Housing Finance in the United States

OFFICE OF INTERNATIONAL HOUSING

HOUSING AND HOME FINANCE AGENCY

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F O R E W O R D

How can one pay for a house? This is a universal question. This is a question which seems uppermost in the minds of visitors to the United States. When citizens of the United States of America go abroad they hear the same question.

This booklet explains how we pay for our houses in this country. Those not acquainted with this country will find a useful introduction to housing finance in these pages. It also shows the role of government and how industry, financial institutions, and governments -- Federal, State and local -- work together to achieve our national housing policy of a "decent home and a suitable living environment for every American family, as soon as feasible."

Each year this booklet is revised to take account of changed conditions and new legislation. Originally it was a part of an orientation series to better equip outgoing American housing advisers to foreign countries. Experience has indicated that foreign observers of United States practice provide the most interested readers.

Numerous persons have contributed to successive issues of this booklet. The reader is given the advantage of combined resources of the Housing and Home Finance Agency with its five constituent operating agencies and units. The Office of International Housing within the Office of the Administrator of the Housing and Home Finance Agency takes final responsibility and will be pleased to provide additional information upon request.

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HOUSING FINANCE IN THE UNITED STATES

The purpose of this booklet is to provide overseas U. S. housing advisers and visitors and others interested in the United States with information on how money problems of building and buying homes are met in the United States. Certain background and descriptive material useful to the understanding of housing finance have been included. Where necessary or useful, additional data on housing finance can be secured from the Office of International Housing of the U. S. Housing and Home Finance Agency (HHFA). Members of Embassy or Mission staffs should communicate through established channels.

A. Relationship of Housing to the Economy

1. Characteristics of American Housing

Buying a home is a very important matter for the average American. For the great majority of American families, buying a home is the biggest individual purchase and investment they will ever make. More and more American families are buying their own homes. According to a Bureau of the Census survey in 1960, 62 percent of American families owned the homes they lived in.

Housing or dwelling units 1/ vary widely across the 3,500 mile breadth of the United States. Home building in immediate post-war years was very heavily concentrated (90 percent or more) on single family struc-

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1/ Housing consists of shelter and the utilities which are essential to the operation of a modern dwelling. The term "dwelling unit" as frequently used in housing statistics is the space occupied by a household consisting of all who share a common table. Dwelling units may be in single-family homes (detached or row-houses), 2, 3 and 4 family homes, apartments, etc. In multi-family homes or apartments, each "housekeeping" space, generally occupied by a family, is a dwelling unit.

tures, largely for sale to families that would occupy them. Recently the proportion of single family structures has decreased so that in 1961 it was only about 78 percent of the total. Dwellings reflect differences in climate, local housebuilding material, family income, tradition, taste and other factors. "The Cape Cod Cottage (of New England) differs as much from the Park Avenue Apartment (of New York City) as that, in turn, differs from the Georgian Mansion of the South or the adobe house of the Southwest. Farm housing is differently equipped from urban housing. The dwelling places of the poor bear little resemblance to those of the rich." 2/

2. The Importance of Housing in the United States

Home building is a leading American industry which in post-war years has been at record levels. For 13 years in a row, 1949 through 1961, American industry built more than 1,000,000 dwelling units per annum for a total of about 16,000,000 non-farm dwellings 3/ and recent evidence suggests that the true figure may be even greater.

More than a quarter of total private domestic investment is being used for residential building. New residential construction is normally four percent or a little more of the Gross National Product. 4/ If repairs and maintenance on existing housing are included, residential construction probably constitutes around six percent of GNP.

2/ America's Needs and Resources, J. F. Dewhurst, et al., Twentieth Century Funds, 1955.

3/ Actual statistics are of "starts," not of completions, which necessarily will lag.

4/ Gross National Product (often called GNP) represents the total national production of goods and services at current market prices. See Federal Reserve Bulletin, January 1962, p. 96.

The level of housing construction is very important to several large industries of the United States. A study made in 1950 shows that new residential construction consumes the following percents of total industry production in the industries named: Lumber - 34 percent; Bricks - 63 percent; Wire Nails and Staples - 34 percent; Softwood Plywood - 41 percent. 5/

In general, there has been a relationship between the ups and downs of business activity - business cycles - and the ups and downs of home construction. Home construction more often than not drops some months before the general decline of business activity. On the other hand, it generally follows, rather than precedes, general business recovery.

3. Housing Inventory

Data from the 1960 census show that the total number of dwelling units in the United States in that year was more than 58,000,000. Most of this inventory is urban housing, reflecting the sharply increasing urbanization of the United States and the decreasing numbers, relatively and absolutely, of the farm population. Of the total population of 180,004,000 in 1960, only about 15,600,000 lived on farms. 6/

4. The Nature of the Housing Industry

Homes built in the United States are built by one of three classes of builders: owner-builders, operative-builders, or general contractors.

5/ Housing Almanac, 1957, National Association of Home Builders.

6/ Farm Population, Series Census-AMS (p.27) No. 29, April 18, 1961, Bureau of Census, U. S. Department of Commerce.

The owner-builder, who is also called "amateur" builder, is an individual who constructs one house only for the use of his own family or relatives. Construction may be through his efforts only (perhaps aided by relatives) or may be partially his effort with the remainder being done by sub-contractors. In the years immediately following World War II, there were large numbers of such amateur builders. During these years, amateur builders far outnumbered the professional (or "commercial") builders, i.e., operative builders and general contractors. 7/ Since virtually all amateur builders constructed only one house, in terms of total homes built the professional builders were much the most important factor. In recent years, professional builders (especially operative builders) have grown even more important as the owner-builder has declined in numbers and importance. In 1955 and 1956 about only one-sixth of home construction was attributable to owner-builders. 8/

The operative builder has come to dominate residential construction. Two-thirds of private, single-family, non-farm houses built in 1955 and 1956 were built by operative builders. The operative builder (also called merchant-builder or speculative builder) is one who builds housing on his own land, to his own specifications, for unidentified future buyers or renters. Often he builds sample houses from which buyers may make a choice prior to construction of their own houses.

7/ Structure of the Residential Building Industry in 1949, U. S. Department of Labor, November 1954

8/ "Builders of New One-Family Houses." Construction Review, U. S. Departments of Labor and Commerce, August-September, 1958

The third category of builder is the general contractor. This builder (frequently called custom-builder) builds housing to order, on someone else's land and to another's specifications. In 1955 and 1956 about one-sixth of single-family, non-farm homes were built by general contractors. In terms of numbers, however, there are approximately as many general contractors as operative-builders. (It should be noted that general contractors frequently engage in non-residential construction -- building stores, gasoline stations, warehouses, etc. -- whereas this is seldom true for operative builders.)

Generally speaking, the operative builder is a larger scale operator than the general contractor. As in most American industries, a small number of large and medium-size firms (operative builders and general contractors) provided the bulk of commercial production. In 1949, the larger firms, accounting for only four percent of all professional builders, produced 55 percent of the output.

B. Structure of U. S. System of Property Rights

1. Home Ownership Dominant

The most significant fact about housing finance in the United States is that about 62 percent of non-farm dwellings are owned by the occupant. In farm areas an even higher percentage are owner-occupied.

2. Rights in Property

The ownership of homes is protected in many respects by the Constitution of the United States. See, for instance, the Fourth, Fifth and Fourteenth Amendments. It is also protected by the common law that this country inherited from England and by the continental law as used in Louisiana. State constitutions and laws give further protection to private ownership of residential property.

Ownership of the residential structure usually carries with it ownership of the underlying land. In Baltimore, Maryland, however, dwellings had traditionally been built on leased land. This practice is declining in Baltimore but occasionally appears elsewhere.

