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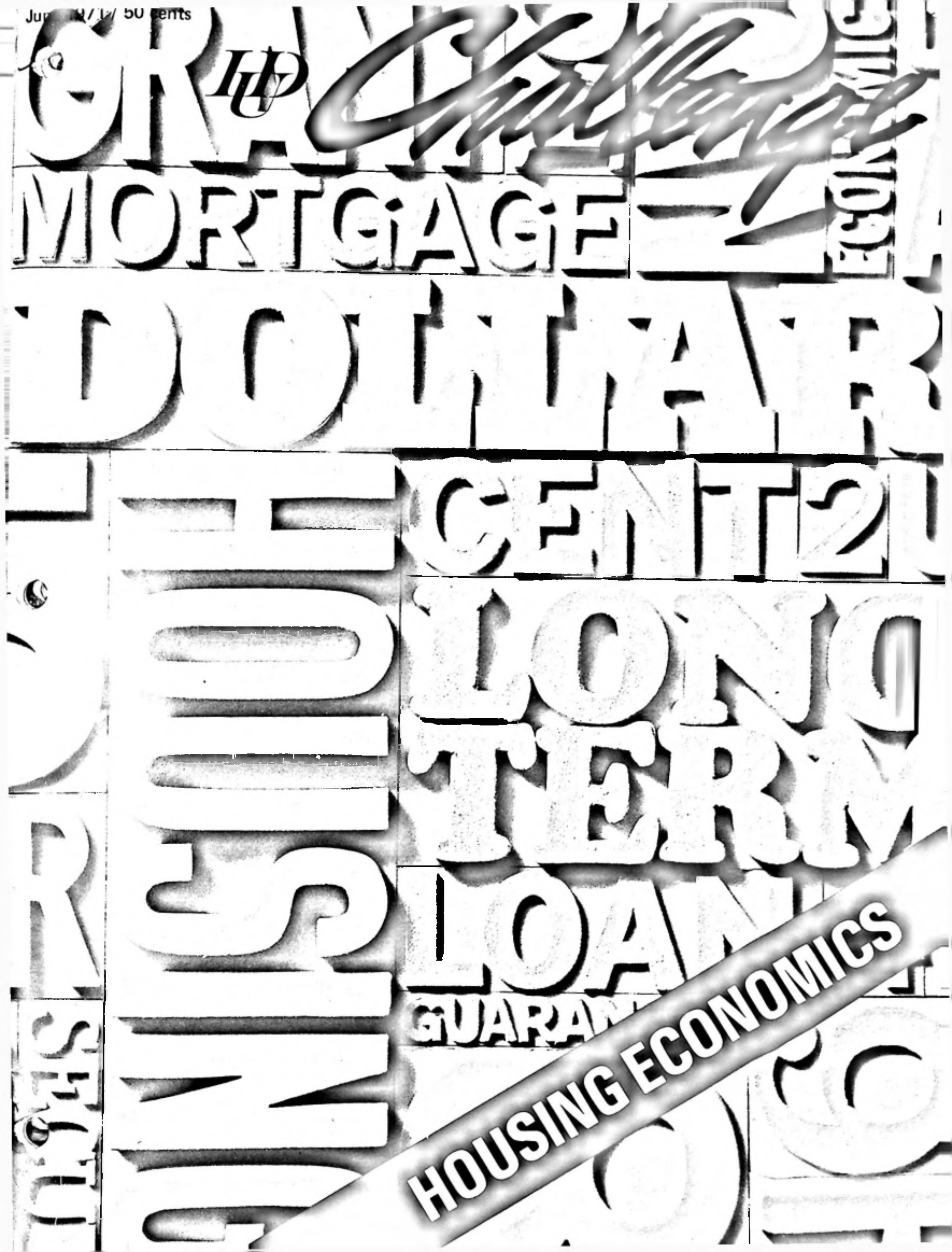
HUD Challenge



HOUSING ECONOMICS

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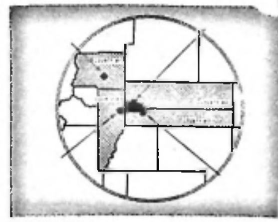
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NEXT MONTH:

A HUD-FHA issue clears up confusion about well-known but often misunderstood programs and explains the importance and impact of unfamiliar HUD-FHA sponsored programs.

COVER: A collage of terms associated with the economics of housing represents the topics discussed in the bylined articles appearing in this special issue.

looking ahead

Supreme Court Upholds Referendum Law

On April 26 the Supreme Court by a vote of five to three, ruled that States may require a vote of the people before a public housing project is undertaken in any locality. The decision *(James et al. v. Valtierra, et al.)* reversed a District Court ruling involving the city of San Jose and San Mateo County in California.

UDC Proposes New Communities

The New York State Urban Development Corporation (UDC) is the first public agency to file proposals with HUD for developing new communities. Under Title VII of the 1970 Housing and Urban Development Act, public as well as private developers are eligible for Federal guarantees. The two new communities proposed by UDC are at Amherst, 10 miles northeast of Buffalo, and Lysander, in the Syracuse metropolitan area.

Curbing Noise Pollution

Urban noise—with New York City as the laboratory—is the subject of a $50,000 research project funded jointly by HUD and the city. The first phase of this project involved developing a methodology to measure the factors contributing to the city's welter of sounds. A 12-day survey conducted in April measured the actual noise levels at some [illegible] locations throughout the five boroughs of the city. These noise measurements were made to test the feasibility and costs of the techniques. The comprehensive methodology, believed to be the first of its kind in the country, includes ways of statistically selecting measurement sites and determining the best times of day or night to make the test, the duration of the measurements at each site, the variations in kinds of noise caused by changes in the weather, and other variables which contribute to environmental noise problems.

Savings League Advice

Lewis Eaton, president of the United States Savings and Loan League, has urged mortgage lenders to give preference to real estate developments that make more efficient use of land than the traditional single-family subdivisions. "It appears that the right planners and developers can build more houses per acre, mix houses with apartments, and combine housing with commercial and employment land uses in thoughtful patterns that create better neighborhoods," he said. "If we opt for higher quality housing and translate that desire into mortgage lending policies, we can have a considerable influence on the quality of our man-made environment."

Contract Preference to Model Cities Residents

An Act passed by New Mexico's legislature permits local public bodies using Model Cities funds to give preference to responsible bidders whose businesses are located in model neighborhoods where work is underway. The contracts eligible for this preference cover materials, services, and public works in model neighborhood areas. The bill, said to be the first of its kind in the Model Cities Program, would significantly benefit Model Cities minority residents and businessmen.

Bright Outlook for Modular Homes

Creative Strategies, Inc., a high technology research and consulting firm in Los Altos, Calif., predicts that modular housing units sold during the 1969-1975 period will increase more than 20 times. The in-depth study of the modular housing industry indicates that the main factors leading to this rapid growth are nationwide demand for low-cost housing, rapidly rising material and labor costs, growing consumer acceptance of mass-produced homes, and changes in building codes.

Habitat in Rochester

The Nation's first Habitat system designed by Montreal architect Moshe Safdie may be built on an urban renewal site in Rochester, N.Y. The City of Rochester, the New York State Urban Development Corporation, and FIGHT, a nonprofit community organization, have undertaken a joint venture to sponsor a $60,000 feasibility study to find out if the Habitat housing system can be produced economically for low- and moderate-income families. The proposed development would cover 10 acres of Rochester's Third Ward Urban Renewal Area overlooking the Genesee River. It would include 58 units per acre with shops and other amenities. The Habitat system, designed for high-cost living at Canada's Expo '67, is presently being tried for lower cost construction in the less demanding climate of Puerto Rico.

Park Under the Track

One section of the Bay Area Rapid Transit (BART) District's Oakland-Richmond line has provided a happy landscaping alternative to the usual panorama of uncut weeds, broken bottles, and garbage often found beneath elevated rapid transit tracks. The 2.7 mile strip has been turned into a linear park complete with grass, a meandering bicycle and pedestrian path, shade trees, ivy, and benches. The cities of Albany and El Cerrito received the park in exchange for the responsibility of maintaining it. The park was started in 1967 as a joint project between HUD and BART.

ATTRACTING NEW MONEY INTO HOUSING

By Woodward Kingman
President of the Government National Mortgage Association, HUD

The mortgage-backed security program of HUD's Government National Mortgage Association (GNMA) holds the bright promise of being a major force for channeling new funds into housing. Through the program, a major innovation in residential financing, a local mortgage banker or any FHA approved mortgagee now has direct access to capital markets. And for the first time, residential mortgages are able to compete equally with other long term fixed income securities.

GNMA's brand new contribution to the investment world became a reality with the issue of the first government-guaranteed mortgage-backed security on February 19, 1970.

Since then the acceptance of the new security by the capital markets has surpassed all expectations. By April 1, 1971, the volume of GNMA securities sold and delivered exceeded $2.5 billion—$1.3 billion in bond-type securities and $1.2 billion in "pass-through" securities backed by

approximately 410 pools of mortgages. In addition there were about 380 commitments for the guaranty of $2 billion of "pass-through" securities backed by pools of mortgages which are still in process of origination by private lenders.

This $4.5 billion of activity means that financing for over 250,000 units will have been provided by the program during its first 13 months. Significantly, the rate of activity continues to increase, with sales of "pass-through" securities now averaging over $50 million per week.

Attracting Investors

GNMA's first $2 million issue a year ago, small as it was, represented the culmination of many months of effort by the many individuals in government and industry who had sought to create a new and more effective vehicle to attract investors into residential mortgages. The Housing and Urban Development Act of 1968 authorized GNMA to conduct the program for the guarantee of securities backed by FHA, VA, and Farmers Home Administration (FmHA) mortgages.

After GNMA's consideration of the form the new security should take and a study of public and private views, final regulations were published in the Federal Register November 7, 1969.

The regulations provided for the type of security now principally used—the "modified pass-through" type under which the investor is assured a minimum yield in monthly payments of principal and interest, whether or not such amounts are collected from the mortgages. This is possible because if necessary the issuer makes cash advances to keep up the payments to the investor whenever the mortgage payments are delinquent. Under this plan, prepayments from mortgages are also passed through as collected.

Any time the issuer is unable to make the necessary cash advances to the investor, he may notify GNMA to take over the obligation. GNMA then can also take over the whole pool of mortgages and its servicing or collections—but has no further recourse against the issuer except in the case of malfeasance or failure to service in accordance with industry standards.

RIGHT—Two life insurance companies agree to purchase the first $2 million of a proposed [illegible] million issue of mortgage-backed securities. The securities, guaranteed by GNMA, will provide financing for core city areas and are part of the largest planned issue of its kind. Participating in the commitment-to-purchase meeting are left to right: Robert H. Wilson, President of the Percy Wilson Mortgage and Finance Corp., Chicago, the issuer of the securities; Woodward Kingman, President of GNMA; Senator Charles H. Percy of Illinois. The two investors are New York Life Insurance Co., and Equitable of Iowa.

LEFT—HUD Secretary George Romney (center) looks on as a $2 million check is passed on to the president of a firm which is making the first sale of a mortgage-backed secutiry. Joseph McCrane, New Jersey Treasurer (left) who represented three State retirements funds, hands over the check to Louis H. Meyer, President of Associated Mortgage Companies, Inc. (right), which sold the security. Observing are Woodward Kingman (second from left), GNMA President, and Richard L. Stoddard (second from right), Director of Investments of New Jersey. GNMA guarantees the new type of security with the full faith and credit of the United States.

This limited liability to the issuer is particularly important in the case of such major calamities as earthquake, flood, or economic disaster where massive delinquencies occur. In such cases, GNMA will take over the pool of mortgages and continue payments to the investor without further recourse to the issuer for the losses involved, and there will be no prejudice against the issuer in subsequent applications.

