local colleges and universities.
- Persons trained in social science and active in fair housing groups.
- The Junior Chamber of Commerce and other local urban groups.

### *Rentals*

A desirable home at low rental will attract appreciable numbers of white families needed to stabilize open occupancy. Rents can be kept low if every opportunity for cost saving is used. In addition to economy achieved by FHA low-interest financing, costs can be reduced through:

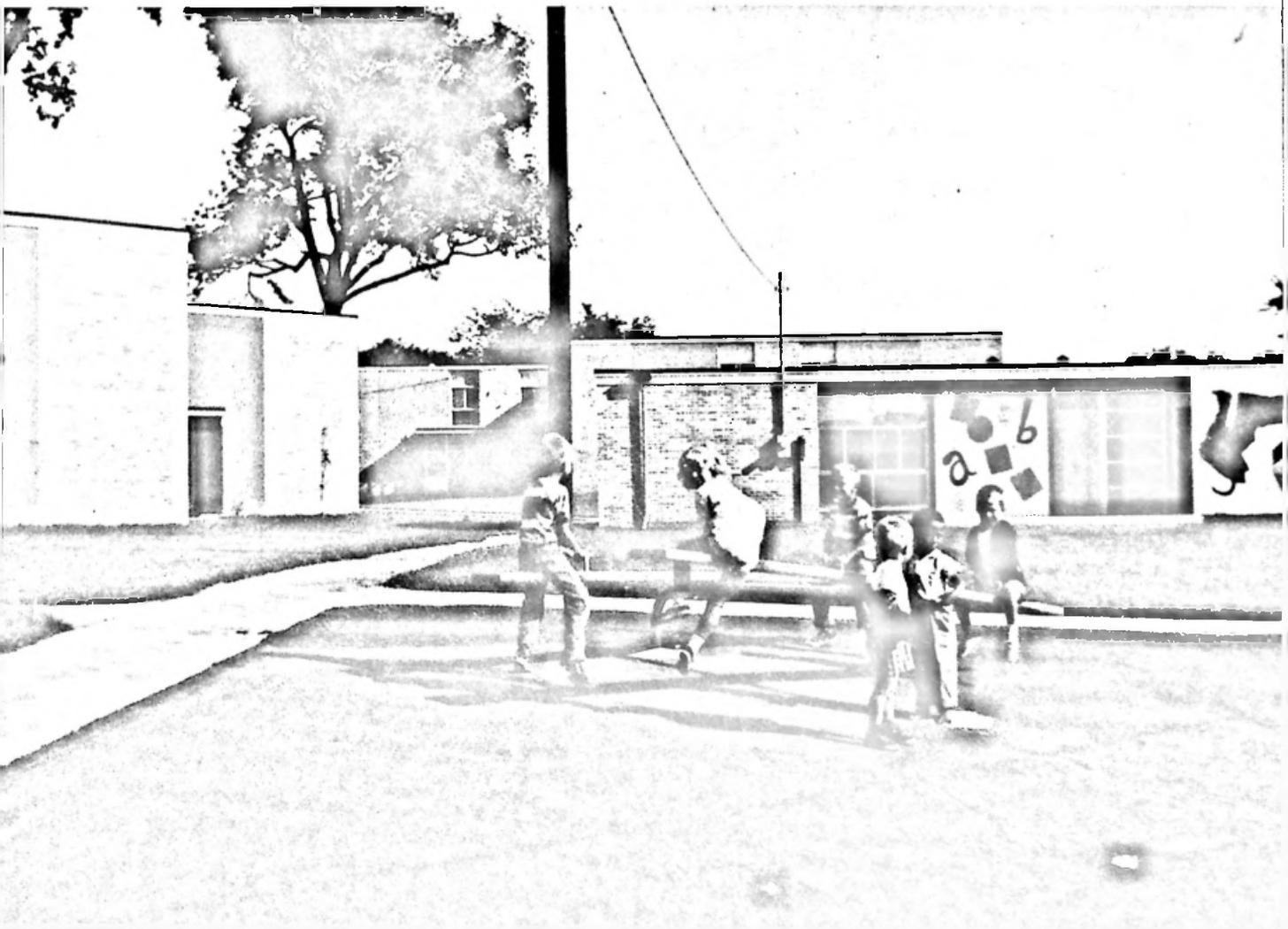
- Sites acquired in renewal areas at prices related to moderate-rent goals.
- Sites acquired at similar reduced rates from public ownership sources.
- Design and materials to reduce maintenance cost without sacrificing quality and appeal.
- Construction methods that lower per-dwelling cost without violation of building codes or union rules, etc.