The ownership of homes is ordinarily in the form of a "fee simple" type deed. This form of ownership carries full rights of use, sale and inheritance, limited only by laws for general welfare and protection of the community. These include zoning laws and laws permitting foreclosure and sale for non-payment of taxes.

3. Conveyances of Property Rights in Residences

Owners of homes have almost complete freedom in the transfer of their ownership. Sales may be made freely to new buyers by the transfer of deed with full warranty of all rights of ownership. The so-called "warranty" deed carries with it a "fee simple" title and requires the seller to defend the new buyer from all claims against the title. It is customary for such transfer to be made a matter of public record in the various county offices (counties are minor civil divisions of State governments). The Federal Government has no responsibility in the matter.

Leases represent permission for a non-owner to obtain possession and use of a residence for an indefinite or a stipulated period. It is usually required by practice or State law that leases for one or more years be put in writing. Leases for shorter periods are often made orally. It is not uncommon to make a public record of a residential lease.

Owners of residences may borrow money by pledging their property, either in the form of a mortgage or in the form of a so-called deed of trust. Mortgages either convey the real estate with the right of defeasance (recovery of title) after the debt has been paid off or the real estate is pledged for the debt, with the pledge being cancelled after the repayment of the debt. In the case of the deed of trust, the title is transferred to trustees who hold the title until evidence of final payment of debt is given. It is customary in all jurisdictions to make a public record of mortgages and deeds of trust.

In some States the installment sales contract is also used. This, in form, represents a contract to sell with transfer of title to purchaser to be executed only after a stipulated number of payments. In some jurisdictions the installment sales contract has been viewed as in the nature of a mortgage; it must be recorded and is treated by the courts much like a mortgage.

In most jurisdictions mechanics liens take precedence over other forms of indebtedness, except taxes, to the extent the value of the property is enhanced by the work involved. A mechanics lien is a charge or claim upon real property for the satisfaction of a debt incurred as a result of labor or material supplied, e.g., carpentry or plumbing work. If the owner fails to pay for these services, the workman may invoke the mechanics lien, the method provided by law whereby he may secure payment.

There are many variations in the types of conveyances and also in the manner of recording titles. The simplified Torrens system 9/ has not become general practice in the United States. In the United States, in the absence of such a system, a buyer must either take his chances that the abstract of title gives clear evidence that he is obtaining undisputed ownership, or he must have the records searched for title defects. He may, in addition, obtain title insurance from a fiduciary institution engaged in this business. Title insurance, procurable through payment of a fee, requires that the insuring company indemnify the buyer should significant defects to the title develop or appear.

4. Regulation of Residential Property

States and their civil divisions including cities regulate the construction and operation of residential property in many ways. The exercise of the right of eminent domain and of the police power permits the protection of the public interest. One of the most significant powers is the right of eminent domain whereby with adequate compensation private property may be taken for public uses. Zoning regulations represent an application of police power to provide for orderly and logical land uses. Building codes establish standards of structural soundness, safety, and provide for adequate sanitary facilities. Housing ordinances seek to enforce healthful uses of structures and prevent overcrowding.

9/ This is the system which originated in Australia whereby a public record is made once and for all through the courts concerning the valid ownership of property; all prior claims are forever stopped. Future transfers then take place by a simple recording. It is not necessary to provide a complete chain of title at the time of each subsequent transfer.

Foreclosure laws represent current legislative modifications of the older common law procedures. Such laws permit lenders to take title to property which has been pledged for the payment of a debt. State laws vary widely in the cost and time required to effect foreclosure. Most States have laws for eviction of defaulting mortgagors, some only after three months to a year, following foreclosure of their mortgaged property. Provisions exist also for eviction of tenants for non-payment of rent.

Many States enforce labor standards in the building industry and in the operation of rental property. Laws regulate wages, hours, use of child labor, etc. With respect to construction for the account of the Federal Government, pertinent laws regulate wages, hours, etc. and commonly require the payment of "prevailing" wages in the community. This applies, too, to rental housing projects financed with mortgages insured by the Federal Housing Administration and to low-rent public housing built by local authorities with the aid of Federal contributions.

Owners of real property are usually subject to property taxes whicn may be levied by States, counties, or cities. In addition to general property taxes, there may be special taxes or assessments which are levied for improvements or services that benefit particular properties. Property taxes are the principal source of revenue for local governments. The Federal Government does not levy property taxes.

C. Structure of the Financial System

An understanding of real estate finance can be more readily gained if one understands the operation of financial institutions generally. A brief sketch of the overall financial system of the

United States follows. The relationship of the Federal housing agencies to this picture is considered as a later topic.

1. The Corporation

The Corporation is the dominant means for the mobilization and control of capital employed in American industry, commerce and finance. Its prominent role as a legal and economic institution is because the corporation permits individuals to associate themselves through an autonomous legal entity while retaining limited liability themselves. The commercial banks, the savings and loan associations, and almost all other types of institutions or enterprises which will be mentioned as we proceed are almost always incorporated enterprises - corporations. Ownership of shares in many corporations is distributed widely. Housewives in families of limited means are a numerous group of small investors.

2. Commercial Banks

The commercial banking system of the United States creates the means for payment and provides for clearance in settling transactions and debts. It also mobilizes and lends financial resources. The system creates the means of payment by making loans to borrowers. Proceeds of loans are credited to checking accounts. The purchase of evidences of indebtedness of governments, particularly of the Federal Government, similarly creates additional deposit accounts. Commercial banks are organized within and identified with given localities. In relation to the banking system generally, individual banks are comparatively small. There are, however, a few large branch banking systems, particularly in the Far West. Banks may be incorporated under Federal law as well as under laws of each of the fifty States. Although no individual bank can extend a new loan for more than its current excess reserves, the banking system as a whole can lend several times its reserves - mathematically, the highest multiple is the reciprocal of the required reserve ratio. 10/

3. Federal Reserve System

The United States does not have a single central bank but rather a system of central banks known as the Federal Reserve System, with 12 Federal Reserve Banks located in various regions in the country. It is the responsibility of these banks to maintain an adequate supply of reserves, so that commercial banks may meet the needs of business, industry and agriculture. As a result, the Federal Reserve Banks are occasionally referred to as "bankers' banks." In cooperation with the Treasury, the Federal Reserve Board, the governing body of the Federal Reserve System, establishes the over-all policies for banks, seeks also to stabilize the money market as a whole, and, in keeping with the Employment Act of 1946, undertakes to utilize monetary controls in such a way as to maintain a high degree of activity in the economy.

4. Savings Institutions

The thirft institutions of the United States are numerous. Individual savings flow through various financial institutions into the final investment market. Commercial banks commonly have savings departments. Mutual savings banks play a very important role in the Northeast United States. Life insurance companies mobilize tremendous amounts of regular savings. Trust companies and the rapid development of retirement

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10/ For description of this process, see Chapter VI of The Federal Reserve System, Its Purposes and Functions, Washington, D. C., 1939.

and welfare funds are other channels for the flow of savings. Of particular importance to the housing business are the savings and loan associations numbering in 1961 about 6300. These are quite generally though not always organized as mutual institutions owned by savers and borrowers.

5. Money Market

The money market of the United States represents the total interrelationship between the flow of savings and investments. Used here in its broadest sense, the term money market denotes all of the available facilities for borrowing and lending funds. Through the various stock exchanges, bond houses, brokerage offices, and investment banking institutions, ownership in (stocks) and debts of American industry (bonds) and evidences of indebtedness of all forms of government (bonds, notes, etc.) are freely traded in the money market. The rate structure in this market is closely knitted so that any imbalance between the net rates on long, intermediate, or short term paper tends to be quickly eradicated in the trading process. The United States is one of the best equipped nations in the world to mobilize capital quickly and economically for the conduct of any enterprise, including construction of housing. The fact that the United States has produced well over a million houses per year for the past several years, with moderate rates of interest, usually between 4 and 7 percent, is ample evidence of the effectiveness of the financial system. The great current demand for capital and a moderately tight credit policy to avoid inflation, have caused mortgage rates to hover at higher levels than prevailed previously for many years.