Since GNMA is merely the guarantor, all GNMA securities are priced by the issuer—in most cases the mortgage bankers who originated the pool of mortgages. Minimum denomination of the security is $25,000 but the minimum size of the pool of mortgages underlying each issue of securities is $2 million.

How to Apply as Issuer

To apply as issuer, any FHA approved mortgagees may write directly to GNMA enclosing application forms and a $500 application fee. GNMA will usually offer a commitment to guarantee the proposed issue of mortgages which must be FHA-insured or VA-guaranteed and no more than one year old at date of commitment. The issuer then has one year in which to assemble his proposed pool of mortgages and deposit them with his custodian, usually his local bank. Upon certification by the custodian that the mortgage documents are in custody, GNMA will then send the guaranteed mortgage-backed certificates to the issuer who delivers them to the investors.

One important factor in making the program a success was obtaining a crucial tax ruling by the Internal Revenue Service, clarifying several tax consequences of the issuance and ownership of pass-through securities. Included in the rulings were provisions that real estate investment trusts, pension and profit sharing trusts, savings and loan associations and mutual savings banks may purchase pass-through securities with no adverse effect upon the tax status they enjoy.

Bond-Type Security

Another significant step in the GNMA program was taken in the development of the bond-type securities. These differ from the pass-through type in that their principal is paid at maturity, with interest paid semi-annually. This presents one problem for the issuer, because the mortgages backing the bonds can be prepaid and these prepayments must be reinvested, rather than passed through, to keep up the coupon payments to the bond holders. If interest rates decline sharply, there could be considerable risk to an issuer faced with the reinvestment of cash to keep up coupon payments at a high rate of interest when current rates are much lower.

Consequently, the issuer of GNMA bonds must be large enough to withstand these risks of changes in the money market. Regulations for a bond-type security appeared in the Federal Register on May 19, 1970, in which a minimum net worth requirement for issuers was set at $50 million. Each issue must be in a minimum amount of $100 million.

So far, issuers of the bonds have been limited to FNMA (two issues totaling $1 billion) and the Federal Home Loan Mortgage Corporation (one issue of $315 million).

There have been other innovations in the program. One of them is the recent provision for issuers to pool multifamily mortgages in the pass-through security program. Previously, only single family loans were used in the pools against which the pass-through securities are sold.

Minimum denomination for an instrument has been reduced from $50,000 to $25,000. Smaller denominations are not permitted so as to avoid a draining of funds from thrift institutions. There are now uniform printed and approved forms for the guaranty, the custodial agreement, and prospectus.

Importance of Secondary Market

Among other developments that have marked the first year's operations, one of the most significant has been the start of an effective secondary, or resale, market for the mortgage-backed securities. Price quotations on GNMA-backed bonds have appeared regularly in various financial publications and the quotations on the pass-through are carried in a new weekly newsletter.

In line with this development, GNMA has published new guidelines designed to aid in the building of a secondary market. Among the new terms included are those which provide for payment of principal and interest to an investor within 45 days of the issue date, instead of the 75-day option previously permitted. These new procedures are designed to make the securities more attractive by enhancing their liquidity.

These changes adopted for the purpose of facilitating the secondary market are absolutely essential if the GNMA program is to achieve its real purpose—the attraction of new sources of capital into housing. This does not mean merely additional amounts from the traditional mortgage investors but new sources, such as the pension funds, which have over $150 billion in assets but invest only about five percent of these assets in mortgages.

Unfortunately, because direct investment in mortgages does involve certain problems of paperwork, documentation, servicing, and foreclosures, there have been few private investors in mortgages except those that have mortgage departments. Consequently the mortgage market has become limited very largely to the banks, thrift institutions, and FNMA.

Need for New Sources of Capital

This limited market for residential mortgages has had extremely adverse effects on housing whenever an inflationary cycle was followed by a period of credit stringency and a tightening of the money supply by the Federal Reserve. Commercial banks were forced to limit their lending to their more important corporate customers, and money in the thrift institutions was unavailable because of the funds run-off caused by higher yields offered by short term investments.

The burden of financing residential mortgages fell more heavily on FNMA, which in turn relied heavily on short term borrowings in the capital markets. The result was that housing starts slowed down and housing goals were not met. Furthermore, construction workers all too often were forced to leave the industry, thus decreasing the already limited labor supply and compounding the problem of labor costs in housing.

Clearly, it was essential to stabilize the mortgage market by providing a new source of long-term capital less vulnerable to the cycles of the money supply in the banking system. The obvious source seemed to be rapidly growing pension funds. They regularly invest large sums in fixed income securities, so how could mortgages be made to appeal to them?

The answer was to create a new security which would be similar to a bond but which would be backed by mortgages providing the yield of the bond. And so GNMA was authorized by Congress to guarantee such a security supported by FHA or VA mortgages in order to attract these new sources of capital into housing.

It is our belief that a government agency can work in partnership with private enterprise by providing a useful service which is available on a voluntary basis. In line with this philosophy, we at GNMA have therefore endeavored to provide for the investment community a security attractive on its own merits—and would appeal to the self interest of the investor as well as serve the public interest by helping the Nation achieve its housing goals.

Advantages to the Investor

With this objective in mind, GNMA has designed its mortgage-backed securities so that they offer a number of important advantages to the pension fund investor:

- GNMA securities are competitive in yield with high grade corporate securities. To illustrate, the first $2 million issue of GNMA's pass-through securities, was an eight percent GNMA certificate backed by $2 million of 8-1/2 percent FHA mortgages originated in New Jersey by the mortgage banker issuer (who keeps 1/2 percent for servicing). The eight percent certificate was sold on February 19, 1970, to the State of New Jersey pension funds at a price of 94.75 percent of face value for a yield of 8.6 percent, based on the full maturity of the certificate, or a yield of 8.75 percent, based on a maturity of 12 years which is the figure commonly used in the industry for FHA mortgages. Currently, the GNMA eight percent certificates are selling at a price of 107 for a yield of 7.05 percent based on the 12-year maturity.
- GNMA securities are of high quality, carrying GNMA's guaranty and the full faith and credit of the United States Government.
- GNMA securities are designed so that investors have none of the paper work and documentation that is involved in handling mortgages.
- The securities also relieve the investor of any problems which can arise in the case of mortgage delinquencies since the govern-

ment guaranty assures the investor of the regular return of principal and interest whether or not collected from the underlying mortgages.

- GNMA pass-through securities provide a steady cash flow of interest and amortization of principal each month, permitting either immediate reinvestment or programmed application to pension payments.
- The growing secondary market for these securities means that they now provide the liquidity which is essential if they are to appeal to non-mortgage-oriented investors.
- Finally, an investor in the pass-through securities has the option of designating the area or State from which the pooled mortgages are to be drawn, thus spurring housing in their State, since the proceeds of the sale are reinvested in housing.

The response to this new program can be seen from the large volume of financing which has taken place. These securities have been bought by union, corporate, municipal, and State pension funds. State funds have been particularly active in the program. While thrift institutions currently have been the heaviest investors because of their unusually high cash position at present, there is still over one-third of the GNMA pass-through securities now being purchased by new sources of capital for housing.

The Future

What of the future? Looking to the short range future, we will be gradually expanding the program in many ways. We hope to come up with new procedures which will make the pass-through security even more effective for the financing of multifamily mortgages.

In the long range, the Nation's housing needs are critical and our housing production goals are going to be difficult to meet. The GNMA program offers one way of assisting in this great challenge. However, I emphasize the word *assist*, because we do not want to give the impression that the government should take over the mortgage market. On the contrary, we feel that the private sector is the primary element in this effort, and that GNMA is available to be used by the private sector on a voluntary basis, as a back-stop and as a partner.

For further details and information on how to participate in this program, investment managers should directly contact local mortgage lenders who are approved FHA mortgagees. Or details may be obtained from the Government National Mortgage Association, Washington, D.C. 20410.

Woodward Kingman, former banker and New York City Councilman, is President of HUD's Government National Mortgage Assoication. GNMA is the Government-owned corporation that operates the Special Assistance and Management and liquidating functions which were retained when the Federal National Mortgage Association was reorganized in 1968 as a private entity.

editor's notebook

A total of 59 **George Romney Housing Production Awards** for 1970 have been presented to HUD Regional, Area, and Insuring Offices for outstanding achievement in surpassing production goals in 1970. Eugene A. Gulledge, HUD Assistant Secretary for Housing Production and Mortgage Credit and FHA Commissioner, presented the awards at meetings in Washington, D.C., and Denver. In presenting the awards, Mr. Gulledge noted that in 1970, total housing starts for federally assisted housing exceeded 400,000 and that December had set an alltime monthly record of assisted starts with 50,000 units. Each office will receive a plaque commemorating the award.

HUD-FHA and VA mortgage rates have dropped from 8½ percent to 7 percent, actions which will continue to encourage home purchases. Conventional mortgage rates continue to drop as well, from 8.38 percent in December to 7.92 percent in February, to 7.75 percent for new homes in March.

A joint report entitled "National Survey of Abandoned Housing," by the Urban League and the Center for Community Change warns of the **prospect of urban "ghost towns"** unless a massive national effort is made to cope with the problem of abandoned housing. The survey concentrated on abandonment in seven cities: St. Louis, Cleveland, Chicago, New York, Detroit, Atlanta, and Hoboken, N.J. St. Louis has the most severe problem, with 16 percent of the housing abandoned in the two neighborhoods included in the survey. Atlanta and Detroit had the least amount of abandonment.

Flushed with a record amount of consumer savings available for investment, S&L's made **mortgage loans totaling $2.7 billion in March**, the highest monthly lending volume in the 140-year history of the business, according to a report by the U.S. Savings and Loan League. The League's monthly survey also confirmed projections by the FHLBB that S&Ls set a record in savings during March. The $3.9 billion was not only a record growth for deposits for any month but also rounded out a first quarter gain of more than double the gain for all of 1969.

For the second year, three enterprising college students in Ohio are organizing the **Summer Experience Center**. Last summer when they could not find jobs, the students started the "summer school" program for children needing extra help to keep pace in regular elementary schools. The Center receives financial assistance from the Jennings Foundation, Head Start, and the Montessori School. Many of the children last summer were residents of developments of the Akron Metropolitan Housing Authority. A renovated greenhouse served as the Center last summer; this year facilities will be at the Montessori School in Hudson, Ohio. For more information contact Stephen Snyder, 3065 Randolph Road, Cuyahoga Falls, Ohio 44224.

HUD and DOD announced that **lower income military families** will be given priority in selected projects in certain designated areas under HUD's lower income rental housing program (Section 236). Approximately 4,000 units will be made available initially through new construction in selected military areas designated by DOD as having an acute housing shortage. HUD-FHA will set aside annually a given amount of Section 236 funds for construction earmarked for military priority use. This year the set-aside is $4 million for installations in 14 designated areas.

The Housing Environment Liaison Police Program (HELP-P), initiated in January in St. Paul, Minn., has proved to be a great success. Four policemen, especially recruited for the program, are assigned to each public housing project. Objective of the program is to reduce crime and criminal activity in areas disproportionately composed of children and the elderly. It's hoped the program will develop solidarity among residents, who will realize that a cooperative effort with the police can bring order to the area and that each resident has a stake in, and responsibility for, preservation of an orderly community.

A new Model Cities office for Edinburg, Texas, is a unique example of **local-Federal cooperation** in the Program. The portable building contains 3,000 square feet of floor space and was built for the Model Cities Program by the local Community Action Program (CAP) Agency as a construction training project financed by OEO. Approximately 65 trainees received practical training experience in construction. All materials were furnished by the Model Cities Program at a total cost under $25,000. The CAP Agency furnished all labor and supervision of construction under the training program. Local private enterprise also cooperated in the venture.

Leslie J. Carson, Jr., was appointed Deputy General Counsel. Mr. Carson, who had been serving as Associate General Counsel for Housing Production and Mortgage Credit since February 1970, succeeds Norman C. Roettger, Jr., who resigned to return to private law practice.