- Tax concessions and reduced assessments for nonprofit corporations.
- Donations or waivers of professional service fees.

#### *Facilities and Services*

The livability and attractiveness of nonprofit housing for open occupancy depends not only on the quality of the dwelling units but also on facilities and services available. The lower the income level served, the more these supportive services have to be provided. Again, to attract the white families, it is necessary to match amenities provided in the better-served white neighborhoods. Following are some considerations to be taken into account:

#### *University Gardens, Minneapolis, Minnesota*



- The site must have good schools, public transportation, playgrounds, and parks, refuse pickup and street maintenance, and good public security.
- Advantage should be taken of information on facilities and services where the site is in an urban renewal area.
- Where sites are in older established areas, critical attention should be given to the quality of facilities and services.
- Use should be made of Federal grants-in-aid for neighborhood facilities, open space, and urban beautification.
- Facilities and services should be ready for use when the first families move into the homes.

#### *Location Factors*

Location of a project will affect its initial acceptance and its entire future as an open-occupancy venture. A favorable site can almost alone assure success for mixed occupancy. A poorly chosen site may be a handicap which the best possible market analysis, cost controls, low rents, supporting facilities and services, and quality management cannot overcome.

Some critical considerations in selection of sites in the development of a successful open occupancy project are:

- They should not be sought defensively on the basis of minimum community opposition to open occupancy.
- If natural or artificial barriers isolate them from white areas, there must be easy access across or around the barriers.
- Mixed area sites are especially suitable for new housing, but they should not be in a neighborhood in rapid transition or in danger of deterioration.
- Areas of heavy Negro occupancy are not suitable unless in urban renewal areas where special possibilities exist for open housing.

Several types of site options may be more readily extended to sponsors of open housing. Among these are:

- Sites owned by the nonprofit sponsor, such as a lot adjoining a church or other institution.
- Urban renewal areas which offer low-cost land for low-to moderate-income rental possibilities and technical assistance from renewal staff.
- Sites adjacent to universities and hospital facilities.

- Property owned by Negroes or others sympathetic to open housing.
- Publicly owned property—Federal, State, or local.
- Sites acquired through the intercession or services of a nonprofit development foundation or fund.
- Sites acquired through an agent without disclosure of principal—provided the end result is not insurmountable opposition.

*Bowdoin Apartments, Malden, Massachusetts*



## THE OPEN OCCUPANCY DEVELOPMENT AS PART OF THE TOTAL COMMUNITY

A neighborhood of homes developed for open occupancy by a socially motivated sponsor very often becomes a showplace for interracial living. This is as it should be. Residents of the entire area will view it as a proving ground for the concept of equal housing opportunity, unfortunately still untried in many American communities.

For this reason the sponsor's responsibility for management of the property has implications that go far beyond the usual problems of sound financial and physical management.

*Bluntly and quite simply, if the development is not attractive enough, white families will not choose to live there and the objective of open occupancy will be lost.*

If the location, design, cost, playgrounds, parks, transportation, and schools are *at least as good* as those available in all-white areas, the sponsor can expect to attract both white and non-white tenants. Whether the development continues as a stable interracial community will depend very much on how it is managed.

The property must be maintained so that it is an asset to the community and a place where its residents will be proud to live.

Paint must be fresh, windows clean, landscaped areas well tended, children's play areas clean and attractive, and parking areas tidy.

Tenant families, like most other Americans, are occupied primarily with earning a living, maintaining a home, caring for children, and participating in the life of the community. Like all families, they require privacy and a minimum of interference from outside sources. They have their own social relationships.

Some of them are keenly aware that they are living parts of a social experiment, and are eager to cooperate in endeavors to make it a success. The management must encourage them. But most of the tenants look upon their homes simply as dwelling space received in exchange for rent. The management should respect this attitude also.

It is of vital importance that the residents of the project become part of the surrounding community. The project management and members of the sponsoring group must make themselves available, especially as the new tenants move in, when people living near the development may hesitate to accept them.