D. Housing Finance

Credit is employed in four phases of the housing business: (1) for assembly and preparation of land on which housing is to be built; (2) for construction of the buildings; (3) for purchase of dwellings; and (4) for modernization and repair of structures. There are some variations in financial arrangements depending on whether the housing is for owner occupancy or for rent.

1. Financing Land Development

Prior to the 1930's the most common method of developing land for housing was to subdivide vacant lands and sell the resulting lots. The subdivider was in fact only a retail land merchant. Sometimes he arranged for and carried out the installation of roads and utilities, usually assisted by municipal special assessment financing or outright gifts from the municipality. Generally, however, the subdivider did nothing more than survey the land and place lot and street markers. Subdividing was thus separate from building and its methods more often than not proved a deterrent to the development of attractive neighborhoods.

Today subdividing methods are quite different. 11/ Subdividing is ordinarily profitable now only when associated with building operations. Land is purchased very often by the operative builder who will improve and subdivide the property and build housing thereon. On other occasions, an independent developer will clear and survey the land and sell lots wholesale to builders. The municipality plays a much smaller role than formerly in assisting the land developer. The following selected quotations from

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11/ Some development and sale of lots to individual buyers still persists, notably in Florida.

the Mortgage Banker of October 1956 provide some insight into the problems and procedures of financing land development: "One of the major problems facing builders, both large and small operators, is the decreasing supply of well-located land for housing developments and the increasing cost of both the land and its improvement. In seeking financial help for these operations, the builders have turned (frequently) to the mortgage banker, either to obtain direct loans from him or to secure his help through financial sources available to the mortgage banker."

"Other sources for loans for land improvements have been title companies, private investment companies or groups of individuals, material suppliers and a few insurance companies ... Loans from these outlets ... have been for as much as 50 percent of the land value. Some of the deals by these sources have been on the basis of participating in the profits of the builder. The land was provided and the improvements were installed, then the builder gave up 40 percent or 50 percent of the profit from the sale of houses. This is more of a partnership in a building operation than actually loaning money for land cost or land improvement."

In the financing of land development, the financing organizations, whether insurance company, commercial bank, savings and loan association or mortgage banker, are placing greater emphasis on land planning and architectural restrictions. Land planning is becoming generally accepted as a basic factor in determining the neighborhood which will result and therefore an important consideration in the ultimate soundness of the investment.

Recently Federally chartered savings and loan associations have been authorized to utilize a small portion of loanable funds to finance land development in connection with housing projects of private operative builders. Also, several corporations have been organized to obtain capital by public sale of shares, the proceeds of which would be used for land development.

2. Financing Construction

Construction loans are commonly made to builders who either are in the general contracting business or are operative builders or both. These loans or advances provide working capital for the builder and as a rule are secured by mortgages on the property. Savings and loan associations, savings banks, insurance companies, mortgage lending companies, and commercial banks are common sources of construction loans. Such loans may be made on an unsecured basis, or may be secured by chattel mortgages on tangible assets, such as building machinery, mortgages on land, pledges of securities, etc. Construction loans are almost invariably short term loans, generally for periods of three to twelve months. In the case of large scale multi-family dwellings for rent, a sponsoring corporation often takes the financial responsibility and hires the contractor. Some individuals take the financial responsibility for building their own houses, hiring a contractor to do the work; others do the work themselves. Lenders will usually advance funds if they are applied to construction work by persons with a good credit rating and experience in building.

Contractors ordinarily will be required to put up a completion bond obtainable through a surety company. Usually there will be a "hold back" so that the builder obtains the full cost of construction only after the job is finished and accepted. Interest rates on loans to builders vary widely, depending on local conditions and the credit of the builder, but frequently are from 5 to 7 percent, or sometimes higher for loans that are repaid upon completion and sale of the structures. A builder's investment in a house is commonly liquidated by a subsequent mortgage loan obtained by a purchaser. An advance commitment by the Federal Housing Administration to insure the final mortgage improves a builder's prospect for obtaining construction funds from bankers on advantageous terms. A further source of credit to builders, but generally not a major source, are materials suppliers and subcontractors. Manufacturers of prefabricated houses and their subsidiary acceptance corporations are sometimes a source of interim credit for prefabricated structures.

3. Financing Purchase of Homes

Long-term loans to buyers of homes to finance purchases are secured by mortgages on the properties. Debt service, taxes, and insurance are paid monthly to an institutional lender. Small down-payments and long-term amortization of loans offer a householder a free choice whether to buy or rent a house. Buyers of homes, whether the houses are new or existing structures, have a wide variety of institutions from which they may borrow. As of September 1961, the estimated mortgage debt outstanding on 1 to 4-family structures by type of holder was:

Institutions	Billions of Dollars 12/
Total	147.1
Savings and loan associations	59.5
Life Insurance companies	25.5
Commercial banks	19.5
Mutual savings banks	19.2
Federal National Mortgage Association*	5.1
Other Federal agencies	1.3
Individuals and all others	17.0

* Not a primary lender but a secondary holder of mortgages originated by others.

4. Financing Modernization and Repair

Loans for the modernization and repair of dwellings are usually obtained on an unsecured basis although new legislation in 1961 may change this pattern. Banks are probably the most important source of such loans. They frequently use a Federal Government insurance arrangement which will be described later. Savings and loan associations and specialized finance companies are also important sources of loans for this purpose. The rates of interest for modernization and repair loans are commonly much higher than in the case of mortgage loans. Net cost to the borrower in connection with such unsecured loans that are insured is generally more than 9 percent annually. The new insured loan for modernization bears only 6 percent but it probably will be better secured. The duration of the unsecured loans is typically about 3 to 5 years while the new modernization loan is of longer duration up to 20 years or three-quarters of the economic life of the structure, whichever is less.

12/ Preliminary data. The sum of the items exceeds the reported total because of rounding.

In 1960 about 4.7 billion dollars were estimated to have been expended on alterations and additions ("property improvement"). Much of this was paid for by borrowed funds. An additional 7 to 7.5 billion dollars were spent on maintenance and repair, most of which came out of income or savings. In some years this figure apparently may be as large as expenditures for new construction. 13/

E. Relationship of the Federal Government to Housing

It is impossible to list all the various points of contact of the Federal Government with the housing business. This paper treats only of the organization and effect of the principal Government agencies that deal directly with housing finance. These agencies are the Housing and Home Finance Agency together with its five constituents, the Federal Home Loan Bank Board and its components, the Veterans Administration, the Department of Agriculture, and the Farm Credit Administration. The peripheral and indirect influences of the Federal Government, as the research and statistical services of the Bureau of Standards and Bureau of the Census of the Department of Commerce, the Bureau of Labor Statistics of the Department of Labor, or the taxation and credit effects of other Federal Agencies will not be covered herein. Basically, the Federal budget in its influence on general economic activity is more important than any other aspect.

Despite these numerous points at which the Federal Government affects or influences the production of houses, neither

13/ Fourteenth Annual Report for 1960, HHFA, p. 1.

the Federal Government nor any State or local governments build or contract for the building of a significant share of new houses. Privately financed, private builders are the norm.