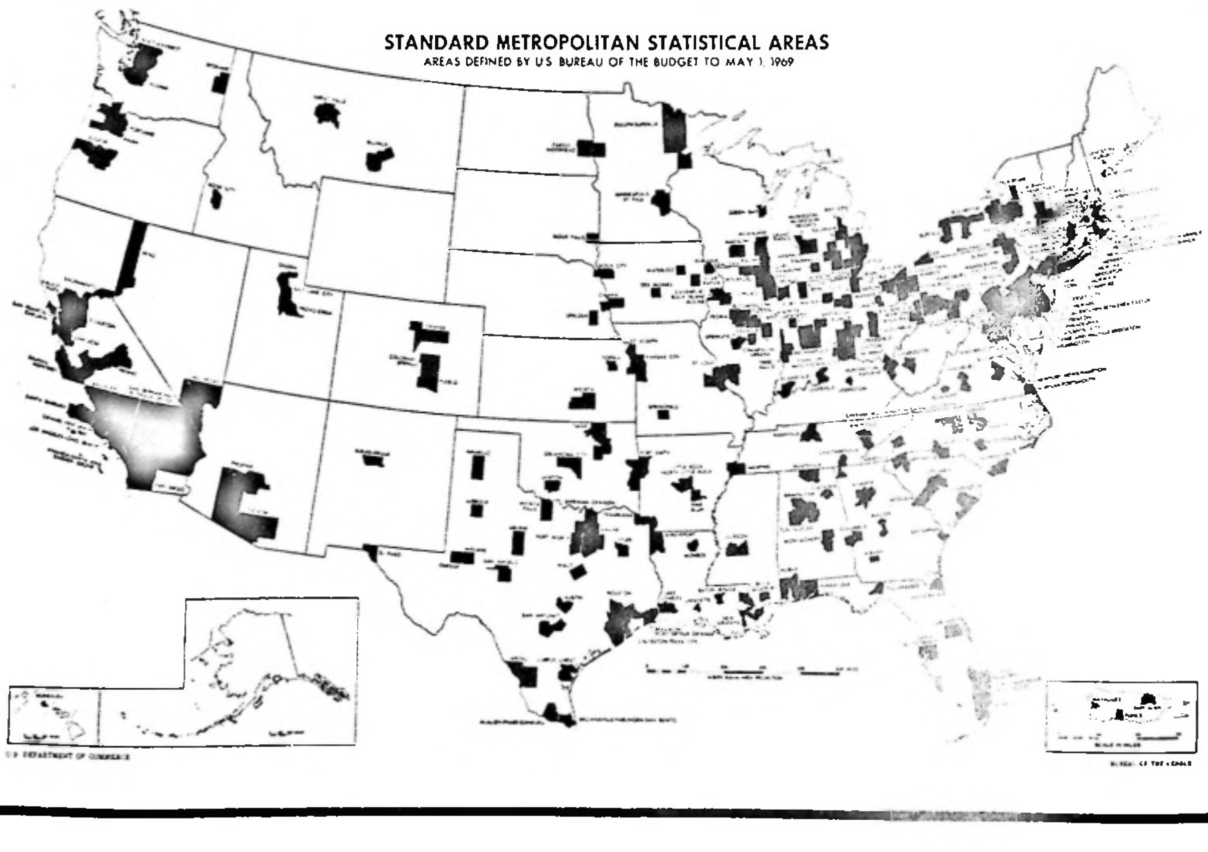
MORE POWER TO THE PEOPLE IN THEIR OWN COMMUNITIES

That title, in a capsule, is the main point of legislation introduced in Congress in April, as the Community Development Act of 1971. The Administration bill would give local elected governments a freer hand and more responsibilities in solving their urban growth problems.

Urban communities needing Federal funds for urban development would receive their fair share, under the proposed legislation, and without having to go through the tortures of preparing massive applications, playing politics, or matching local funds to Federal grants.

And the local governments would have to understand only one Federal urban aid program rather than the present four that will be merged into the Urban Community Development Program. These are for water and sewer grants, housing rehabilitation loans, Model Cities, and the urban renewal program in its many facets. All activities now carried out under these four programs would be eligible under the new program. The other departmental programs are not affected, including the several Community Development programs which will continue to be administered separately, such as the President's "Legacy of Parks" program.

Furthermore, 20 percent more Federal funds would be budgeted for the new overall program in its first full fiscal year than for the four current programs in Fiscal 1971.



Four-Part Formula

Of the $2 billion that President Nixon asks for the program, four-fifths would be allocated to the metropolitan areas (SMSA's) on the basis of a single formula using four criteria, each of equal weight. These four are: population, over-crowding, condition of housing, and poverty, as established by the 1970 Census.

Sharing in this distribution will be the 446 "metropolitan cities" in the Nation's 247 Standard Metropolitan Statistical Areas. These cities are the officially designated central cities and others of 50,000 population within the SMSA's. The balance of the SMSA allocation would be available for smaller cities in the SMSA's and would be administered by HUD. The President has recommended that at least $100 million be appropriated exclusively for smaller communities. All small communities now receiving continuing aid under the present HUD programs would be assured of continued funding at least at the same level.

Under the four-part formula, many cities will receive more urban development funding than they have in the past.

"Hold Harmless"

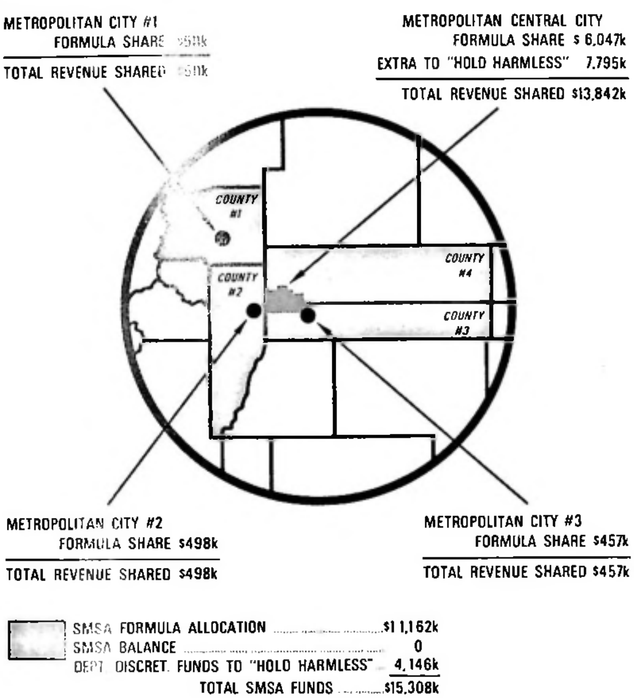
Where the formula does not provide a city as much as it has been getting, a special "hold harmless" reserve will make up the difference. HUD will reserve up to 20 percent of its funds, or an estimated $400 million, for discretionary use for three purposes:

- the "hold harmless" support for cities requiring continuing high levels of development activity;
- rewarding superior performance; and
- providing for highly innovative approaches.

The amount of "hold harmless" funds for a city will be determined by a five-year (June 20, 1965 - June 30, 1970) averaging of funds received from the replaced grant-in-aid programs, with one exception. In the case of the two-year-old Model Cities program, the special funding would be based on 12 months' full funding.

Over the coming years, amounts received in each city could be expected to rise as more Federal revenues become available for domestic needs.

Under the single new Urban Community Development Program, cities would get their formula funds automatically, on a quarterly basis. Their "hold harmless" share would be held until the end of each year to take into account the funds they have received under the earlier grant programs. Thus all former commitments made before Special Revenue Sharing will be honored, but there will be no "double fundings."



A sample distribution of revenue sharing funds within a SMSA.

All 146 cities with Model Cities contracts are assured ample funding to carry out the full five years of action already scheduled. This applies to Model Cities that are not "metropolitan cities" as well as those that are. Full-year Model Cities contracts would continue to be approved until December 31, 1971. After that, the Special Revenue Sharing funds will be used by the cities to carry out their plans.

Performance Evaluation

To obtain the Urban Community Development grants, cities would make available to HUD and publish a statement of objectives and projected uses of the funds. This is a requirement in the Special Revenue Sharing concept that does not apply to General Revenue Sharing, under which $5 billion will be made available to States and local governments to use without functional strings. Under the Special Revenue Sharing programs (others are proposed for Education, Manpower Training, Law Enforcement, Transportation, and Rural Community Development), funds can be used for only certain basic projects within the framework of broad national objectives.

After funds go to the communities, HUD will audit and appraise each community's plans and progress in achieving local goals. Thus HUD will evaluate actual performance capacity and it may then make some discretionary grants of additional funds, from its 20 percent reserve, to those communities making the best efforts.

In both the General and Special Revenue Sharing programs, there could be no civil rights discrimination in

the use of Federal funds. The rights of all persons to equitable treatment would be protected. Monies used under the program have the full coverage of Title VI of the Civil Rights Act of 1964.

Local Control

More important than the automatic flow of Federal aid funds to the cities and suburbs would be the automatic flow to local governments of new freedoms, opportunities, flexibilities, and responsibilities. At the same time, the new program would free HUD officials to spend their time improving programs and assisting smaller communities with development needs instead of making countless reviews as to how aid funds should be divided among urban communities.

No longer would mayors and city councilmen face the frustration of having to prepare massive applications to justify their needs to Federal officials. No longer would they need to keep up with ever-changing regulations controlling a variety of unconnected programs developed piecemeal over the years. No longer would they have to worry each year whether Congress would continue each program.

One of the most important gains, for elected officials, would be full control over the Federal aid funds coming into their areas. At present, most of these funds flow to agencies over which the elected officials have little or no control.

Courtesy of National Governors Conference

HUD Secretary George Romney addresses the winter Meeting of the National Governors Conference. Governors and speakers discussed the President's Revenue Sharing Program.

Under the new program, the communities would be free to continue to use their renewal agencies if they wish or they could create other mechanisms deemed more effective. HUD will not require cities to set up special agencies to handle funds or administer development programs.

In effect, all cities would be able to enjoy the advantages of the Model Cities Process, now limited to 146 communities. Each city can use the urban development grants with broad flexibility. Elected officials, working with their constituents, can establish priorities and goals as needed and set up whatever administrative bodies are required to carry out coordinated programs.

With this new freedom from narrow Federal guidelines, community leaders could plan anew to tackle priorities. They could change boundaries for clearing blighted areas, enforcing housing codes, building neighborhood centers, and locating parks. They could allocate funds freely as needed between renewal activities, rehabilitating rundown housing, demolishing other old structures, training youths and retraining older citizens for employment, and conducting innovative projects.

Along with this flexibility, the localities would not need to tie up local funds in matching contributions to obtain Federal grants. Local revenues could be allocated promptly to projects with immediate priority.

Planning Grant Assistance

The proposed Community Development Act also includes a parallel program of planning and management training grant assistance to help State and local governments make the best of their resources and capabilities. This part of the Act provides a new Program for Planning and Management Assistance to replace Section 701 Comprehensive Planning Program. The Secretary will establish procedures to provide a transfer from 701 to the new program. The President has recommended the funding be increased from the present $50 million a year to $100 million.

All in all, the Act would return to the urban communities more funds and more powers to act than they have had for many years. The new approach would reverse the erosion of the cities' ability to deal with urgent needs. Once again, strong local government could develop to match strong State and Federal government—each an essential ingredient of the Federal system.

The Act recognizes that urban community development needs exist primarily in metropolitan areas where 70 percent of Americans live. The Rural Community Development Special Revenue Sharing program, on the other hand, is designed to meet the needs of communities not within the metropolitan areas. The provisions of the Community Development Act aim at making full use of national resources, local initiative, and community cooperation. Through the united effort of these forces, the long-sought goal of a decent home and a suitable living environment for every American family might be reached at last.