Every effort must be made to avoid any socially isolating factors from the beginning. For instance, children in the development must be encouraged and helped to join Boy Scout and Girl Scout troops that are based outside the project, rather than forming troops within the project area only. Parents must be encouraged to take an active role in the P.T.A. and other community clubs and activities.

In most cases, these activities occur naturally. Where they do not, the management and members of the sponsoring group can lead the way.



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

## 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*, HUD IP-16, 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) *Questions and Answers Pertaining to Non-Profit Sponsors' Participation in the Section 221(d)(3) Housing Program*, April 1966

Asks and briefly answers in nontechnical language a series of questions of interest to nonprofit 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, 1717 Massachusetts Avenue, N.W., Washington, D.C. 20036.

- (3) *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: preapplication conferences, selection of mortgagee and architect, preapplication 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. 20036.

- (4) "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, Mass., Los Angeles, Minneapolis, Providence, and Tulsa, Okla., and in Hawaii.

- (5) "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 nonprofit housing under Federal Government assistance programs and describes the advantages which unions themselves gain from sponsorship of nonprofit housing.
- (6) *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 nine metropolitan areas. Includes a number of photographs. Available from Community Relations Section, Peoples Gas Light and Coke Company, 122 South Michigan Avenue, Chicago, Ill. 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 because they promise to become a great resource for stimulating and expediting the provision of housing at the low- to moderate-income level, 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."<sup>1</sup>

When 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

---

<sup>1</sup> *A Critical Analysis of Selected Private Development Funds*, p. 25. Available from Urban America, Inc., at \$2.50 per copy.

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

The twofold program is now under the Local Development Services Division of Urban America, Inc., 1717 Massachusetts Avenue, N.W., Washington, D.C. 20036.

Joseph B. McGrath, former director of Development Services, in an address made in November of 1965,<sup>3</sup> set forth the advantages a nonprofit fund offers a nonprofit sponsor of housing:

"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."

In its first year's activity report, Urban America's Division of Local Services makes clear that the Division is winning a response from local commercial, industrial, and civic leadership.

It reported aid to 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 groups in New Orleans, Louisiana; Yonkers, New York; Huntsville, Alabama; Birmingham, Alabama; Rochester, New York; Norfolk, Virginia; and Lorain, Ohio.

Little imagination is required to see the potential for open housing inherent in a development fund, serving as 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 areawide constituency.

---

<sup>2</sup> 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 America, Inc.

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

Such an operation might make a more massive push for low- to moderate-income additions to the housing supply in a particular metropolitan area than otherwise is possible.

It is believed that in many metropolitan areas those business, industrial, and civic leaders who would ideally comprise a development fund are keenly aware of the tragic consequences of the prevailing schism of color and class between the central city and the suburbs. These consequences include the inevitable spread of slums; increased resistance to Negro residential expansion; increased Negro-white tensions; and increasingly segregated community facilities, especially the public schools.

Where local housing or other development foundations exist, potential developers of low- to moderate-income housing for open occupancy can benefit from their assistance.

*Liberty Square Homes, New Haven, Connecticut*



## RELATED PROGRAMS

The Department of Housing and Urban Development 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 main subject of this publication. The other such programs include:

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

Rent supplements to owners of housing financed under such insured loans at market-rate interest, providing payments equal to 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 multipurpose 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 HUD Regional Office.

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: 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, Texas)

Region VI: 450 Golden Gate Avenue, P.O. Box 36003, San Francisco, California 94102 (Arizona, California, Guam, Hawaii, Nevada, Southern Idaho, Utah, Wyoming) Area Office: 909 First Avenue, Seattle, Washington 98104 (Alaska, Montana, Northern Idaho, Oregon, Washington)

Region VII: Ponce De Leon Avenue and Bolivia Street, P.O. Box 3869, GPO, San Juan, Puerto Rico 00936 (Puerto Rico and The Virgin Islands)

728.1  
325  
H6802  
C.3

728.1 :325 H68ne c.3

U.S. Dept. of Housing and Urban  
Development

New opportunities for open  
occupancy... through nonprofit  
sponsorship.

DATE	ISSUED TO
------	-----------

**JANUARY 1968 HUD SR/PG-5**