The official housing goals of the United States are expressed in the Housing Act of 1949. This goal is "...the realization as soon as feasible of the goal of a decent home and suitable living environment for every American family..." The act states also that in the attainment of that goal "...private enterprise shall be encouraged to serve as large a part of the total need as it can..." The principal role of government is to use its resources in such a manner as "...to enable private enterprise to serve more of the total need..." Private enterprise is thus enabled to provide the means for improvement of housing. Government provides favorable conditions to make this possible. The success of this policy is evident throughout the land, for all but a very small amount of housing built is constructed by private enterprise. This does not mean that Federal, State, and local governments do not have a large role to play or that everything is being done that can be done.

1. Housing and Home Finance Agency (HHFA)

The major housing responsibilities of the Federal Government center in the HHFA, the supervisory and coordinating agency for five other housing agencies which are subordinate to it.

The Housing and Home Finance Agency was established on July 27, 1947. The Administrator reports direct to the President.

The HHFA succeeded the National Housing Agency which had been created shortly after the outbreak of World War II. HHFA when organized included as constituents, the Federal Housing Administration (established 1934), the Public Housing Administration (established 1937) and the Federal Home Loan Bank Board (established 1932). In 1950, the Federal National Mortgage Association (FNMA) was transferred to HHFA. The Urban Renewal Administration (URA) and the Community Facilities Administration (CFA) were established in December 1954 as additional constituents of HHFA. In 1955, the U.S. Congress took the Federal Home Loan Bank Board from under HHFA and made it, as it had been earlier, an independent agency. HHFA now has five constituents: FHA, PHA, FNMA, URA, AND CFA. Pending legislation and an executive order would convert this agency into the Department of Urban Affairs and Housing.* The Administrator would then become a "Secretary" which is equivalent to a minister in most governments and he would be a member of the President's cabinet.

The chief functions of the constituent agencies of HHFA are outlined below:

(1) The Federal Housing Administration insures private institutional lenders against loss on approved residential mortgages and loans for repairs, etc., creating conditions thereby which make it easier for families to buy and to maintain their own homes and assuring a stable, active national market for residential mortgages.

(2) The Public Housing Administration makes loans and annual contributions to local public housing authorities to assist in the construction and operation of low-rent housing for low income families.

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* The proposed change in status for the Agency was rejected by the present Congress but remains an objective of the President.

(3) The Urban Renewal Administration provides loans and grants to local public agencies for slum clearance, redevelopment and rehabilitation -- "to rebuild decaying cities." Such funds are for initial planning, for acquisition and clearance of slum areas, and for preparation for redevelopment, largely by private agencies, for the prevention and elimination of slums and blight. This Administration also makes grants under some circumstances for urban planning.

(4) The Community Facilities Administration makes loans, if comparable credit is not otherwise available, to localities where there is a shortage of water and sewage systems, and other public facilities. In addition to such loans for actual construction, funds are made available for the planning of future public works upon the agreement of the applicant to repay such funds when it starts the construction of the public work planned therewith. This Administration makes loans to colleges to enable them to construct housing for students and faculty. It also provides loans for housing for the elderly.

(5) The Federal National Mortgage Association assists in the maintenance of a secondary market for mortgage loans by purchasing FHA-insured and VA-guaranteed mortgages, improving thereby the liquidity of mortgage investments and assisting in the better distribution of investment capital available for residential mortgage financing. FNMA also has other mortgage purchase responsibilities called Special Assistance Functions which assist the social housing objectives of the Federal Government.

2. Office of the Administrator

The Office of the Administrator (OA) of the HHFA performs various staff functions, (legal, planning, programming, public information, etc.) which assist the Administrator in his supervisory and coordinating responsibilities. Of especial interest to foreign visitors is the Office of International Housing (OIH) headed by an Assistant Administrator. It assists the Department of State on international problems which concern housing, community facilities, planning, building materials and related matters. In the course of carrying out this responsibility, members of OIH frequently attend international meetings as members of the U.S. delegation. OIH also consults with foreign missions and visitors, exchanging information, assisting, etc. It provides technical support, training support and related assistance to the U.S. Agency for International Development which maintains housing advisers abroad and aids less industrialized countries in their housing problems. Informal but close contacts are maintained with housing specialists in several international organizations. Still another function is the examination of documents concerning the technology, practices, laws, organizations and accomplishments in housing of foreign nations for the use of U.S. officials and industry.

Three new important action programs were assigned the Administrator by the Housing Act of 1961: (1) grants, loans, and technical assistance for comprehensive planning, acquisition, construction, and improvement of mass transportation facilities, (2) grants to permit local public bodies to acquire land to be used as permanent open space, and (3) grants to public or private bodies for the purpose of developing and demonstrating new or improved means of providing housing for persons and families of low income. At present these are being handled within the Office of the Administrator rather than by the operating constituent units or agencies. These three new programs are presently in the exploratory stage.

Comprehensive planning for mass transportation is now eligible under the previously authorized Planning Assistance Grants to local public bodies. Technical assistance in this field may also be provided by the Administrator of HHFA.

The grants are authorized to public agencies for demonstration projects designed to contribute to the improvement of mass transportation or the reduction of mass transportation needs. Loans to public bodies are to provide for financing of the acquisition, construction and improvement of transportation facilities and equipment. No loan can be made unless (1) there is being developed for the urban or metropolitan area a program for the development of a comprehensive mass transportation system, and (2) the proposed facilities can reasonably be expected to be required for such a system.

The grants to local public bodies to acquire land to be used as permanent open space normally may not exceed 20 percent of the total cost. The grant may be as high as 30 percent if the public body exercises responsibilities relating to open land for an urban area as a whole or which participates in the exercise of such responsibilities for all or a substantial part of an urban area pursuant to an interstate or other inter-governmental compact or agreement. Proceeds of the grant may not be used to defray development costs or ordinary governmental expenses. The open space land to be acquired must be important to the execution of a comprehensive plan for the urban area and where a program of comprehensive planning is being actively carried on for such an area.

In cases where grants have been made to acquire open space land but later the conversion of such land to other uses is found essential for orderly development of an urban area, other open space land of equivalent value can be provided as a substitute.

Policies and actions in connection with this program must be in consultation with the Secretary of the Interior. In turn the Secretary of the Interior must inform the Administrator of recreational planning for the areas to be served by grants.

The demonstration grant program is intended to encourage experimentation with new means for providing families of low income with suitable housing. At this time the local public housing authorities have not been given administrative approval for participating in the program. This should encourage private, non-profit, cooperative, and other groups to undertake to become eligible for grants to perform this new experimental function. At this writing the undertaking is too new and untried to anticipate the course it will take. This program was authorized by Section 207 of the Housing Act of 1961. It should not be confused with a new program for mortgage insurance for experimental housing provided for the Federal Housing Administration. The latter is to encourage untried, new materials, design, and construction methods. It is applicable to Section 203 (home loan program) and another Section 207, of the National Housing Act, pertaining to insurance for rental housing. The demonstration grant program of the Office of the

Administrator may involve some of the same experimental uses of materials or design but it probably will emphasize meaningful new ways of utilizing public subsidies to assist families of low income.

3. Federal Housing Administration

The Federal Housing Administration is headed by a Commissioner who is subject to the general policy and supervision of the Administrator of HHFA. The FHA conducts a mortgage insurance business. It has no money to lend. Its sole business is to insure lending institutions against loss of principal from default of loans made for the construction 14/ or purchase of homes or rental properties, or modernization and repair of houses. Preliminary data indicate that since FHA began operations in 1935 through 1961 a total of 73.923 billion dollars of insurance has been written. Insurance on mortgages for individual homes totaled 50.796 billion dollars, on rental projects of multi-family type, 8.919 billion dollars; and on property improvement loans, 14.208 billion dollars. Through 1960 FHA home mortgage insurance had helped over 5½ million families to own homes and had helped to provide housing for nearly 900,000 families in multi-family projects. As of June 1961, FHA-insured home loans constituted about 19 percent of the total outstanding debt on non-farm 1 to 4-family houses.