U.S. GOVERNMENT PRINTING OFFICE: 1971—437-149/16

urban forum

Rural Housing

"What rural America needs most is a new kind of assistance. It needs to be dealt with, not as a separate Nation, but as part of an overall growth policy for all America. We must create a new rural environment that will not only stem the migration to urban centers, but reverse it."

President Richard M. Nixon
State of the Union Address, 1970

"There is no neat dividing line between 'urban' and 'rural.' Small towns and rural areas have many of the same problems as large cities. Moreover, with the passage of time, many smaller communities become urban in character. No longer is there a rationale for splitting the Federal response to the needs of communities based on size alone."

George Romney
Secretary of the U.S. Department of Housing and Urban Development

"Clearly, we as a Nation have promises to keep, and . . .time is running out. Today, as a direct consequence of massive indifference on the part of our Government, we face a full-scale housing famine in rural America. This famine—this daily hunger for housing—is as painful and as destructive of human life as hunger for food would be . . . .If all of our 50 States were simultaneously struck by hurricanes, the resulting emergency—the deaths, the destruction, the shortages of water and sanitation and shelter—would be no greater than the emergency we now confront in rural America. But rural America has never been declared a disaster area."

Richard J. Margolis, Chairman
Rural Housing Alliance

"It is not so well known that two-thirds of the (Nation's) worst housing is to be found outside of the metropolitan areas, although the same nonmetropolitan counties include only 36 percent of the Nation's households. These are, it should be noted, 1968 data. This disproportion appears to stem from a complex of factors. Rural areas and small towns suffer from generally lower incomes, exhibit a more frequent need for water and sanitation facilities and related plumbing amenities, have generally older housing, and, because of certain institutional shortages, receive less than a proportionate share of housing assistance."

Promises to Keep
Senate Select Committee on Nutrition and Human Needs
January 1971

"Of all the programs that now exist the one that reaches the lowest in the income scale is self-help housing. In this system a group of families work together under the guidance of a skilled construction supervisor to build their own homes. This method enables them to save as much as 30% of the normal construction cost . . . . For 30 years houses have been built by the self-help method in Nova Scotia. The government of Puerto Rico assists self-help house construction with a special department. More than 30,000 houses have been built . . . .Now, under recent amendments to the Housing Act, the Farmers Home Administration has authority and funds to finance all aspects including the development of building sites."

Clay L. Cochran, Executive Director
National Rural Housing Coalition

"The area of service of the Farmers Home Administration rural housing program has been expanded to include places of up to 10,000 population that are rural in character. Previously the agency was limited to rural places with up to 5,500 population. As a result of the change, which was a part of the Housing and Urban Development Act of 1970, an estimated 800 more rural towns can now qualify for rural housing loans. Many of these additional rural towns have opportunity for growth and expansion. As a rule they already have essential public facilities but housing credit has not been adequate to meet the needs of lower-income families."

James F. Neville
Assistant Administrator
Rural Housing
Farmers Home Administration

"Housing cooperatives, which long ago proved their worth in the cities and suburbs, are now showing that they are one effective way to bring together the Federal assistance programs, long-term financing, the builders, and the market mechanisms to make possible wholesome, well-planned rural communities. Prior to the implementation of our Ford Foundation grant-funded program, there existed only one 18-unit rural cooperative housing project in the United States. As a direct result of the program, 14 additional rural area housing cooperatives have been started."

John W. Piercey, Director
Rural Housing
Foundation for Cooperative Housing

SMALL TOWNS GET HUD ATTENTION, TOO

Ghetto living, country-style means a shanty across the railroad tracks.

Photo provided by Rural Housing Alliance

By
Edith P. L. Gilbert
Special Assistant to the Secretary

The despair of poverty is just as real in a small town as it is in an urban center. Living across the railroad tracks in Small Town, U.S.A., can mean the same dead-end existence as living in a city ghetto. And there's not much choice between a no-water shanty and a cold water tenement.

It's just that more people talk about the urban crisis than the rural crisis. Probably because the greater number of people affected in any one area make city problems more dramatic than the scattered blight of rural communities. Nevertheless, we cannot have separate standards for city residents and country people. The same opportunities must be made available to all American families. Rural communities need to be dealt with—not as a separate nation, but as an important part of our overall growth policy.

Scope of HUD Programs

The scope of HUD's housing and community development programs is not limited to the problems of the large cities. Of HUD's comprehensive planning grants, almost half, or $25 million annually, go to areas with populations under 50,000. Nonmetropolitan multi-county district planning, funded by HUD, helps even smaller communities and rural areas identify problems and mobilize available resources. Two-thirds to three-fourths planning grants are provided to States for the development of rural multi-county areas under this program, which has been effectively used in 31 States; demand for this type of assistance in rural areas is increasing.

Many small towns seem to be determined not to become instant cities and are looking ahead in order to avoid the mistakes so many fast growing communities have made in the past. The Nation's smaller communities are enthusiastically participating in Neighborhood Facilities and the Open Space and Urban Beautification programs and are showing interest in the renewal program in order to cope with blight and obsolete use of land.

Of the over 2,000 renewal projects funded by HUD, half are in cities of under 50,000 population, and, of these, 743 are in communities under 25,000. Another fact that holds promise for rural America is that over 60 percent of all water and sewer facilities grants have gone to small communities under 25,000.

The smaller rural communities are also making extensive use of HUD's housing programs. A growing number of them have been participating in the Public Housing program for low-income families. Of the one million low-rent public housing units under management, reservation, or in a state of development, nearly a quarter are located in rural communities. During the fiscal years, 1968-1970, more than 1.72 million housing units in the United States received assistance either through a HUD/FHA insured mortgage or through public financing involving Federal funds. More than one out of 10 of these units—183,500—are in rural counties.

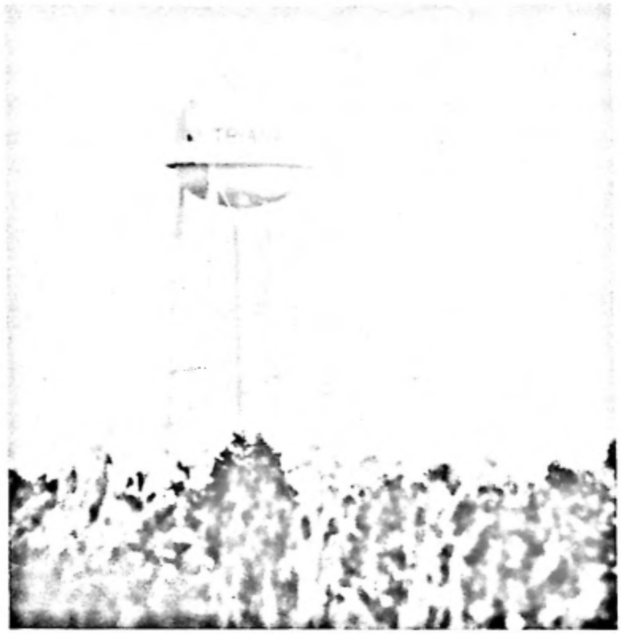
Interrelated Programs

Added impetus has recently been given to the production of rural housing through pooling the efforts of HUD and the Department of Agriculture. Recognizing the interrelationship of their respective housing programs in communities under 25,000, the two departments have organized a HUD-USDA Rural Housing Coordinating Group. This interagency mechanism, now broadened to include OEO, has set out to serve small towns in solving their housing and mortgage financing problems.

One of the first steps was to get the facts about available Government assistance to the people living in rural areas. In cities, that's a rather easy task, but in rural areas, a more personal approach is needed—there isn't always a local newspaper to announce a meeting and there may not be a mayor's office to give out information. Through the use of a filmstrip, broad distribution of pamphlets, and personal visits, rural residents are learning about Federal programs that will help in the development of better living conditions in rural areas.

Taken as a whole, the small town and rural housing problem is bigger than most people realize. For example, one-half of America's low-income citizens live in rural areas and two-thirds of all the Nation's substandard housing is located outside large metropolitan areas.

This situation is also aggravated by the fact



Water tower in an Alabama town of 700 is a symbol of better living.

Pollution stalks the side roads of America.

Rural public housing must reflect the individuality that is indigenous to Small Town, U.S.A.

that there are fewer builders and lenders in rural areas to produce the needed housing. For this reason, rural areas are proving to be a natural market for prefabricated and mobile homes which can be shipped and put in place with a minimum of labor.

"I Like It Here"

America's continued love of small town amenities is among the most significant influences in growth development. Most Americans enjoy knowing their neighbors, walking to work, and doing business at the corner store. Recently, when a resident of a small town was asked what kept him in that community, the answer was a firm and positive, "I like it here." That reply became the title of the filmstrip which HUD made to depict how its programs are designed to help smaller communities and rural areas solve their problems.

Despite the love many Americans have for their home town, many have to move to urban centers to find employment and greater opportunity. The recent trend toward New Towns, in this country and in Europe, is an innovative development to provide the best of both worlds —a rural atmosphere with urban economic opportunities.

The keystone to such an ideal is community planning, and more and more little towns are realizing that fact. Scores of small communities are banding together to seek HUD assistance for a whole area. Environmental councils are being formed in rural areas to stand guard against encroaching pollution before it is too late. Voluntary cleanup crews have begun to patrol country streams to keep them clean and attractive for fishermen. Concerned citizens through their local communities turn to HUD for technical advice and financial assistance.

The full range of HUD's housing and community development programs are at work all across the country to achieve the President's goal to "create a new rural environment that will not only stem the migration to urban centers, but reverse it."

This goal has become an integral part of the President's overall program for domestic development as set forth in his proposals to Congress for revenue sharing. In laying plans for the future the President has recommended an additional $100 million in new funds exclusively for smaller communities. Revenue sharing is intended to help communities of all sizes—from metropolitan areas to small towns.

HUD Assistant Secretary Samuel Jackson gives impetus to Small Town Services in meeting with special staff.

HUD program assistance to small towns under 25,000
(Cumulative as of June, 1970)

Water and Sewer Grants 1,067 projects	$1,205,[illegible]000
Public Facilities Loans 1,311 projects	440,[illegible]00
Neighborhood Facilities Grants 242 projects	42,9[illegible]00
Community Renewal Grants 33 projects	9[illegible]000
Neighborhood Development Grants 38 projects	69,796,000
Urban Renewal Grants 743 projects	1,233,006,000
Historic Preservation Grants 11 projects	403,000
Acquisition and Development [illegible] for Undeveloped Land 782 projects	45,039,000
Certified Area Grants 4 projects	4,092,000
Code Enforcement Grants 25 projects	22,447,000

The Federal Home Loan Bank Board Helps to Provide

Funds for housing

By
Preston Martin
Chairman, Federal Home Loan Bank Board

The Federal Home Loan Bank Board (FHLBB), until recently a Federal Agency whose name and functions were not too well known, is being adapted into a major factor in the Nation's financial markets and an innovator in "conventional" mortgage financing. In the process, the Board is extensively reshaping the regulatory environment of the $189 billion industry it supervises—the savings and loan (S&L) industry.

Some of the major innovations include a new 100 percent loan to finance HUD's Operation BREAKTHROUGH projects through S&L's, authorization for S&L's to finance mobile homes, and encouragement for the associations to form subsidiary corporations to increase their role in developing and lending on inner-city housing.

In addition, the Board has taken a variety of steps to enable the Federal Home Loan Bank System to work more closely with HUD in an effort to improve housing.

Supervises S&L's

But before going into the innovations, perhaps we should consider just what the Federal Home Loan Bank Board is and does. The Board was established in 1932 and is an independent Federal agency headed by a three-member Board, appointed by the President, by and with the consent of the Senate for full or unexpired portions of four-year terms.

Present Board members are Preston Martin of California, designated as Chairman and executive head of the agency; Carl O. Kamp, Jr., of Missouri; and Thomas H. Clarke of Georgia.

The Agency supervises the savings and loan industry—the country's major private source of funds to finance the construction and purchase of homes. In 1970 all operating savings and loan associations closed $21.4 billion in loans.

The funds of some 47 million savers in 4,346 insured member institutions are insured up to $20,000 by the Federal Savings and Loan Insurance Corporation, a permanent Government corporation under the direction and supervision of the Board.

A newly created Federal Home Loan Mortgage Corporation (FHLMC) was established by the Emergency Home Finance Act of 1970 to operate a secondary market in conventional mortgages. The Agency is totally separate and independent from the FHLMC, but the three people who make up the Bank Board also are the Directors of the Mortgage Corporation.

The Federal Home Loan Bank System consists of the Federal Home Loan Bank Board, 12 Regional Federal Home Loan Banks, and the more than 4,000 insured member institutions.

An association's membership in the System assures the homeowner-borrower that the institution to which he applies is a dependable source of economical home financing. This System, directed by the Board in Washington and working through the Federal Home Loan Banks in 12 Districts, makes available long- and short-term credit to 4,629 member institutions.

Contributes to Housing Goal

The present Board has moved actively in several directions to help the savings and loan industry make a contribution toward the 10-year goals spelled out in the Housing and Urban Development Act of 1968. These goals will involve the industry in loan closings of from $30 to $40 billion annually, with increasing amounts for inner-city properties and suburban subsidized housing for low- and moderate-income families.

To meet the most critical needs, the Board is developing more flexible lending regulations to assist in the financing of lower priced homes, apartments, and mobile homes. It has made available, from the Federal Home Loan Banks, special 10-year advances for inner-city housing to stimulate greater participation by S&L's in long-term renewal and rehabilitation projects. The Board has encouraged S&L's to work with HUD on inner-city projects.

The Regional Banks have made a series of substantial financial commitments in the billions and have offered programs with similar price tags attached to stabilize mortgage credit flows. This stabilization has been difficult as lenders have

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President Nixon enters the room to sign the Emergency Housing Finance Act of 1970. Behind him stand (left to right) George Romney, Woodward Kingman, and Preston Martin.

depended almost entirely on the flow of savings which is plentiful one year and scarce the next. When that occurs and housing is short, our function as a credit reservoir compensates for the scarcity and we become a mortgage buyer. Compensation also will be provided by the Board during periods of savings peaks in that excess liquidity will be absorbed by selling mortgages and "participations" in mortgages, so that overlending and bad loans may be averted. The Board anticipates its credit efforts will be pretty steady in the areas of moderate- and low-income housing finance because there isn't enough money for this kind of housing even when savings flows are high.

Additionally, the FHLBB has provided stabilization through the issue of long-term, fixed-rate advances for financing housing projects under HUD-subsidy programs and Operation BREAKTHROUGH. The Board removed restrictions and increased maximum advances to member institutions for purchasing loans or making participations secured by real estate located outside their normal lending areas. The Board also helped to top off mortgage rates by holding interest rates on advances below the average cost of funds, thereby keeping interest rates that home buyers pay from soaring even higher. This is part of the Board's introduction of flexibility in lending to its 4,000-plus member S&L's and thus channeling needed money into mortgage financing.

From June, 1970, through February, 1971, insured S&L's closed more than $18 billion in mortgage loans. New loan commitments also were at record highs. In February, associations made nearly $2.1 billion of new mortgage loan commitments. Outstanding commitments at the end of February totaled a record $5.2 billion, up $2.4 billion over the comparable 1970 level. Clearly, the Federal Home Loan Bank System has been one of the major sources of funds for the growing revival of the housing market.

FHLMC Works With GNMA

In addition to the activities of the Board, the Federal Home Loan Mortgage Corporation seeks to get the large savings and loan industry more involved in making FHA and VA loans. FHLMC has made a standing offer to member associations to buy and sell FHA/VA mortgages. The FHLB System started a series of purchases of these mortgages in June, 1970. After the Federal Home Loan Banks had assembled a pool of some $322 million in FHA/VA paper, the Corporation purchased these loans from the Banks and then issued GNMA-backed bonds, with the proceeds going back into the mortgage market. The Corporation expects to buy up to $1 billion of FHA/VA mortgages in 1971.

The Board also issued regulations making GNMA bonds eligible liquid investments for savings and loan associations, increasing housing funds even further. We feel GNMA and the FHLMC can do much working together to enhance the marketability of the mortgage instrument and to tap new sources of housing funds.

The Mortgage Corporation introduced an important innovation in its transactions—the fixed price forward commitment. This procedure fixes the interest cost for lender and builder in the sale of FHA/VA mortgages to FHLMC under purchase commitments of up to 18 months. In this way, lender and builder are protected against the risk of any rising rates on such mortgages during the period. This should boost housing starts tremendously because it eliminates guesswork for both the builders and the lenders.

The Board has authorized and is encouraging the 12 Regional Banks to offer their members a series of different types of advances—both short-term and long-term—with varying terms and conditions. These advances are designed to increase the capital available to the mortgage market. The System also will continue to provide emergency advances in whatever amount is necessary to meet serious withdrawal situations, so the advances policy will continue to ensure the stability and liquidity of member institutions.

Efficient Liquidity Management

Greater emphasis, however, will be placed on the additional roles of the advances policy in meeting long-run mortgage financing needs and the serious deficiency in available funds for low- and moderate-income housing. Our projections indicate a substantial gap between housing credit needs and savings flows, and System advances should be used to reduce this gap. Since member institutions remain a reliable and consistent supplier of housing credit, it becomes all the more essential that they have access to adequate funds.

The advances policy has been designed so as to use the System's available funds with maximum efficiency and maximum impact on housing markets. As a corollary, it follows that there must be more efficient usage of total System liquidity as this permits the inter-regional movement of savings and credit from areas of savings surplus to areas of shortages. More efficient liquidity management can be best accomplished through a System-wide pool of funds, by broader use of inter-Bank lending agreements, and by advances to the Federal Home Loan Mortgage Corporation to accomplish inter-regional mortgage purchases and sales.

The Board recognizes the importance of a consistent and easily understood posture in the capital markets if it is to raise a maximum volume of funds consistent with mortgage needs. Therefore, we intend to minimize wide fluctuations in the levels of borrowings from the capital markets.

Toward Wider S&L Involvement

The Bank Board, the Bank System, and the Mortgage Corporation have acted in other ways to promote and encourage S&L's to be more active FHA/VA loan originators and to participate in the generation of FHA-sponsored and HUD-subsidized low-income property loans. Board members and staff have made numerous speeches to industry members. Our Regional Banks have scheduled workshops. The Mortgage Corporation staff has been pushing for greater FHA/VA involvement. Each Regional Bank now has a regional housing coordinator responsible for helping S&L's get involved in FHA projects and HUD subsidy programs.

The Board's newly created Center for Executive Development also is working toward wider S&L involvement in solving the problems of the inner-city—not only through participation in rehabilitation projects, but also through training and employment of minority groups in the savings and loan industry, in the Regional Banks, and in the Bank Board. The Center recently held seminars in San Diego and New Orleans on subsidiary or service corporations as one approach towards development and lending in the inner city. Close cooperation with HUD, the leading government agency dealing with community development, is a message the Board is spreading to savings and loan executives.

Industry's Response

We have been cheered by the industry's response to housing's financial needs. Pittsburgh S&L's are leading the way with financing for the various nonprofit groups which are renovating that city's core area. S&L's took part in the Boston Infill Program—building low-income dwelling units on scattered, tax foreclosed, vacant city lots. In New Rochelle, N.Y., an S&L helped an inner-city church in putting together a $2.7 million, 110-unit apartment project for moderate-income families. We already have mentioned S&L financing on the BREAKTHROUGH projects. There is a long list of projects with S&L backing.

We also have noticed a growing number of associations dealing with the FHLMC—a sure sign of the industry's response to the country's housing needs. When the Mortgage Corporation made its first GNMA bond offering, slightly more than 100 associations contributed mortgages that made up the offering. The median asset size of associations selling to the pool was $87 million. But the average asset size of associations taking part in the second offering was about $73 million—a 16-percent decrease in association average size.

The point is that S&L management is discovering that it pays to make the commitment in manpower and resources to begin dealing not only with the Mortgage Corporation but also with FNMA and other secondary mortgage markets operating throughout the country.

The Board has taken these actions to enable the savings and loan industry to achieve their primary responsibility in today's complex conditions—helping to provide funds for housing.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
SAFETY OF YOUR SAVINGS
INSURED
UP TO $20,000

A crane lifts a module containing half a two-bedroom unit into place at Wright Park Manor housing project in Rome, N.Y. This first 200-unit phase of Section 236 subsidized housing is insured by the New York State Urban Development Corporation rather then by HUD-FHA. The NYSUDC has an extensive Housing Technology Program already in operation.

Courtesy New York State Urban Development Corporation

STATE HOUSING PROGRAMS: MINOR VENTURE OR MAJOR INITIATIVE

By John H. Betz
Director of
Market Aggregation
Operation
BREAKTHROUGH

STATE
HOUSING
ASSISTANCE
PROGRAMS

EXISTING HOUSING ASSISTANCE PROGRAM(S)

LEGISLATION PROPOSED OR SCHEDULED TO BE PROPOSED

DEFINITE INTEREST REPORTED

THIS PROJECT IS BEING FINANCED BY THE UNITED STATES GOVERNMENT AND THIS STATE.

Signs carrying this message are common along the Nation's highways, but most people would be surprised to see one on a housing development. Yet these signs identifying a joint Federal-State effort in housing are more and more frequent. Behind them lies not only the much needed housing for low- and moderate-income and elderly people, but also a chronicle of initiative in a field of new State endeavor—housing.

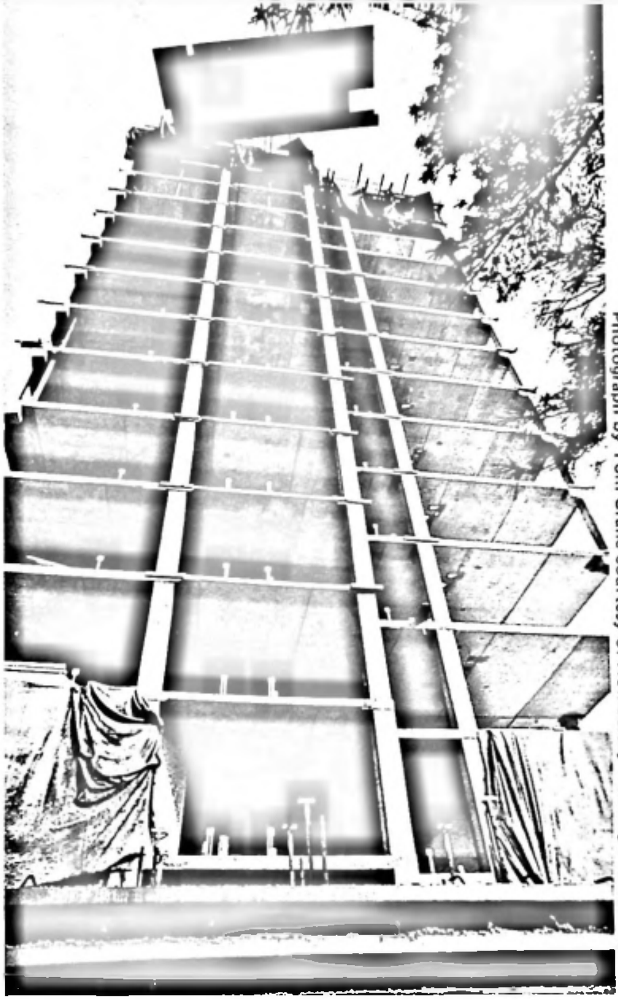
Within the past five years, 14 States have created housing agencies, which could become the focal point for joint Federal-State movement toward better planned, higher quality, more integrated housing developments.