14/ FHA insures advances for multi-family construction but not for single family housing or projects.

The FHA is self-supporting by virtue of insurance charges levied on lending institutions. In most of the home mortgage programs this is one-half percent annually on the declining loan balance. This premium is paid by the borrower to the lender who in turn pays FHA. As of December 31, 1960 the FHA had insurance reserves of 922 million dollars which had been built up from premiums and were available for contingent losses.

Data on the characteristics of typical FHA insured mortgages are of interest. In 1960, the typical 15/ new home transaction involved a mortgage of $13,569, the dwelling and land was valued at $14,607. The house was a 1-family structure containing 1,091 square feet (exclusive of space in basement, attic or garage). providing an average of 5.5 rooms of which 3 were bedrooms. In about 74 percent of the homes, garage or carport facilities were included. The average term of repayment of the mortgage was approximately 29.2 years at a monthly rate of $103.81, including payments for principal, interest, FHA insurance, property taxes and hazard insurance. This monthly payment together with the cost of utilities, maintenance, expenses, etc. totaled a monthly housing expense estimate of $128.98. The monthly housing expense, in turn, represented about one-fifth of the typical mortgagor's monthly income which approximated $597.

Under the principal FHA program of the present law, loans that are secured by insured first mortgages on proposed construction of a one-family dwelling occupied by owners may not, under the

15/ References to the typical case are to median values of the statistical distribution.

statute, exceed 97 percent of amounts up to $15,000 of appraised value; 90 percent of the amount from $15,000 to $20,000 of appraised value; and 75 percent of such value in excess of $20,000. 16/ The top limit for any one mortgage on a one-family structure is $25,000. For existing properties the duration of mortgages may not exceed 30 years or three-quarters of the FHA's estimate of the remaining economic life of dwelling, whichever is the lesser. For new construction the term may be 35 years. As of February 1962 the permissible interest rate is 5.25 percent. The mortgage insurance premium and service charges on initiating the loan, if any, are additional. Somewhat different terms apply to other programs such as those for "disaster housing," housing in "outlying areas" or on farms, housing for families displaced by slum clearance, housing for servicemen, housing for families of moderate income, housing for elderly persons, etc.

Under the existing law, loans on multi-family projects for rent which are insured by FHA may not exceed 90 percent of value. There are also limitations on the amount of loan by room and by dwelling unit. The maximum interest rate for the "regular" rental program (Sec. 207) is 5.25 percent to which is added the one-half percent mortgage insurance premium. Maturities are at the option of the FHA. Loans to cooperatives may be somewhat more liberal than those to investor corporations. Mortgage loans to finance

16/ These are the minimum terms of the legislation. They are permissive and not mandatory. Actual effective terms, except for those set out in the statutes, are left to the FHA Commissioner's discretion.

nursing homes also may be insured if properly regulated and if local authorities certify the need. Also favorable provision is made for rental housing for the elderly. Mortgage amounts for insured loans to finance trailer courts or parks may be based only on the land and utilities, not on the mobile homes. In 1961 special impetus was given to provision of rental housing for families of "moderate income." (Sec. 221.) Interest rates are below the market rate, non-profit types of sponsors are required and financing is assured through the Special Assistance Facilities of the Federal National Mortgage Association. Also new is provision for insurance of mortgages on separate apartments in a multi-apartment building rather than on the entire structure. This is termed "condominium."

The traditional FHA insurance program for loans for the modernization and repair of homes provides that unsecured loans made by approved lending institutions are automatically insured without special examination. FHA has, consequently, less control of the quality of insured loans made for modernization and repair than on other insured loans, each case of which is examined by FHA.

Unsecured loans for modernization and repair of houses vary in maturity, depending on purpose or amount, from a minimum of 5 years and 32 days up to a maximum of 7 years and 32 days including renewal of original note. Discounts 17/ instead of

17/ A discount, as here used, is a loan wherein the interest charge is deducted in advance, e.g.: A loan of $100 for one year at a discount of 5 percent yields the borrower $95 with the obligation to repay $100.

interest charges are used. The maximum discount is $5 a year per $100 of loan for the first $2,500 and $4 a year on all over $2,500. In the case of single family houses, the amount of the loan may be as much as $3,500; for a multi-family structure as much as $15,000. The 5 percent discount is equivalent to approximately 9.3 percent interest per annum on declining balances on a 3-year note. The lender is insured up to 90 percent of loss on any single loan. Total insurance coverage is limited to an amount equivalent to 10 percent of such loans made by the lending institutions. 18/ The premium (currently .50 of 1 percent) is paid by the lender and may not be passed on to the borrower (having already been allowed for in the discount charge).

A new home improvement program was introduced by the Housing Act of 1961 which added to the National Housing Act new insuring authority for the Federal Housing Administration (Sec.220(h)). Costs of improvement not to exceed $10,000 may be financed at 6 percent interest. Maturity may be as long as twenty years but not more than three-fourths of the remaining economic life of the structure. The nature of the required security is left to the Commissioner of FHA. This program is an important element in the vast effort being made to revitalize our communities.

18/ An insurance reserve is kept for each lending institution. New credits of 10 percent of net proceeds of loan are made for each new loan. Debits are made for claims paid. Reserves are also adjusted by regulations, reducing reserves since otherwise such reserves could grow to more than 100 percent of the outstanding portfolio of such loans.

The premium income and fees collected by the FHA under its different programs have not only permitted it to pay its operating expense and pay off claims but also, as previously mentioned, to accumulate substantial insurance reserves. Initial operating funds advanced by the U.S. Treasury have been repaid with interest. Mortgage termination because of foreclosure has consistently remained very low. Losses thereby in relation to income from premiums and fees have also been low. Losses on the total amount of mortgage insurance written on homes and apartments, including higher risk undertakings of wartime, have been fifteen one-hundredths percent of the dollar amount. Losses on the lower-risk home program have been only two one-hundredths percent. 19/

The FHA meets its insurance obligation on defaulted mortgage loans, when it receives the property, by payment to the lender in the form of 20-year Treasury guaranteed debentures bearing interest equivalent to long-term U.S. bonds. Before maturity of debentures, recoveries can be made by FHA, the amount of which depends on the money received from the sale of the real estate. In the case of mortgages on individual homes, FHA recoveries in excess of FHA investment are distributed: first, to the mortgagee to the extent necessary to cover his foreclosure expenses, and secondly, the residual to the mortgagor who lost his property by foreclosure. For rental projects, any residual after payment of expenses of the mortgagee is retained by FHA.

19/ Annual Report 1960, HHFA, p. 59.

In the case of property improvement loans, the claims paid as a percent of the aggregate were 1.79 through December 31, 1960. 20/ The claims paid have varied from a high of slightly over 4 percent in 1938 to less than 1 percent during the past four years. Claims arising from defaulted modernization and repair loans are payable in cash rather than in debentures. All claims and operating expenses under the property improvement program have been paid out of income.

The use of FHA mortgage insurance in connection with the urban renewal program is discussed in a later section of this paper.

The very important part played by FHA in the mortgage lending field overshadows other significant contributions which need to be mentioned. FHA has contributed materially to improvement in housing standards through the establishment of minimum property requirements, careful architectural analysis, construction inspections, and the establishment of methods of locating, planning and establishing subdivisions. Moreover, FHA analysis of local housing markets has helped to avert overbuilding in specific areas and price ranges.

4. Public Housing Administration (PHA)

Like the FHA, the Public Housing Administration is headed by a Commissioner who is subject to the general supervision of the Administrator of HHFA. The PHA makes loans and annual contributions to about 1,100 local housing authorities scattered across the

20/ Annual Report 1960, HHFA, p. 105.