Unlike many expansions of State activity within the past several decades, the movement of States into the housing area was not fostered by the Federal Government through a categorical grant-in-aid incentive. Rather, it was the direct and constructive reaction of States to the urban disturbances of the mid-1960s. Governors looking for root causes found, as did the Kerner Commission, that "grievances related to housing were important factors in the structure of Negro discontent."

Apart from the pioneering New York State Mitchell-Lama program established in 1960 and a scattering of statewide public housing programs founded in the 1930's and 1940's, States did not venture into housing until 1966 when Massachusetts and Michigan established housing finance agencies on the New York model. Since then similar agencies have been authorized or established in 13 other States. In this 1971 State legislative session, bills to establish housing agencies are in the hopper in at least eight additional States.

Typical State Agency

A typical State housing finance agency makes mortgage loans at less than the going market interest rate to nonprofit and limited profit sponsors or builders. They pass these mortgage interest rate savings on to moderate-income occupants. By floating tax-exempt revenue bonds, the State agency is able to provide this bargain mortgage financing without the need for a State appropriation of subsidy funds. The tax-exempt revenue bonds generally carry a lower interest rate than the going market mortgage interest rate, allowing the State to loan out funds received from the sale



Photograph by Tom Crane courtesy of New Jersey Housing Finance Agency

This 196-unit moderate-income housing development in Trenton, financed by the New Jersey Housing Finance Agency, utilizes large pre-cast concrete slabs in place of conventional wooden forms.

of these bonds in the form of below-market-interest-rate mortgage loans.

Once an agency establishes a flow of mortgage lending, it can become self-supporting with income derived from a financing fee of about one-half percent charged to the mortgagor. Thus, with only a modest start-up appropriation a number of States have established "little FHA's" to finance needed housing throughout the State.

Since 1968, Federal interest rate subsidies have been coupled with below-market-interest-rate State mortgages to provide housing for families of low- and moderate-incomes. The subsidies reduce the mortgage interest rates charged to occupants to as low as one percent. This year for the first time funds were made available by HUD to nine State agencies to finance nearly 30,000 units with Section 235 Interest Supplement for Homeownership and Section 236 Interest Supplement on Rentals and Cooperatives subsidies.

Courtesy Illinois Housing Development Authority

The Illinois Housing Development Authority invented "partial mortgages" to build the Nation's first cooperative combining HUD-FHA 236 interest reduction benefits and private financing. A third of Harper Square, a 591-unit apartment and townhouse complex will benefit from 236 funds and the remainder will be rented to persons of middle-income.

Courtesy Michigan State Housing Development Authority

The Michigan State Housing Authority sponsored this Arbor Park development, a 192-unit, $4.49 million consumer housing cooperative in Ann Arbor, Mich.

In terms of overall production capabilities, State housing finance agencies now have over $3 billion of bonding authority and over 100,000 units constructed or under construction. Many State housing finance agencies are also armed with other important powers and aids to housing development, such as seed money grants and loans, tax abatement powers, and funds to purchase land for housing sites and for community development.

States Become Laboratories

Another real promise of these State housing finance agencies lies in their ability to alter the pattern of low- and moderate-income housing development and, potentially, of all housing development. State agencies, working with private sector developers, can put together housing developments in locations and with site planning and design quality not generally found in ordinary publicly assisted housing developments.

Where HUD interest rate reduction subsidies are required, understandings are presently being worked out between HUD and State agencies to allow the agencies leeway to define the location and quality of the developments within acceptable subsidy cost limits. Such a HUD policy will recognize that in their housing programs States can indeed be "laboratories," as Justice Brandeis described them in 1912.

The Michigan State Housing Development Authority is selecting sites on the basis of criteria going beyond traditional appraisal factors. Careful investigations are made of sites in terms of available public facilities—parks, schools, employment, shopping, public transportation—and the impact of the proposed development.

The Michigan Agency has recently issued a guide to site planning and unit design for townhouses which has been well received in the planning and architecture professions. The Authority is in the process of acquiring large-scale sites of from 500 to 5,000 acres in growth areas. Through phased development these sites will become transformed into well planned and well designed full-scale communities.

Innovative Marketing

In Illinois similar forward looking policies are being pursued. Through a device known as "partial mortgages," assisted moderate-income families are able to live in the same development as middle-income families, not on an economically segregated basis in different buildings or units, but scattered throughout without differentiation of any kind. Massachusetts has a similar program. The Illinois Housing Development Authority is also providing greater value to the occupant than generally found in assisted housing. Carpeting, disposals, air-conditioning, and community recreational facilities are elements of many of its developments.

Operation BREAKTHROUGH, HUD's program to encourage greater industrialization of housing production in the United States, sees State housing finance programs as one key to organizing housing markets. By purchasing housing for several State financed developments from a single producer, volume orders necessary to realize the full potential of industrialized production can be created. Illinois Housing Development Authority is participating with HUD in a demonstration of this type of market aggregation.

No Easy Task

Not all is bullish, however, for State agencies; they are difficult to establish and administer. To issue bonds, an agency must have knowledge of the bond market; as a mortgagee, it must know housing finance. As a result, once authorized, it has taken at least two years to establish most agencies due to both constitutional questions and administrative start-up problems.

Further, with the decline in market mortgage interest rates, the spread between the below-market-interest-rate State mortgage financing and the market mortgage rate has greatly diminished. Thus, the assistance delivered by tax-exempt State financing and the attractiveness of this financing to private developers has lessened. What effect this will have on the potential for growth of State housing programs is as yet undetermined. The need for low- and moderate-income housing and the availability of HUD interest rate subsidy funds plus State mortgage financing may compensate for this change in the financial markets.

Total Community Development

The next step in the development of housing programs in many States is likely to be greater concentration on total community development, rather than activities centered on isolated housing developments. As New York State led other States by enactment of the Mitchell-Lama housing finance program in 1960, it also may lead other States to establish urban development corporations. An urban development corporation has the authority to develop full-scale communities, using funds raised by its tax-exempt bonding authority both to purchase and develop land and

Courtesy Massachusetts Housing Finance Agency

It took three days to put up the prefabricated wood shell of this building, which is the first two-family house constructed by Housing Innovations, Inc., a Boston real estate development firm founded by black professionals. The homes will be occupied by low-income families and eventually sold to the tenants through the Boston Housing Authority's Turnkey III program. MHFA agreed to lend $1,627,346 for the development.

to finance the housing and other facilities needed for total community development.

The New York State Urban Development Corporation, established in 1968, is carrying on most of its development by preparing community development packages complete with site, site planning, and financing for private developers. It has, however, the authority to develop the projects itself where private development is not available. In a way an urban development corporation is a super urban renewal agency operating at the State level.

In two states—Pennsylvania and Texas—bills are under consideration to create urban development corporations.

Title VII of the 1970 Housing Act also provides substantial incentive for the formation of such agencies. Under it, State agencies are eligible for bond guarantees, interest loans, public service grants, and planning grants for the development of new communities.

Opportunities are therefore open for States actively to develop housing at all scales ranging from small housing projects to the new communities. Given the early successes of recently established State agencies, the continuing interest of other States to enter into the housing field, the ongoing expansion of existing State programs, and the new opportunities available to States in recent Federal legislation, what began as a minor State venture based on its tax-exempt financing power may turn into a major initiative. And in the process this movement may prove to be a substantial factor in transforming housing from isolated, small developments to well-planned, larger communities.

Restoring The Housing Market

By Frederick W. Deming
Special Assistant To The Secretary

Containing inflation is an absolute imperative to restoring the housing market. No way short of full governmental takeover can provide for a fully adequate and sustained restoration of the housing market if an inflationary psychology continues.

Our goal should be to meet the Nation's housing needs with a minimum of federalization. Since this and many other objectives are unattainable in an inflationary environment, we have no alternative but to persist until we finally succeed in finding truly effective ways of keeping inflation under control.

Housing's Two Problems

In aggregate economic terms, the housing sector has traditionally had two significant characteristics: extreme cyclical volatility, and a failure—even over time—to produce enough to meet overall national needs. A fully adequate restoration of the housing market must deal effectively with both these situations.

There is a long history of attempts to deal with housing's cyclical problems. However, in no cycle was Government intervention early enough or massive enough to overcome completely the squeeze of general economic forces on the mortgage market and in turn prevent a decline in housing production.

Even in the past two years when Federal support of housing and the mortgage market far exceeded anything attempted previously, housing production slumped temporarily by 25% and we witnessed the most acute national housing shortage since the immediate postwar period.

Whatever long-range housing shortage we have had can be viewed essentially as a shortage of income for some families in our society. There is no shortage of decent housing for those who can afford it.

Unfortunately, recent trends in housing costs have far outstripped trends in incomes. In 1965, the average newly produced, FHA-insured home involved payments for the mortgage, taxes, insurance, utilities, and maintenance and repairs of a little more than $147 per month. That same house last year—given the inflation in the cost of land, labor, materials, and credit—would have necessitated monthly payments of more than $270. That is nearly an 85% increase in the effective cost of a typical home over a five-year period. During that same period, the income of a typical family increased by only 46%.

Government Role

This year HUD will spend nearly $1 billion for housing subsidies that in effect are a special-purpose addition to the income of the recipient low- and moderate-income families. In the process of meeting the Nation's 10-year housing goals, six million low- and moderate-income families are to benefit from various housing subsidy programs, which will involve an annual budget outlay several times the current amount.

In view of these budgetary costs and other reasons, many people are raising serious questions as to whether our present form of housing subsidies is the most desirable way to accomplish the necessary income maintenance job.

Five times as many families are eligible for these subsidy programs as presently contemplated funding levels will accommodate. This means that for every family receiving direct Federal housing assistance there are many others in the same economic circumstances not receiving it.

Another concern is that in an effort to provide the maximum stimulus to housing production, the programs concentrate on assisting lower income families acquire new dwelling units. Meanwhile, families whose incomes are not so low are left able to afford only older units.

These observations should not be taken as an argument against further Government support of housing. Government *does* have an important role to play in helping to meet the Nation's housing needs. For the Government to get out of housing altogether would be a serious abdication of responsibility. There is a need for at least the possibility of direct governmental involvement in housing to counter-balance effects on housing stemming from shifts in overall monetary and fiscal policies or any other governmental activity. In addition, representative government can find

few domestic issues of greater citizen concern than the ability to obtain a decent place to live. The question is simply what is the best way for Government to provide the support needed.

Adequate Income

Solution to the problem of inadequate family income may well depend on the fate of efforts to enact some sort of Family Assistance Plan. If such a Plan is enacted and receives adequate funding, there will be much less need than at present for categorical housing assistance. The problems associated with those categorical programs would then not arise.

I personally believe we should begin thinking more seriously in terms of the possibility of either folding the housing subsidies totally into the Family Assistance Plan or converting our present programs into a general housing allowance that would be a direct adjunct to the Plan. So long as the funding levels are adequate, this would finally bring us to the long-sought goal in which all families could afford decent housing.

Eliminating Cycles

The housing sector's cyclical problems have two roots: one is the existing institutional rigidity of our mortgage lending institutions and financial markets generally; the other is the inherent competitive disadvantage that an individual seeking to borrow money to finance a home has relative to other borrowers seeking to raise funds in the capital markets. These problems become apparent whenever monetary policy for one reason or another limits the overall availability of credit.

Clearly the first order of business in avoiding these problems is to avoid the emergence of general economic conditions that squeeze overall credit availability. That means much greater flexibility in the use of fiscal and other policy tools than we have had in the past.

Break Down Financial Rigidity

Step number two would be to break down many of our present financial rigidities. The past five years have shown that a single-purpose lender investing only in long-term mortgages with a fixed yield, such as the traditional savings and loan charter provides, is not a competitively viable institution in a world of volatile interest rates. Neither the mortgage market nor the financial system as a whole is well served by captive lenders whose investment opportunities so limit their earnings that they cannot attract funds to lend.

In view of these difficulties, I believe there is a strong case for heading in the direction of providing all depository-type institutions with authorities approximating those now given to commercial banks—and, of course, also subjecting them all to the same regulations, tax treatment, and other administration. I believe, there also should be authority for and increased use of variable interest-rate mortgages to enhance the attractiveness of mortgages relative to all lenders' other investment opportunities.

This kind of institutional structure would provide something of a culmination of a trend that has been deliberately pursued over at least the past decade: namely, opening the opportunity for mortgages to compete freely for funds in the capital markets. When that goal is finally achieved, the housing sector will no longer be subject to the kind of credit rationing that has often constrained activity in the past.

Lender Of Last Resort

One further step in an overall program to remedy housing's cyclical problems is needed. There must be at the ready a fully adequate mortgage lender of last resort. The Federal National Mortgage Association and the Federal Home Loan Bank System are already very close to fulfilling that kind of function. Both institutions borrow in the general capital markets and funnel the proceeds of their bond issues directly into the mortgage market.

It is entirely possible, of course, that these mortgage lenders of last resort would not always be able to cover the cost of their borrowings and administrative expenses out of their earnings. This possibility should not be permitted, however, to limit their activities in undergirding the mortgage market.

Both institutions have lines of credit at the Treasury which could be used to tide them over any period of operating deficit. Moreover, there is now authority—as a result of the 1970 Emergency Home Finance Act—to appropriate a subsidy directly to the Home Loan Banks to cover the interest differential between their borrowing and lending rates. Backstopped by this kind of "mortgage production subsidy," these institutions should be able to produce all the mortgage money policy makers want to funnel into the housing market. Whatever cycles remain in the housing market would then reflect only deliberate policy decisions.

inprint

The New Zoning: Legal, Administrative, and Economic Concepts and Techniques, edited by Norman Marcus and Marilyn W. Groves. Praeger, New York, 1970. 243 pp. $15.

The "new zoning"—recent developments in creative land use regulation—is discussed in this volume as a positive force. Creative zoning can encourage builders to upgrade neighborhoods and develop new buildings in the public interest. The book includes a collection of papers from the conference on zoning sponsored in 1969 by the New School for Social Research, in cooperation with the New York City Department of City Planning.

Emphasis is placed on innovative zoning concepts used successfully in large cities, such as New York's incentive system that offers increased floor space as a bonus to builders who include amenities. This incentive technique has resulted in at least four new legitimate theatres being built into buildings in the Broadway Theatre District—with special architectural design attention. Examples from San Francisco and Detroit also are discussed.

The only reference to suburban zoning is a positive one—a comparison that suburbs have always used "new zoning" concepts to guarantee adequate provisions for public services as a requirement for developing new subdivisions. In the past this parallel has been lost since cities usually grow vertically not horizontally.

Several contributors lament the limitations of zoning as a piecemeal solution to overall development. As Jonathan Barnett writes: "Zoning regulations have, to some extent, filled the gap left by inadequate planning legislation; but, although zoning possesses some of the basic attributes of a plan, it is essentially a set of Marquis of Queensbury rules for real-estate speculators rather than a comprehensive development guide." To help the zoning system become more responsive on an ongoing basis, Professor Jan Z. Krasnowiecki recommends reform of the basic system into a single agency with planning authority delegated by the city's legislative body.

Additional papers deal with background on the constitutional, legal, and administrative aspects of zoning and special districts—a growing trend to recognize the unique character of certain areas, such as green belt zones, educational institution zones, and historical zones.

While the book deals with many technical and legal aspects of zoning of interest primarily to professionals in the field, it contains clearly written analyses of current issues from which anyone interested in the subject can benefit.

Recent Books

- *Urban Politics in America,* by John H. Baker. Scribner, New York, 1971. 463 pp. $12.50. Focuses on the tension between the city as a political unit and as a provider of services, particularly in the areas of health and welfare, education, public safety, public works, housing, and land use and control.

- *The Economics of the Ghetto,* by Carolyn Shaw Bell. Pegasus, New York, 1970. 254 pp. $6.95. Designed to provide an introduction to primary data on ghetto economics, this study defines the wages, rents, and prices involved in the ghetto economy; analyzes the problems; and interprets the data as a model to be followed.

- *The City of Man,* by Christopher Tunnard. 2nd edition. Scribner, New York, 1970. 424 pp. $10. Discusses the importance of the visual arts of architecture, landscape, decorative elements, painting, and sculpture as components of city planning. Profusely illustrated.

- *Urban Transportation Planning,* by Roger L. Creighton. University of Illinois Press, Urbana, 1970. 375 pp. $10. An analysis of current theories of transportation planning with emphasis on travel patterns, land use, transportation networks. Of special interest to urban planners, engineers, economists, businessmen.

- *The Light in Holland,* by Anthony Bailey. Knopf, New York, 1970. 263 pp. $6.95. How the Dutch, through careful planning, provide housing, schools, hospitals, and homes for the needy and elderly; parks and open space land for a densely urbanized population.

Publications available from the Superintendent of Documents, Washington, D.C. 20402.

- *Building Research at the National Bureau of Standards.* 55 pp. 60 cents. A history of the Bureau's activities over the past 69 years, a description of the current program, and a summary of future objectives with a comprehensive bibliography useful to builders, engineers, architects, students, government officials, and experts in the environmental sciences.

- *Downtown Urban Renewal Area Landmarks,* Washington, D.C. 118 pp. $1.50. An attractive series of sketches and photographs of historical and architectural landmarks in the Nation's capital downtown area. Includes background and current information on notable Government buildings, theatres, churches, hotels, parks and statue.

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Housing Trends and Outlook

By
Arnold H. Diamond
Acting Director,
Office of Economic Analysis

Editor's Note: It is one of the responsibilities of HUD's Office of Economic Analysis, in the Office of the Deputy Under Secretary, to keep abreast of trends and prospects in the housing and mortgage markets and to analyze them in terms of what they mean for HUD programs and for the families and individuals served by HUD programs. At this pivotal point for housing production, it is appropriate to draw on some recent findings of this HUD staff to describe what is currently taking place in the Nation's housing economy. Much of the material described below is drawn from the Third Annual Report on National Housing Goals.

The Nation's housing economy has reversed itself sharply during recent months. The new trends offer encouraging news both for the average homebuyer or renter and for the family that requires housing assistance.

New housing construction, measured in terms of housing starts, is by far the single largest component of total housing production, though total production also includes mobile homes and rehabilitated existing units. Total housing starts during 1970 were at the unacceptably low level of 1,467,000 units, weaker even than the poor level of 1,500,000 units started in 1969. Compared with these actual levels, it is estimated that starts should have been at least 100,000 to 200,000 units higher in each year if production was to be sufficient to meet the Nation's growing needs for housing.

These needs for housing were first set forth by Congress in the Housing and Urban Development Act of 1968. The estimated 10-year need for 26 million units arises primarily out of a need to house our constantly growing population. But substantial numbers are needed also to replace or rehabilitate substandard and abandoned housing, to compensate for demolitions and other losses, and to assure an adequate number of vacant units. The development of a sizeable deficit in housing production since the inception of the 10-year goal means that production over the balance of the 10-year goals period must accelerate briskly if the targeted production levels are to be achieved.

Brightening Prospects for New Housing

Fortunately, housing starts levels during the last few months of 1970 and the early months of 1971 strongly indicate that the needed acceleration can be, and is being, achieved. Compared with the 1.4 million to 1.5 million starts levels of 1969-1970, the seasonally adjusted annual rate for the six months ending in March, 1971, climbed to nearly 1.8 million units, and most housing analysts are predicting that his rate will be sustained throughout the year.

The Third Annual Housing Goals Report projects starts to reach 1.75 million units in 1971 and it is believed that an even higher level can be achieved if efforts are successful to bring spiraling costs and other impediments to housing production under control. The Goals Report finds that sufficient financing to accommodate such expansion is likely to be available.

Added to this forecast of new housing starts is the projection that 420,000 new mobile homes will be delivered in 1971 and that about 60,000 substandard units will be rehabilitated. In sum, housing production is expected to total more than 2.2 million units in 1971, which would make this year a banner period in the annals of the housing economy. (See Figure 1.)

HUD Role in Total Housing Production

HUD's housing programs figure importantly in the record of the past year and in the outlook for the present and coming years. Federally-assisted starts and rehabs totaled 470,000 units in 1970, or about one out of every three units (excluding mobiles) produced during the year. In a year in which housing construction in general was depressed, these HUD-assisted units prevented the overall housing production picture from being much dimmer than it actually was. The remarkable record of assisted housing production during the past year marks 1970 as the year that the housing subsidy programs "took off," more than doubling the 1969 level of production.

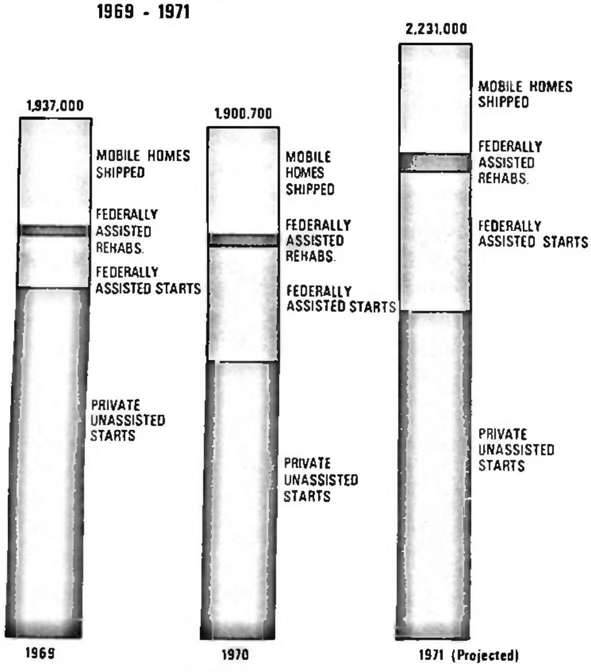
In terms of the number of units produced, the most dramatic development during the year came with the Interest Supplement Programs (Sections 235 and 236.) In the Section 236 program, new starts leaped from 10,000 in 1969 to 105,000 in 1970, while under the Section 235 program starts jumped to 116,000 units in 1970 compared with 28,000 in 1969. Public housing continues to be important with 99,000 starts in 1970 compared with 67,000 in 1969.

Present plans call for further increases in the levels of assisted housing production during the coming year. The total production of assisted units is expected to reach 594,000 in 1971, about 26 percent higher than during 1970. (See Figure 2.) The Section 235 program increasingly will become the bulwark of the Nation's housing assistance effort, with a total of 194,000 units expected to be started.

The Mortgage Credit Crunch

The principle restraint on housing production during 1970 was the severe shortage of mortgage funds from the primary private sources of residential mortgage credit—savings and loan associations, commercial banks, and mutual savings banks. From mid-1969 through the early months of 1970, flows of new savings into these institutions were sharply lower than they had been during the previous two years, as savers turned to more profitable capital market investments. As a result, lenders were unable to channel sufficient funds into residential finance and the housing industry was restrained from producing the number of units demanded in the marketplace.

Figure 1: COMPONENTS OF TOTAL HOUSING PRODUCTION*, 1969 - 1971



* Excludes private unassisted rehabilitated units.

Even though savings flows into these thrift institutions improved throughout the latter half of 1970, it was some time before the improvement was reflected in expanded residential mortgage lending activity. Initially they had to restore satisfactory levels of liquidity before expanding their long term loans. Moreover, throughout much of 1970, yields on corporate bonds, Federal agency securities and certain other investments were substantially more attractive then the return on mortgages, and lenders channeled their funds accordingly.