United States. These loans and contributions provide the means whereby the local (and independent) authorities build housing for families of low income. The Housing Act of 1959 stipulates that "it shall be the policy of the United States to make adequate provision for larger families and for families consisting of elderly persons." (U.S. Housing Act as amended, Sec. 1.) The responsibility of local housing authorities usually covers a municipality or county. Utilizing the funds received from PHA, these authorities construct housing for families of low income.

The localities in which public housing is built must assure (1) tax exemption, which is partially offset by payments in lieu of taxes, not in excess of 10 percent of shelter rent, and (2) demolition of unfit dwellings (or compulsory repair, etc.) in a number equivalent to those newly constructed. The Public Housing Administration contracts to pay the local authorities annual amounts which permit them to cover the gap between economic rent (the income necessary to operate and amortize housing projects) and what the tenants can afford to pay. These payments constitute a subsidy without which it would be impossible to build decent living quarters for families of low income. In order to keep public housing as an aid to families of low income, and to prevent it from competing with privately built housing, there must remain a spread of 20 percent "between the upper rental limits for admission to the new housing and the lowest rents at which private enterprise is providing (through new construction and available existing structures) a substantial supply of decent, safe and sanitary housing." An exception introduced by the Housing Act of 1959 reduced this spread to 5 percent in the case of certain families of disabled or deceased veterans and families displaced by publicly ordered demolition of houses especially families of disabled or deceased veterans. The Housing Act of 1961 eliminates this requirement gap with respect to elderly families and displaced families.

The Housing Act of 1959 limited admission to public housing projects to families with low income as fixed by the local public housing agency and approved by PHA. If a family income rises above certain levels, regulations provide that this family must leave the public housing project since it is felt that the new income level will enable the family to find housing it can afford in the private market. The Housing Act of 1961 permits the tenants whose incomes have risen above allowable limits to continue occupancy during the period the local agency determines that the family is unable to find decent private housing within its financial reach. However, the family must pay a rental related to its income.

As a step in the process, PHA is authorized to make preliminary loans to local housing authorities to plan low rent housing projects. During construction, the PHA may advance initial funds until the situation permits the local housing authority to float short-term notes. When the interest costs in the private money market are low, funds to finance construction are secured there by floating short-term notes. If rates were too high, funds could be secured from PHA. When the construction is completed the authority then replaces the short-term notes with long-term or "permanent" financing.

Long-term financing may follow any one or a combination of three methods:

1. "Local authorities may sell to private investors serial bonds maturing over periods not in excess of 40 years. Payment of interest and principal on these bonds is secured by a pledge of the annual contributions to be paid by PHA..." "Their security features are comparable to obligations directly guaranteed by Federal Government."

2. "Local authorities can borrow capital funds from PHA for periods up to 40 years at an annual cost equal to the cost of long-term money to the Federal Government..." at the time a contract for a project is approved.

3. Local authorities may sell to private investors short-term notes, generally running from 6 months to 1 year. These temporary notes are secured by a commitment of PHA to loan amounts sufficient to cover principal and interest of the temporary notes at their maturity. This arrangement may extend for some time into the period after construction has been completed.

"All of the above obligations of local authorities, like other obligations of State and local public bodies, are exempt from all Federal income taxes. In addition, the obligations of local authorities are usually tax exempt in the authority's own State." 21/

By the close of 1960 about 478,153 dwelling units in 2,670 low-rent local public housing projects were under active management. Another 115,133 dwelling units either were under construction or in the pre-construction stage. (Defense, emergency and similar World War II period dwellings, most of which have been demolished, sold to local authorities, or otherwise disposed of by the Federal Government, once totaled nearly a million units.)

5. Urban Renewal Administration (URA)

The Urban Renewal Administration, like the FHA and PHA, is a component of the HHFA. The URA is headed by a commissioner who is subject to the general direction of the Administrator of HHFA. This Agency is responsible for the program of slum clearance and urban renewal authorized in the Housing Act of 1949 under which planning advances, loans, and grants are made to localities for projects to clear and redevelop slums and to rehabilitate and imprcve blighted areas.

The URA makes matching grants for urban planning by regional or metropolitan bodies or by State agencies performing planning work for small communities. It also develops technical criteria related to the Urban Renewal program so as to assist the Administrator in exercise of certain of his nondelegable functions.

21/ HHFA Annual Report 1953.

The Housing Act of 1949 and subsequent amendments authorized the HHFA Administrator to advance money to local public agencies, some to be established by States on a State-wide basis, (HA 1959) to enable them to make surveys and plans for the acquisition of blighted, deteriorated or deteriorating areas; the clearance, preparation, and sale or lease of such land (generally for private redevelopment); and to prepare broad plans for carrying out Urban Renewal in stages for a period not exceeding ten years. This legislation provides also for Federal capital grants of not more than two-thirds 22/ of the aggregate net project costs of the projects in a community, i.e., deficits incurred in carrying out local slum clearance and Urban Renewal projects. The balance of the net project costs must be met by the locality, either in cash or in the form of non-cash grants-in-aid, such as parks, public facilities, etc., acceptable under the Act. The Housing Act of 1957 introduced an alternative basis for calculating Federal capital grants. A local public agency may elect either the two-third grant formula or one in which it gets a so-called three-fourths grant but wherein it must meet all expenses for planning, surveys, legal services, and administrative costs. The outcome is felt to be about the same in either case. All advances and loans (but not the capital grants) are repayable with interest at not less than the applicable going Federal rate.

22/Three-fourths for municipalities of 50,000 or less or for economically distressed areas of 150,000 or less. [Housing Act of 1961, Sec. 301, (a) (2).]

To be eligible for these benefits, a locality must show among other things that it has what is commonly called a "Workable Program." A workable program must assure that the locality will commit itself to the attainment of the following essential objectives:

"1. Adequate local codes and ordinances, effectively enforced.

2. A comprehensive plan for development of the community.

3. Analysis of blighted neighborhoods to determine treatment needed.

4. Adequate administrative organization to carry out urban renewal programs.

5. Ability to meet financial requirements.

6. Responsibility for rehousing adequately families displaced by urban renewal and other governmental activities.

7. Citizen participation." 23/

The Housing Act of 1961 authorized the URA to make capital grants of not to exceed 4 billion dollars. The URA also has authorization to make loans and advances for which it may borrow from the Treasury. As of September 1961, a total of 802 projects in 635 communities which would involve clearance of many thousands of slum dwellings, had been approved for planning or execution. 24/ URA has been authorized to and operates a program of planning grants to urban areas for land use surveys, renewal plans, economic studies or other

23/ Urban Renewal - What it is - HHFA, November 1957.
24/ Housing Statistics, HHFA, November 1961, pp. 80-81.

planning work. Grants may not exceed two-thirds or, in a few cases, 75 percent of the estimated cost of the planning. The intent is to encourage comprehensive planning.

The mortgage insurance role of the Federal Housing Administration has been amplified by the U.S. Congress to permit use of its services in improving American cities. The Housing Act of 1954 authorized the Federal Housing Administration to insure mortgages by private lenders for rehabilitation or new construction of homes in "urban renewal areas." This is to permit necessary repair of buildings that are worth retaining and to assist in financing the new structures. FHA terms for mortgages under the Special Section 220 Urban Renewal housing program are more liberal in many respects than under other regular FHA programs. As the many Urban Renewal programs of American cities progress, this mortgage financing program will increase in importance. The Housing Act of 1961 amended this feature of the National Housing Act, as previously mentioned, by providing insurance of loans including advances during construction for use in home improvement. The cost of improvement may not exceed $10,000 per family unit and the rate of interest may not exceed 6 percent. Loans may be for not more than 20 years or three-fourths of the remaining economic life of the structure, whichever is the lesser period (220 (h)). Both one-family and multifamily structures are eligible. The loan plus outstanding debt related to the property cannot exceed limits imposed on other mortgages insured under Section 220.