Life insurance companies, the other major private source of mortgage loan funds, while not directly vulnerable to the vagaries of capital market conditions, also reduced their level of residential mortgage loan acquisitions during the year. This reduction was due less to the reduced growth in resources than to the continued virtual abandonment of the home mortgage market by life insurance companies as they turned increasingly to attractive returns available on loans on multifamily and nonresidential properties.

The 1969-1970 shortage of credit for housing had a much broader impact than simply reducing the level of housing production. Transactions involving existing homes and apartment houses were similarly held down by the lack of credit, resulting in a marked reduction in all types of housing market transactions. Growing families in need of more space or wishing to move from an apartment to a house were forced to make do with what they had. Vacancy rates dropped to record low levels as new construction fell further and further short of the need for new units.

Effects on Housing Costs

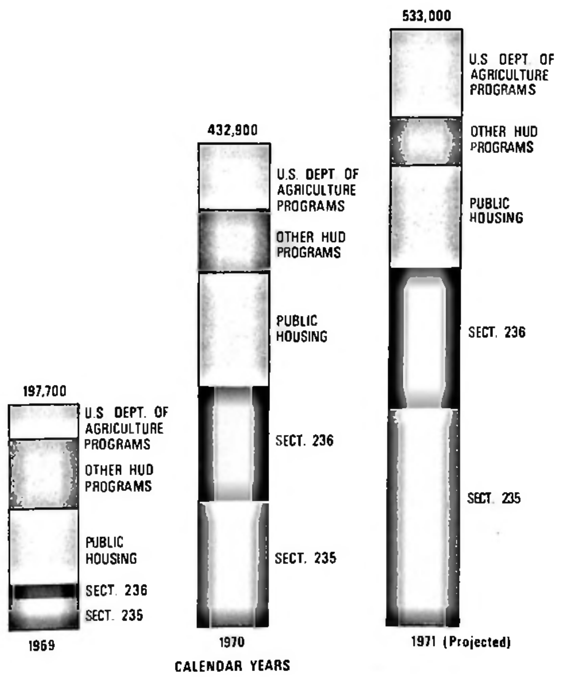
Perhaps the most painful effect of the shortage of credit was the accompanying increase in mortgage interest rates and its effect on housing costs. Early in 1970, the effective interest rate on FHA new home loans reached the all-time high level of 9.3 percent, nearly 50 percent higher than what had been considered an unacceptably high level of 6.3 percent three years earlier in the spring of 1967. Homebuyers paid these higher borrowing costs in the form of higher monthly interest payments, in the form of "points" paid at the time of settlement, and in the form of higher home prices, in order that builders and sellers could recoup the premiums they had paid to arrange financing on the properties. Renters paid in the form of higher rents.

In terms of the monthly payment alone, one percentage point increase in the contract interest rate means roughly a 10 percent increase in monthly debt service to homeowners. As the FHA ceiling rose from six percent in 1967 and early 1968 to 8.5 percent during most of 1970, the debt service for principal, interest, and mortgage insurance premium on a $20,000, 30-year FHA insured loan rose from $128.29 per month to $162.11 per month, a 26 percent increase. For the family with an annual gross income of $10,000, this means paying out over 19 percent of gross monthly income just for debt service when the rate is 8.5 percent, instead of a more tolerable 15 percent of gross monthly income when the rate is six percent. (See Frederick Deming's article, "Restoring the Housing Market," in this issue.)

Federal Financial Aid For the Mortgage Market

As tight as the mortgage market was during 1969 and the first half of 1970, things would have been worse had not Federal and federally sponsored agencies taken corrective measures. The Federal National Mortgage Association (FNMA) injected $4 billion into the private mortgage market during 1970, primarily through its free market auction system. The Federal Home Loan Banks increased outstanding advances to savings and loan associations by $1.3 billion, and the Government National Mortgage Association (GNMA) channeled $1.7 billion into the mortgage market through a new program of guarantees of mortgage backed securities. (See Woodward Kingman's article, "Attracting New Money Into Housing," in this issue.)

Figure 2: FEDERALLY ASSISTED HOUSING STARTS, 1969 - 1971



The year also saw the creation of new mortgage market institutions with the passage of the Emergency Home Finance Act of 1970. The act created the Federal Home Loan Mortgage Corporation (FHLMC), which purchased $326 million in federally backed mortgage loans during the balance of the year. By the end of the year both the FHLMC and FNMA were preparing to establish secondary markets for conventional mortgage loans. (See Preston Martin's article, "Funds for Housing," in this issue.)

Renewed Availability of Mortgage Credit

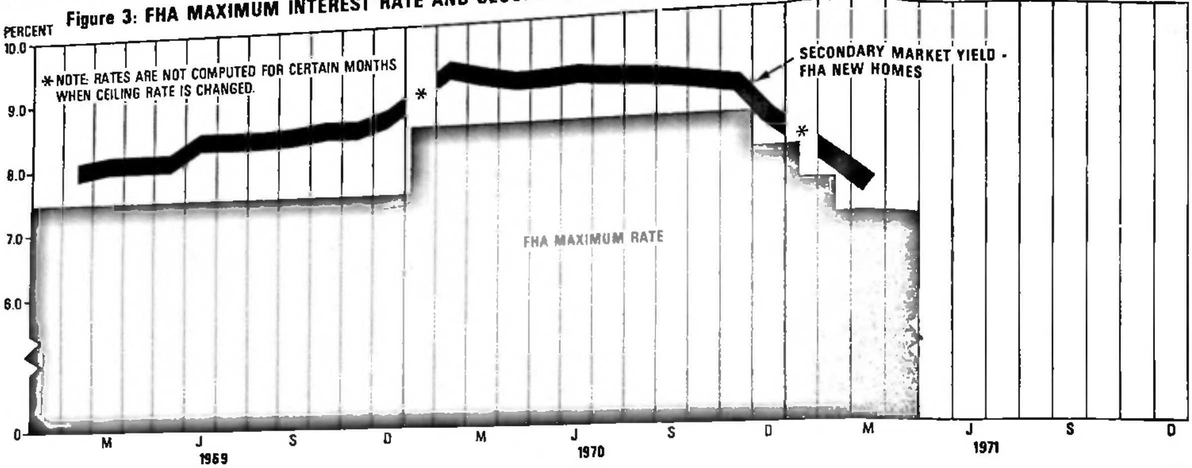
The gradual improvement in savings flows into the mortgage oriented thrift institutions during the latter part of 1970 turned into an avalanche of savings during the first quarter of 1971. During the first three months of 1971, savings capital at savings and loan associations increased by a record $8.9 billion, compared with only $.4 billion during the same three months of 1970 and compared with the previous high first quarter level of $3 billion in 1963.

Mutual savings bankers and commercial banks have had similar experiences. At commercial banks, total time and savings deposits increased by a startling $17.6 billion during the first three months of 1971 compared with $2.5 billion in the first quarter of 1970. Mutual savings banks have seen total deposits increase $3.3 billion in the first quarter of 1971 in contrast to only $.7 billion in 1970.

This massive inflow of savings along with the backlog of demand for housing that built up during 1969 and 1970 together are fueling the remarkable increases in housing production that are taking place in 1971. While it is questionable that new savings flows will continue at the very high levels of the first quarter, the groundwork has now been laid for a ready availability of housing credit for the balance of the year.

Detailed projections of the mortgage and capital market outlook, prepared by the Office of Economic Analysis, indicate that every major mortgage lender group is likely to significantly

Figure 3: FHA MAXIMUM INTEREST RATE AND SECONDARY MARKET YIELDS ON FHA NEW HOME LOANS, 1969—PRESENT



increase its residential mortgage lending activity during 1971. As detailed in the Third Housing Goals Report, originations of long term mortgage loans for newly constructed housing by the 13 most important mortgage lending groups are projected to rise to $27 billion in 1971, compared to $18 billion in 1970. In the aggregate, this increased lending is expected to be fully adequate to support the projected starts level of 1.75 million or more units.

Lower Interest Rates

Happily, the renewed availability of funds has brought with it a dramatic reduction in the cost of mortgage money. From the high of 9.3 percent, the effective yield on FHA new home loans dropped to 8.4 percent by the end of 1970, and by early April, 1971, the rate was down to 7.3 percent. (See Figure 3.) This rapid decline in mortgage loan costs was helped along in good part by the quick response on the part of HUD in lowering the FHA maximum interest rate to reflect the easing of general capital market conditions. From a high of 8.5 percent which prevailed during much of 1970, the ceiling was lowered first to eight percent in December then to 7.5 percent in mid-January and, five weeks later, to seven percent in mid-February.

The lower interest rates mean substantially lower monthly outlays to homebuyers today compared with just six months ago. But the lower rates also mean a much expanded capacity on the part of HUD to assist low- and moderate-income families seeking housing. Since HUD assistance, particularly under the Interest Supplement Programs, is based in part on the gaps between debt service on a market rate mortgage and debt service on a one percent mortgage, a decline in market interest rates leads to a decline in the per unit subsidy requirement. A given amount of appropriated funds therefore can be used to subsidize a larger number of units.

Under the Section 236 program, for instance, the first year maximum subsidy cost to the Government today would average about $1,000 if the interest rate were 8.5 percent. But in fact it is only about $800 with the interest rate at seven percent. The reduction in interest rates thereby permits a given allocation of funds to assist some 25 percent more housing units than would otherwise be possible.

A Note of Caution

Clearly, the outlook for housing for the balance of the year is brighter than it has been for a long time. The housing industry is well on the way toward achieving the official target of 1.75 million or more new housing starts this year, a more than 20 percent increase over last year's performance. However, when prospects seem so bright, it is necessary to beware of overconfidence.

The housing industry is always vulnerable to sudden changes in other sectors of the economy. Thus the outlook described here assumes that the economy will continue to strengthen, giving consumers the income and the optimism to enter the market for improved housing. But at the same time it assumes that the economic expansion will not be so swift as to bring about a renewed cycle of inflation, tight money, and high interest rates which, history shows us, almost invariably strike housing as one of their earliest victims.

lines & numbers

The sales price of single-family homes drops

....In December 1970, the median sales price of single-family homes sold dropped to $22,400 compared to the recent high point of $26,900 in May 1969.

As the costs of labor and materials rise

....Average hourly earnings rose 9.3% in December 1970 over the previous December, in general building, while those in special trades recorded a 9.9% increase. The wholesale prices of selected construction materials rose 1% over the same time period.

And the supply of mortgage money is more plentiful

....The inflow of savings to Savings and Loan Associations, one of the major sources of mortgage funds, increased 174% in 1970 over 1969. Other major sources of housing funds reported substantial gains. Commercial banks recorded an increase in deposits of $38 billion in 1970 compared to withdrawals of $9.3 billion in 1969. Deposits of Mutual Savings Banks increased 72% over the same period.

Implications are

....Home buyers are resisting higher prices as sales of homes at the lower end of the price scale are booming. Builders are seeking to cut corners in order to compensate for higher land, labor, and material costs by such devices as installing less carpeting and cheaper kitchen appliances.

TYPICAL HUD-FHA FINANCING

	Existing Home		New Home	
	Third Quarter 1970	1969	Third Quarter 1970	1969
Sale Price	$18,275	$16,814	$23,601	$20,563
Down Payment	1,575	1,289	2,231	1,697
Closing Costs	435	396	508	458
30-yr. Mortgage	17,304	15,938	21,854	19,324
Monthly Payments, Utilities, Maintenance	214	178	255	205
Value of House	18,827	17,123	24,140	21,030
Value of Lot	4,050	3,696	5,159	4,300
Buyer's Income	12,059	10,694	13,250	11,479
Square Footage	1,112	1,103	1,237	1,180
Buyer's Age	33	33	33	33

CORRECTION: In Lines & Numbers for May 1971, double asterisks were misplaced. Rehabilitation Loans, (Section 312) will be phased out beginning January 1, 1972, **NOT** Fair Housing and Equal Opportunity.

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