Also, under Section 221, the FHA may insure mortgages with maturities up to forty years for low-cost private housing for rent and for sale to families displaced as a result of governmental action in a community which has a workable program for the elimination and prevention of slums and blight, or in a community where there is being carried out a slum clearance and urban redevelopment project under the original Title I of the Housing Act of 1949. Eligible displaced families include those who are required to move because of any governmental action, such as land acquisition by a public body, closing or vacating of dwellings by public officials, or the eviction of families from public housing because of high income. Under the Section 221 program mortgages may cover new or rehabilitated housing.

6. Community Facilities Administration (CFA)

The Community Facilities Administration, another constituent of the HHFA, is headed by a Commissioner who is subject to the general direction of the Administrator of HHFA. The principal functions of CFA are:

(a) to carry out programs of financial assistance to communities for (1) the planning, and (2) construction of essential public facilities and installations (water and sewer facilities, roads, etc.)

(b) to carry out a program of loans to higher level educational institutions for student and faculty housing, and to public or non-profit hospitals for housing for nurses in training and interns.

(c) to provide loans to non-profit organizations for building rental housing for the elderly of 62 or more years of age who are in the "lower middle" income bracket. Rent schedules must be approved by the Commissioner.

In addition, it has certain management and liquidation functions and provides certain staff support to other U.S. agencies, particularly technical approval of educational buildings financed with Federal assistance.

The college housing program authorized under Title IV of the Housing Act of 1950 as amended provides loans to colleges and universities for dormitories and family dwellings for students and faculty. The program includes "other educational facilities" such as dining halls, student unions, and buildings for student health services. It also includes housing for student nurses and interns in hospitals not operated for profit. The Administrator is authorized to borrow from the Treasury to finance this program. Loans to educational institutions may not exceed 50 years and are made at low interest rates.

The CFA makes loans to States, municipalities and other political subdivisions of States to finance the construction of all types of public works from a revolving fund. Recipients pay interest rates which are based on rates in the long-term money market. CFA receives its funds from the U.S. Treasury.

A related responsibility of CFA is to make advances to State and local governments for planning a reserve of public works. The intent of Congress in granting this authority has been to maintain at all times a current and adequate reserve of planned public works which could be put under construction whenever the economic situation makes such action desirable and to help attain maximum economy in the planning and construction of public works. The planning advances are made only if the municipality or local agency has adequate legal authority to plan, finance, construct and operate the local public works. A revolving fund has been authorized to finance these advances. The advance of funds does not become due and repayable until work contemplated in the plans is put under construction. The Housing Act of 1961 authorizes CFA to provide technical services to communities in budgeting, financing, planning, and constructing community facilities.

7. Federal National Mortgage Association (FNMA)

The Federal National Mortgage Association, often referred to as "Fannie May," was created as a corporate instrumentality of the United States on February 10, 1938 pursuant to Title III of the National Housing Act, as amended. Its initial objective was to provide secondary market assistance by the purchase of home mortgages insured by the Federal Housing Administration (FHA-insured mortgages). Subsequently the Association's activities were expanded to include the purchase of home mortgages guaranteed by the Veterans Administration (VA-guaranteed mortgages).

In 1950, the FNMA was transferred to the Housing and Home Finance Agency (HHFA). Under the Housing Act of 1954, the association was rechartered as a constituent of HHFA. The charter changes were made with the express purpose of establishing in the Federal Government a secondary market facility for home mortgages to be financed with private capital to the maximum extent feasible.

FNMA is authorized accordingly to carry out the following three major operations:

(1) "Secondary Market Operations," the objective of which is to provide a degree of liquidity with respect to such mortgages and also to improve the distribution of mortgage investment money;

(2) "Special Assistance Functions," the objective of which is to provide financial assistance, when and to the extent the President of the United States or the Congress shall determine that such assistance is in the public interest (a) with respect to selected types of FHA-insured and VA-guaranteed home mortgages, and (b) with respect to home mortgages generally to retard a decline in home building activities materially affecting the stability of the national economy;

(3) "Management and Liquidating Functions," the objective of which is to manage and liquidate in an orderly manner the mortgage portfolio purchased, or to be acquired by the Association under contracts entered into, prior to November 1, 1954.

The FNMA is run by a Board of Directors. The Housing and Home Finance Administrator is Chairman of the Board and appoints the other four members. The HHFA Administrator also appoints the president and vice-president of FNMA, the principal executive officers. FNMA is fully self-supporting. It pays all administrative expenses from its earnings, pays dividends to the U. S. Treasury, and does not receive appropriated funds.

Under the FNMA Secondary Market Operations FHA-insured or VA-guaranteed mortgages are purchased from investors or lenders holding such mortgages on new and existing housing and wishing to sell them. FNMA will normally not enter the market to buy these mortgages unless there is a need to strengthen the market or to provide additional funds. Since the availability of funds will vary in different regions at the same time, FNMA may be buying mortgages in one region and simultaneously be selling mortgages in another region. The Association is required to set its prices, etc., so that excessive use of the Association's facilities will be avoided. In other words, FNMA is not to supplant private secondary market operations, but to supplement. Funds to conduct this program come from the U. S. Treasury, from sales of common stock issued to lenders and other institutions that sell mortgages to FNMA under this program, from bonds sold in the open market and from earnings. 25/

25/ The counterpart of Federal funds used by FNMA in its secondary market operations is preferred stock of the Association held by the U. S. Treasury. As earnings and liquidation permit, the preferred stock is to be retired. When all preferred stock is retired, the assets and liabilities of FNMA that are pertinent to this function and the function itself, are to be transferred to private ownership, control and management.

Under the Special Assistance Function FNMA enters the mortgage market to buy FHA-insured, VA-guaranteed mortgages (a) in order to ease mortgage market money conditions, making mortgage money more readily available, or (b) to assist in establishing a market for mortgages on certain housing programs. Funds are obtained by borrowing from the Treasury. Fees are charged by FNMA in connection with such purchases so that these operations will be self-supporting. Mortgages so obtained are subsequently available for sale to private investors.

The Management and Liquidating Functions of the Association pertain to the mortgages held in the portfolio of the Association as of the close of October 31, 1954, and to mortgages that may be acquired pursuant to commitments entered into prior to November 1, 1954. The mortgages so held, or thereafter acquired, consisting primarily of FHA-insured and VA-guaranteed mortgages, were financed by funds directly from the Secretary of the Treasury. The 1954 legislation stipulates that the Association shall refinance such borrowing and repay the Secretary of the Treasury as rapidly as possible, to the maximum extent feasible, through the issuance of its obligations to private investors. FNMA is in process of carrying out this legislative mandate.

8. Federal Home Loan Bank Board

The Federal Home Loan Bank Board, a policy-making body of three officials appointed by the President was established in 1932. It has the following responsibilities:

(a) it establishes policy for and regulates the operations of the Home Loan Bank System,

(b) it provides for the organization and regulation of Federal Savings and Loan Associations, and

(c) it establishes policy for and regulates the operations of the Federal Savings and Loan Insurance Corporation.

The Home Loan Bank System is made up of eleven banks owned as of December 31, 1961 by more than 4,800 member thrift and home financing institutions, largely savings and loan associations. The member institutions may obtain additional funds, as needed, from the Home Loan Banks using home mortgages as collateral. The banks in turn obtain funds from the capital market by sale of consolidated debentures. These debentures are not guaranteed in any way by the Government. However, they represent an excellent form of investment and are bought freely by commercial banks and other investors. They commonly are issued for intermediate periods of time, usually for not more than twelve months. The Home Loan Bank System, in brief, is a permanent system of reserve banks for thrift institutions engaged in long-term home mortgage financing. It performs for its members some of the basic services that the Federal Reserve System performs for commercial banks which are engaged largely in providing short-term credits to industry, agriculture and commerce.

Savings and loan associations are the core of the Home Loan Bank System. Many hundreds of associations are located in cities and towns across the country. They may be chartered either by the Federal or State governments. Federally chartered associations are required to be members of the Home Loan Bank System. State chartered institutions are eligible if they meet certain standards. Most savings and loan associations, and the majority of the members of the Home Loan Bank System, are State chartered.

Being mutual institutions, the entire capital of Federal savings and loan associations is owned by their members. Holders of savings accounts possess votes related to the amount of their savings except that no member may have more than 50 votes. Each borrower also has a single vote. The funds of Federal savings and loan associations are loaned principally in the form of first mortgages on homes located within 50 miles of the association's home office.

As of September 30, 1961, savings and loan associations held more than 61 billion of a total of over $150 billion of outstanding debts secured by mortgages on 1-to-4 family non-farm homes. These loans used to bear $4\frac{1}{2}$ to 6 percent interest but recently the rate has increased somewhat with commissions sometimes added as an extra cost to the borrower. They are usually amortized over 12 to 20 years. Generally individual loans amount to about two-thirds of the value of the property.

9. Veterans Administration (VA)

Under legislation of the U.S. Congress passed in 1944 and since amended, the Veterans Administration carries out a significant role in helping millions of former service men and women to acquire housing. This legislation authorizes the VA to guarantee loans for eligible veterans to permit them to buy businesses, equipment, homes, etc. In practice veterans have used this benefit very largely to buy homes. In communities where private funds are not available, the VA is empowered to make direct loans, the outstanding balance of which totaled over a quarter billion dollars at the end of 1960. At that time VA guaranteed mortgages representing 20 percent of all debt on one-to-four-family houses.

Under the guaranty, lenders are protected against loss by the Veterans Administration up to a maximum of $7,500 or 60 percent of the loan amount, whichever is the lesser. Loans under this program may bear interest rates (as of the date of writing) not in excess of 4-3/4 percent[26/] It should be noted that there are significant differences between the VA program and the FHA program, namely:

26/ As an alternative to guaranty of loans, qualified lenders may have loans insured, whereby the lender received a credit for his insurance account of 15 percent of the individual loan amount. Lenders are insured for losses on such loans up to the aggregate outstanding amount of insurance credit derived from all insured loans made. This alternative is little used.

(a) The VA program is for a special group only (ex-service people); the FHA program is for the general population,

(b) The VA program assumes a liability on the part of the government and does not charge those benefited; the FHA assumption of risk and liability is in exchange for premiums paid by the borrower under an actuarially based insurance scheme, and

(c) It is expected that the VA program will one day lapse, having served its special purpose, and pass out of existence; the FHA program is permanent and for the indefinite future.

10. Farm Housing

Description to this point has confined itself almost wholly to urban housing. A few words are thus in order on farm housing.

By and large American farm families live in dwellings located on their land and not in villages or clustered farm communities. As a result, unlike urban homes, farm homes are usually considered an inseparable part of a producing enterprise. The value of the land portion of an urban, single-family house is roughly one-sixth of the total value. In the case of farms, however, the land is usually much more valuable than the home. In the consideration of farms, the emphasis--and logically so--is on the producing aspect, the land and service buildings, rather than on the home. Farm mortgages consequently have as their principal purpose the provision of operating capital or funds for the purchase of equipment or improvement of the productive enterprise. There have, however, been several programs, private and public, that have been pursued to improve the living conditions on American farms. The Farmers Home Administration of the Department of Agriculture makes direct loans for the purchase, enlargement and improvement, development and refinancing of farms, and guarantees loans made by private lenders for the same purpose. This is a source of credit that is restricted to people who cannot obtain credit from other sources. A considerable volume of farm housing is built or improved under this program. The Housing Act of 1949 also authorized the Farmers Home Administration to make contributions and grants for the construction and improvement of farm housing and other structures. This provision is little used.

The Rural Electrification Administration, also of the Department of Agriculture, has been instrumental in providing electrification for American farm homes through a system of loans to rural electrification cooperatives. Now nearly all farms have electric service. This Administration also makes loans to cooperative associations for the extension of rural telephone service.

One of the most important real estate credit sources for farmers is the Federal Land Bank system, which is regulated by the Farm Credit Administration, an independent Federal Government agency. This system is analogous in many respects to the Federal Home Loan Bank system which has been previously discussed. The Federal Land Bank system provides credit for general agricultural prrposes. Although statistics on this are not conclusive, there are indications that a considerable volume of farm housing is financed through this channel. The system is completely farmer owned.

Servicemen who are farmers have loan guaranty privileges, for farm housing or agricultural purposes, under the provisions of the Servicemen's Readjustment Act of 1944, as amended.

F. Conclusions

The importance of the role of the U.S. Government in housing is unquestioned, yet the role has consistently remained an indirect one. Housing that is owned or supervised by the Public Housing Administration is only about one percent of all non-farm housing. By providing insurance and thus lessening risk, by making loan funds available, and by grants the U.S. Federal Government has encouraged and assisted private enterprise and local communities to build and improve housing and their communities. These aids unquestionably give the Federal Government considerable influence. On the other hand, in keeping with the National Housing Policy enunciated in the Housing Act of 1949, there has been no effort to dominate or control. The view of the National Association of Home Builders, the dominant trade association in the home construction field, is as follows: "The United States Government has provided invaluable aid and encouragement to the growth of home ownership through its mortgage insurance and loan guarantee programs, but the job of housing Americans has remained a function of private enterprise." 27/

27/ Housing Almanac 1957, National Association of Home Builders.

Because the Government does not control housing construction, it does not control the allocation of resources devoted by private enterprise to the construction of housing. Builders and buyers largely share the responsibility for how the resources of the economy are used. If housing is not built in the amounts, in the areas, in the rent and price classes, and according to the characteristics desired by the renters and buyers, a mistake has been made. Prices and costs are helpful guides in the process but sometimes they give the wrong signals or react too late. Conditions may change between planning and finishing construction. It follows that a careful evaluation of the market is desirable at all times. Housing Market Analysis is the subject of another paper available in the Office of International Housing, HHFA.

Section 314 of the Housing Act of 1954 reads as follows:

> The Housing and Home Finance Administrator is authorized to make grants, subject to such terms and conditions as he shall prescribe, to public bodies, including cities and other political subdivisions, to assist them in developing, testing, and reporting methods and techniques, and carrying out demonstrations and other activities for the prevention and the elimination of slums and urban blight. No such grant shall exceed two-thirds of the cost, as determined or estimated by said Administrator, of such activities or undertakings. In administering this section, said Administrator shall give preference to those undertakings which in his judgment can reasonably be expected to (1) contribute most significantly to the improvement of methods and techniques for the elimination and prevention of slums and blight, and (2) best serve to guide renewal programs in other communities. Said Administrator may make advance or progress payments on account of any grant contracted to be made pursuant to this section, notwithstanding the provisions of section 3648 of the Revised Statutes, as amended. The aggregate amount of grants made under this section shall not exceed $5,000,000 and shall be payable from the capital grant funds provided under and authorized by section 103(b) of the Housing Act of 1949, as amended.

The Administrator has delegated his authority under Section 314 to the Urban Renewal Commissioner, Urban Renewal Administration. The Demonstration Program is administered through the office of Program Planning, Urban Renewal Administration.